* For identification purposes only
僅供識別

2008 年報
ANNUAL REPORT

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册成立之股份有限責任公司)
(Stock Code 股份代號: 00811)

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. Zhang Bangkai *(Vice Chairman)*

Non-Executive Directors

Ms. Wang Jianping
Mr. Yu Changjiu
Mr. Li Jiawei
Mr. Luo Jun
Mr. Wu Qiang
Mr. Zhang Chengxing
Mr. Zhao Junhuai
Mr. Zhao Miao

Independent Non-Executive Directors

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

BOARD COMMITTEES

Strategy and Investment Planning Committee

Mr. Cheng Sanguo *(Chairman)*
Mr. Han Xiaoming
Mr. Zhang Bangkai
Mr. Yu Changjiu
Mr. Zhao Junhuai

Editorial and Publication Committee

Mr. Zhang Bangkai *(Chairman)*
Ms. Wang Jianping
Mr. Yu Changjiu
Mr. Zhang Chengxing
Mr. Zhao Miao

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 Bangkai

Nomination Committee

Mr. Han Xiaoming *(Chairman)*
Mr. Cheng Sanguo
Mr. Luo Jun

SUPERVISORY COMMITTEE

Supervisors

Mr. Xiao Changjiu *(Chairman)*
Mr. Xu Yuzheng
Mr. Peng Xianyi
Ms. Dai Wen
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

Independent Supervisors

Mr. Li Guangwei
Mr. Fu Daiguo

JOINT COMPANY SECRETARIES

Mr. You Zugang
Mr. Ngai Wai Fung

QUALIFIED ACCOUNTANT

Mr. Mak Ming Fai

Corporate Information (Continued)

AUTHORISED REPRESENTATIVES

Mr. Luo Jun
Mr. You Zugang

ALTERNATE AUTHORISED REPRESENTATIVE

Mr. Ngai Wai Fung

INTERNATIONAL AUDITOR

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18th Floor
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PRC AUDITOR

ShineWing Certified Public Accountants
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China

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8th Floor, Gloucester Tower
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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,

On behalf of the board (the "Board") of directors (the "Directors") of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 (the "Year").

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

The Year was arduous and difficult and also full of challenges. With Sichuan Province in PRC ravaged by "5.12 Wenchuan Earthquake", economic growth dampened by the global financial crisis, the Group had experienced tremendous difficulties and challenges. With our mission of expanding and strengthening our principal operating business, we endeavored to practically fulfill our social responsibilities and overcome the adverse effects brought by the earthquake and the financial

Chairman's Statement (Continued)

crisis. While continue in strengthening our foundations, we achieved satisfactory results in building up our modern corporate policies, enhanced the core competitiveness of our principal operating business and constructed the platform for sharing of industry resources. Excluding non-operating factors, both sales income and profit of the Group in 2008 had achieved significant growth over the year 2007. In 2008, the Group recorded a turnover of RMB2,737 million, representing an increase of 18.5% over 2007; net profits of RMB338 million, and basic earnings per share of RMB0.30.

In 2008, the Company had leveraged on the strengths of our system and financial resources and established Beijing Huaxia Shengxuan Books Co., Ltd. (北京華夏盛軒圖書有限公司) together with Huaxia Publishing Co., Ltd. (華夏出版社), acquired the shares in Sichuan Xinhua Shang Paper Co., Ltd. (四川新華商紙業有限公司) and became its controlling shareholder, and ignited the expansion momentum of the Group's principal business. At the same time, the Group continued to focus on developing new sales channels with nationwide book retailers and small to medium wholesalers in enhancing and developing our Zhongpan business.

From the Group's perspective, 2009 will be a year synchronized by opportunities and challenges. With the accelerating pace of cultural system reform and promotion of cross-regional development and integration in the industry by the state, it has also brought excellent opportunities to the Group in achieving its strategic industry integration, expanding and optimizing the business chain of our principal business, strengthening our core competitiveness as well as sustaining development abilities of the Group. On the other hand, with the rapid development of new technology in the publishing industry, the gradual transformation of the traditional publishing industry towards modern publishing media industry, industry development and the inter-penetration with related business has promoted the gradual formation of a large-scale industry segment. This has also brought huge challenges to the development of the Group and we need to equip ourselves with forward-looking vision to the development trend of our principal business. In this regard, by endeavoring in the promotion of our Zhongpan operation of publications distribution, strengthening the operational capability of our core network, in the future, the Group shall fully leverage upon its system, mechanism, capital and network advantage in grasping development opportunities and to develop and forge a complete chain of publication and distribution businesses. At the same time, the Group shall perfect and optimize our corporate development strategy, leveraging on our leading industry position and our strong experience in operating educational content products through years to actively research and seek gradual co-operation and development in related industries that are compatible to modern media and cultural education development, further enhance our core competitiveness in the market and sustainable development abilities.

With the continuous efforts of our management team and staff, coupled with the support from shareholders, the Company will further leverage on the development opportunities and will aggressively develop itself with a view to integrating and leading the cultural industry in the PRC, and thereby bringing good investment returns to all the shareholders of the Company.

I would like to take this opportunity to express my sincere gratitude to all the shareholders and stakeholders for the trust and support that they have shown on us.

Gong Cimin
Chairman

9 April 2009

Statement from General Manager

Luo Yong
General Manager

Dear Shareholders,

In 2008, China was affected by "5.12 Wenchuan Earthquake" in Sichuan and the global financial crisis. As a company listed on the Main Board of the Stock Exchange with our base in Sichuan, PRC, the Company had actively responded to the complicated economic situation and changing market environment. We intensified our reform unceasingly, developed innovatively, endeavored to enhance the core competitiveness and development capabilities of our principal business, and had sustained a continuous and stable development.

During the year 2008, the Group recorded a turnover of RMB2,737 million, an increase of 18.5% over last year. Gross profit amounted to RMB1,107 million, a growth of 19.5% over last year; gross profit margin was 40.4%. The above reflected the improvement of our operation capability in the principal operating business of the Company. We succeeded in achieving a rapid growth of our business while being able to maintain a reasonable gross profit level. Total selling and administrative expenses of the Group in 2008 were RMB781 million, representing 28.5% of our turnover. The respective rate after excluding the effect of write-back of accrued welfare expenses for the last year was 27.6%. The expense ratio for the Year was up by one percent, which was mainly due to an increase in marketing expenses as a result of developing new businesses,

Statement from General Manager (Continued)

increase in staff cost because of additional new staff and salary increase of employees, and increase in operating costs due to 5.12 Wenchuan Earthquake. However, in general, excluding non-operating factors, the Group achieved a net operating profit of RMB358 millions, a growth of 16.0% over last year, showing an improvement of the core business management capabilities of the Group.

The Company were granted various awards including the "The Advanced Publishing Unit of the First Chinese Publishing Government Award (首屆中國出版政府獎先進出版單位)" and "Excellent Enterprise in National Cultural System Reform (全國文化體制改革優秀企業)" by General Administration of Press and Publication of the People's Republic of China (中華人民共和國新聞出版總署) and Publicity Department, Central Committee of the Communist Party of China (中共中央宣傳部) respectively. Moreover, the Company had also obtained the exclusive rights to organize the "National fair for the demonstration and procurement of new books for nationwide Libraries under the Beijing Ordering Fair 2009 (2009北京圖書訂貨會全國圖書館新書現貨看樣採購會)".

In 2008, the Company continued its intensified corporate reform, strengthened its internal control and management, modulated its internal organization appropriately, enhanced its management capabilities on company assets and investments anti-corruption supervisory abilities on provided enduring momentum to the on-going development of our enterprise.

At the same time, with enhancing corporate surviving ability and competitiveness as our objectives, the Company had firmly leveraged on the future development trend of publishing industry with continuing innovative measures, strengthening core capability building of channel operation, and thereby enabling the principal business of the Company to sustain a relatively fast growing trend after its listing. With regard to textbooks subscription, we have enhanced the nature of textbooks subscription and devise aggressive plans targeting at specific development features in different markets. With regard to retail business, we optimized our networking structure, enhanced the profitability of books of general interest. For Zhongpan operation, we have basically completed the overall construction of Zhongpan operation, and gradually established the form of organization and management control system of Zhongpan operation. For the organization of ancillary publishing, the operating structure is undergoing optimization, from focusing on production scales to the quality and efficiency.

In 2008, the Company continued to improve the integrated operating management quality of our business support platform. We endeavored to achieve high efficiency, intensive management and provide technical support to our front line operation. Currently, those business platforms like centralised procurement, logistic network, production processing and information management that provide services to the Company's product sales and management operation have already formulated an organic business organizational operating system. With the support of ERP system, we have already achieved high level of integration among various functions in business, financial, logistics and commercial flow.

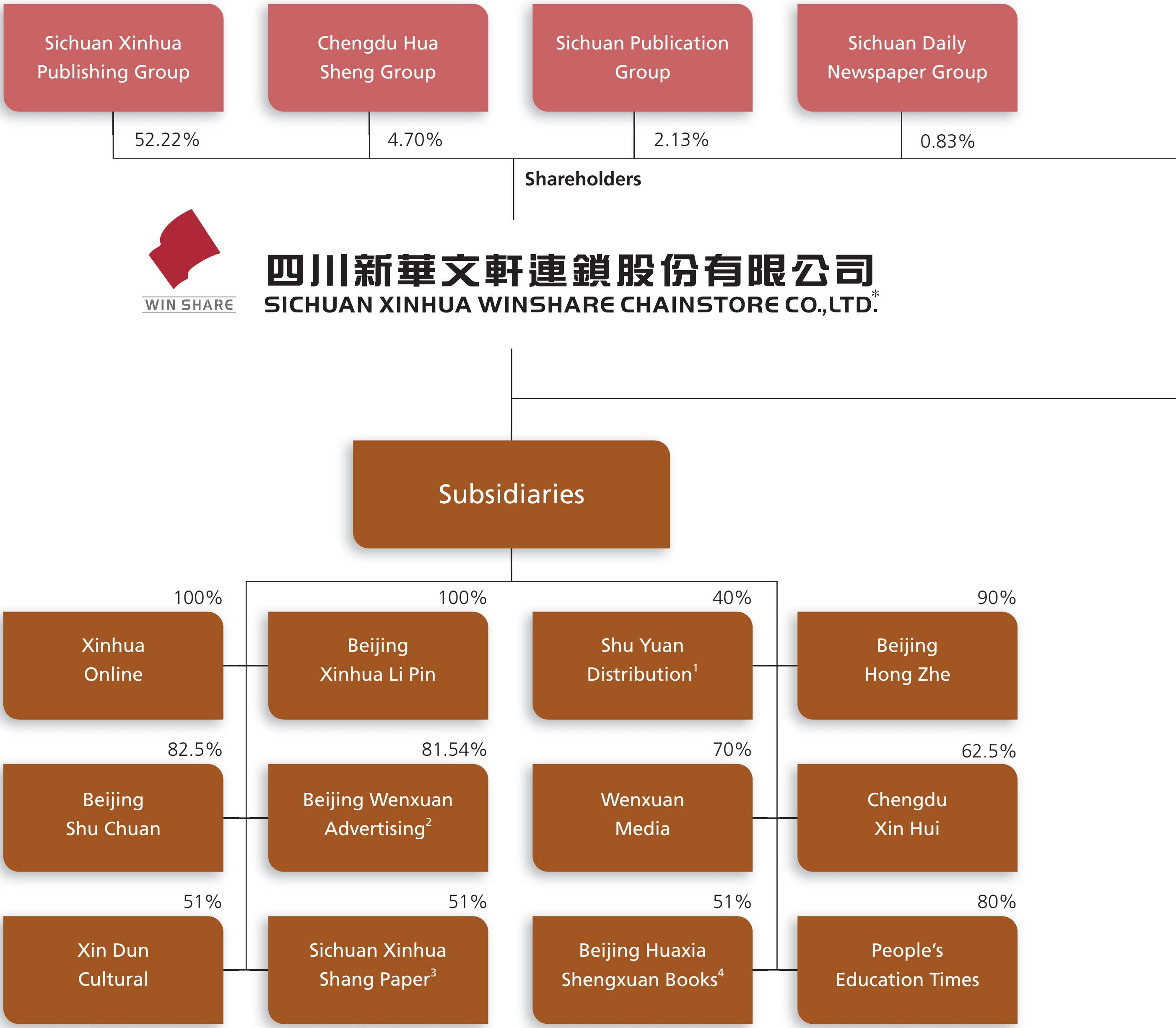
From the Company's perspective, the year of 2009 will be synchronized by opportunities and challenges. Under the leadership of the Board, we shall leverage on the opportunities brought by industry reform and integration in achieving our target of maximizing shareholders' interests. We shall further consolidate and optimize the sales network resources of our publications, enhance our capabilities in production and sales profitability. Through our enduring efforts, we shall bring satisfactory investment returns to our shareholders.

On behalf of the operating management team of Xinhua Winshare, I would like to express our sincere thanks to all staff, shareholders and friends for their continued thoughtfulness and support in respect of the development of the Company.

Luo Yong
General Manager

9 April 2009

Corporate Structure of the Group



Notes:

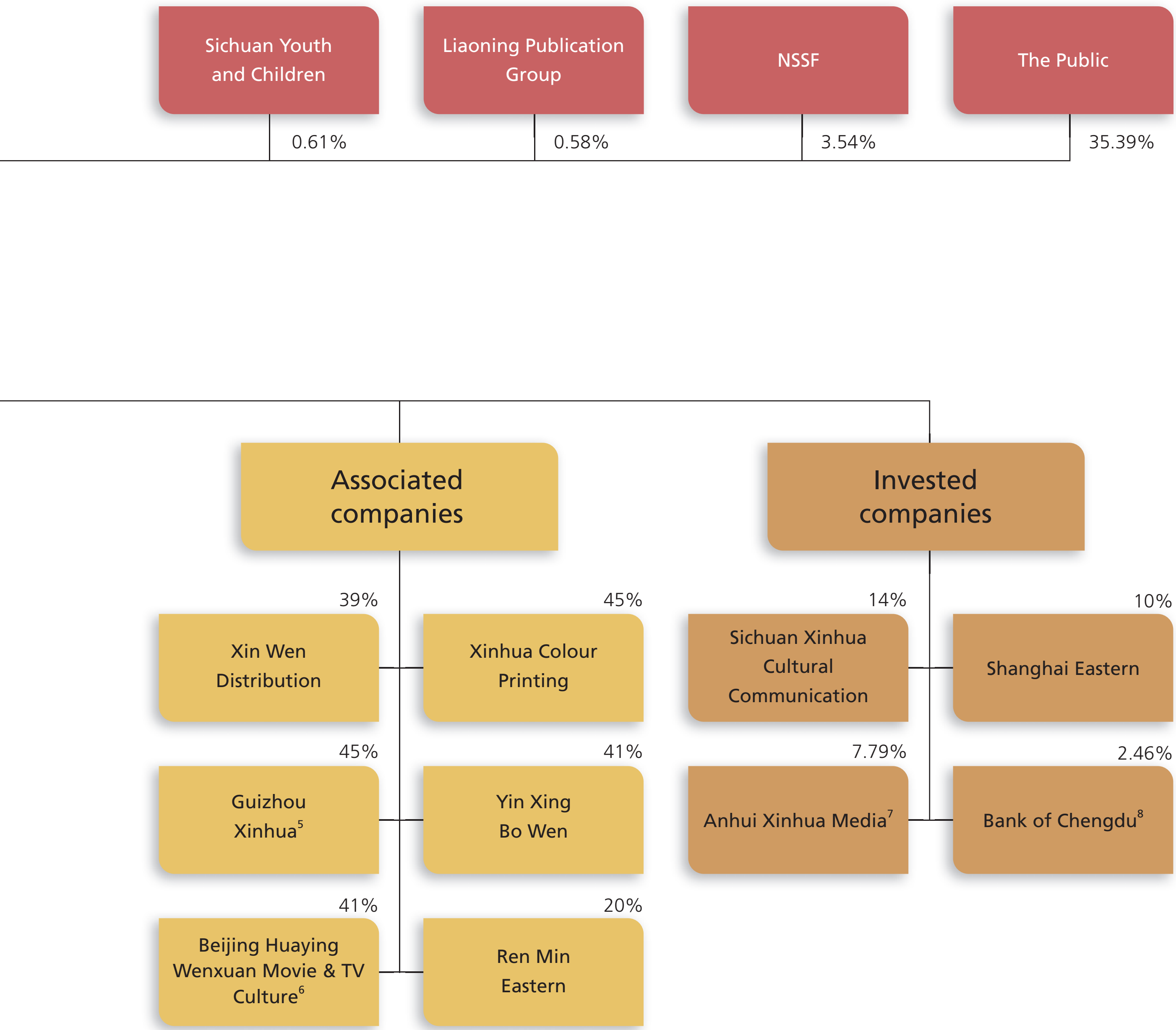
1. In July 2008, the Company disposed of its 20% shares in Shu Yuan Distribution. After the disposal, the proportion of shareholdings held by the Company was reduced from 60% to 40%.

2. In June 2008, the Company increased its capital in Beijing Wenxuan Advertising by RMB8 million. After the increase in capital, the proportion of shareholding held by the Company was increased from 52% to 81.54%.

3. In October 2008, the Company contributed RMB12.40 million to acquire 51% of the shares in Sichuan Xinhua Shang Paper Co., Ltd..

4. In August 2008, the Company contributed RMB 7.65 million in establishing Beijing Huaxia Shengxuan Books Company Limited (北京華夏盛軒圖書有限公司) together with Huaxia Publishing Co., Ltd. (華夏出版社), holding 51% and 49% equity interests respectively.

Corporate Structure of the Group (Continued)



5. In August 2008, the Company entered into an agreement with Guizhou Province Xinhua Bookstore (貴州省新華書店) and established Guizhou Xinhua with a total capital contribution of RMB60 million. The Company and Guizhou Province Xinhua Bookstore holds 45% and 55% equity interests respectively.

6. In December 2008, the Company contributed RMB615,000 in establishing Beijing Huaying Wenxuan Movie & TV Culture Company Limited (北京華影文軒影視文化有限公司) together with Beijing Huaying Tiancheng Movie & TV Culture Investment Company Limited (北京華影天誠影視文化投資有限公司), Wang Bin (王斌) and Li Yin (李銀).

7. In February 2008, Anhui Xinhua Publication Group Company Limited (安徽新華發行集團有限公司) changed its name to Anhui Xinhua Media Company Limited (安徽新華傳媒股份有限公司).

8. In 2008, the Company contributed RMB240 million to acquire 2.46% of the shares in Bank of Chengdu Company Limited (成都銀行股份有限公司) (formerly known as Chengdu City Commercial Bank Company Limited (成都市商業銀行股份有限公司)).

Management Discussion and Analysis

INDUSTRY OVERVIEW

In 2008, the economy in PRC had experienced the effects of the storms of severe snowfall and rainfall accompanying the cold weather in southern China at the beginning of the Year, the catastrophic earthquake occurred in Wenchuan County, Sichuan Province on 12 May 2008, the 5.12 Wenchuan Earthquake and the international financial crisis that erupted in the second half of the Year. Despite the fact that the PRC's book distribution market was facing such a severe external environment, it still managed to attain a steady growing trend.

For the distribution of textbooks and supplementary materials market, the PRC government continued to implement the free obligatory education policy. From 2008, textbooks have been centrally purchased by the government and provided free of charge to students enrolled in obligatory education in rural areas. In addition, tuition fees and miscellaneous charges for obligatory education in urban areas were waived with effect from the Autumn school term in 2008. The Ministry of Education also required that, commencing from the Spring school term of 2008, textbooks recycling system for certain government-subsidised textbooks would be established in primary and secondary schools in rural areas. The change in the mode of textbook distribution together with the change into a completely market driven mode of supplementary materials distribution, which is a correlated segment with the distribution of textbooks, has fuelled severe competition in the markets of distributing both items. However, with their years of extensive experience and quality service as well as their market-oriented approaches to operations, the wholly or partially state-owned distribution enterprises were still in an exceedingly favourable position amidst market competition.

In respect of book retailing, which was facing the conditions of macro economy growth slowing-down, increase in unemployment and expected decline in residents' consumption, nevertheless, the book retailing market was also affected to a certain extent. However, the industry overall still managed to maintain a growing trend. Through in-depth adjustments by those wholly or partially state-owned enterprises to adapt to the market, they thereby formed a scientific and comprehensive logistics and inventory management system and a modern business management system to maximize the values of their channel resources. This has put them in an obviously advantageous position in the book retailing market.

In respect of textbooks for use in tertiary and vocational education, the continuous expansion of student recruitment exercises by tertiary institutions and vocational schools have swelled the capacity of the market. At the same time, with the rapid expansion of vocational education, it has become more and more popular to select textbooks by bidding processes, the crucial factors of selection, including discounts, quality of enterprise, scale of operations, creditworthiness, have put the wholly or partially state-owned enterprises into an obviously advantageous position to compete in the market. Moreover, as the entry barrier for libraries has been lowered, increasing readers' demand, and the continuous refinement of the market, it called for strong capability in purchasing, logistics, information management support, marketing, deliver refined services to the market to cater for the specialized needs of large scale Zhongpan.

In 2008, there was obvious increase in the momentum of China's publishing industry reform, with resources integration, capital cooperation and strategic restructuring as the important means for publishing industry reform. The pace of publishing industry reform is accelerating and has made new breakthroughs progressively. In May 2008, Hainan Phoenix Xinhua Distribution Company Limited (海南鳳凰新華發行有限責任公司) was officially established after the general restructuring of Hainan Xinhua Bookstore Group Company Limited (海南省新華書店集團有限公司) and Jiangsu Xinhua Bookstore Group Company Limited (江蘇省新華書店集團有限公司). This had represented a breakthrough in its existing framework under which the market was segregated in terms of business segments and geographical locations. In December 2008, Guangzhou Xinhua Publishing and Distribution Group (廣州新華出版發行集團) was formed after the integration and restructuring of Guangzhou Publishing House (廣州出版社), Guangzhou Xinhua Bookstore Group (廣州市新華書店集團) and Guangzhou Audio-visual Publishing House (廣州音像出版社), resulting a publishing and distribution industry chain integration.

The management believes, in the environment of intensified reform, the Company will seize the opportunities to break through the regional and departmental restrictions, segregation of business segments, and accelerate the construction of industry chain integration to become a large-scale cultural, publishing and media enterprise through joint venture, merger and reconstructuring.

BUSINESS REVIEW

During the Year, the Group adjusted its product structure and selling policies and the growth of the sales revenue had achieved a breakthrough. The Group's sales revenue during the Year amounted to RMB2,737 million, representing a year-on-year increase of approximately 18.5% over the same period of last year. Despite unfavorable factors including the storms of severe snowfall and rainfall accompanying the cold winter in southern China and the 5.12 Wenchuan Earthquake, the Group's sales turnover still sustained a certain level of growth. The sustainable growth of our business was primarily attributable to optimizing the structure of textbooks and supplementary material products, balanced development of business of various selling areas and rational application of pricing strategy, rising capability of channel control, and growth of book distribution to libraries ("Library Distribution") and textbooks for use in tertiary and vocational education business.

Management Discussion and Analysis (Continued)

Product

Product segment provides ancillary support and services to book publishers. During the Year, the selection of topics for our products has not only taken into account the characteristics of our channels of distribution but also catered to market segments and readerships. The coordination with the Group's distribution channels (especially the nationwide Zhongpan channel) was enhanced, including planning of product publishing, product sales and marketing, feedback on sales and supply of merchandise etc. During the Year, our capability of providing ancillary support and services expanded well, providing 701 kinds of new products of general interest and 728 kinds of new products of culture and education in relation to providing ancillary support and services to book publishers, representing an increase of 90.0% and 30.0% respectively.

Zhongpan

During the Year, building upon the enhanced and optimized network of its distribution channels, our Zhongpan segment experienced a breakthrough in its development of a multi-channel network. Through the development of business of Library Distribution and textbooks for tertiary institutions and vocational schools, a sales model with multiple channels and layers was formed. Leveraging on our involvement in organizing the fair for the demonstration and procurement of new books for nationwide libraries ("Library Book Purchase Fair") under the Beijing Book Ordering Fair 2008, we successfully extended our presence into the markets of Library Distribution and textbooks for tertiary institutions and vocational schools across the nation in an innovative manner, and we successfully obtained the exclusive right of hosting the Library Book Purchase Fair for 2009. It fortified the horizontal market linkage with other segments, including the Product segment and the establishment of a coordinated exchange mechanism to align planning with sales. Customer's needs in respect of Library Distribution were analyzed in details and streamlined, and catalogue subscription was identified as the core concept in marketing strategy, sales and merchandise organization for our business of Library Distribution. The procedures and system flows of Library Distribution were also established.

Retailing

During the Year, optimisation to the positioning of our outlets were gradually put to practice, maintaining our efforts in improving our network of outlets. Adjustments were also made to the structure of the existing affiliated sales counters to introduce new affiliated products, including periodicals and cultural items, as well as new media of sales, development of value-added businesses in our channels in order to enhance the profitability of our network. Affiliated counter business maintained at high growth, with the commission income (stated as other income) increased from RMB10 million in 2007 to RMB14 million in the Year. Meanwhile, enhanced coordination was achieved between our retailing channel and Zhongpan channel in the businesses of Library Distribution and the businesses of textbooks for tertiary and vocational schools.

Subscription

By leveraging on the advantage of textbook distribution network and high-quality service, we obtained the general distribution right of textbooks in Sichuan Province for the Year. During the Year, the Ministry of Finance of the PRC raised the standard of free national curriculum textbooks funding per school year and local textbooks used by domestic regions were also subsidised by local provincial treasury. It had greatly promoted the development of the textbook business of the

Company. After the distribution mode of supplementary materials had fully shifted to market-oriented mode in 2007, we quickly adjusted our operation strategy accordingly. We strengthened our control in Sichuan markets by optimizing the structure of supplementary materials and pricing adjustment strategies. At the same time, we established close contact and business relationship with various Xinhua Bookstores in the cities and counties outside Sichuan Province, in order to establish educational subscription channels and networks to the nationwide markets. We will enhance our marketing effort in those markets, for improving the corporate image and product awareness, strengthen sales management and marketing support to those sales organizations, and specify the marketing strategy of various key regional markets outside Sichuan province.

Moreover, in 2009, the Company and Sichuan Education Department signed "the purchase agreement of government-subsidised textbooks by Sichuan Provincial Government for Spring term of 2009", and continued our position as the general supplier of government-subsidised textbooks and responsible for agency and distribution of government-subsidised textbooks in the Spring term of that year.

Impact of 5.12 Wenchuan Earthquake

Part of the Group's operating facilities, including outlets and warehouses, suffered from different degrees of damages, as a result of the 5.12 Wenchuan Earthquake. But business in the affected regions had returned to normal within a short period of time. The earthquake did not cause any material effect to the Group's business and assets. The Company donated a total of RMB2 million of resources such as textbooks, schoolbags and learning kits to students of primary and secondary schools affected by the earthquake and donated RMB20 million to Sichuan Educational Fund to reconstruct the schools destroyed by the earthquake.

Investment Overview

According to the development strategy of the Group, by leveraging on the opportunity of the reform of China's publishing and distribution industry, the Company made new progress in ancillary publishing service and product co-operation, industry resources integration and sales network expansion.

In August 2008, the Company cooperated with Huaxia Publishing House (華夏出版社) to establish Beijing Huaxia Shengxuan Book Company Limited (北京華夏盛軒圖書有限公司) with a joint capital injection of RMB 15 million, of which the capital injection of the Company was RMB 7.65 million, representing 51% shareholdings. The Company expected to achieve synergy effect by this cooperation, enhance our strength in ancillary publishing service and product research and development, strengthen our advantages in sales channels and realize the powerful association between high-quality products and distribution channels.

In October 2008, the Company acquired 51% shareholdings in Sichuan Xinhua Shang Paper Co., Ltd (四川新華商紙業有限公司) at a consideration of RMB 12.40 million, which provided strong support to the Group's ancillary publishing service.

In August 2008, the Company achieved cross-regional strategy cooperation with Guizhou Xinhua Bookstore (貴州省新華書店) to establish Guizhou Xinhua Winshare Distribution Company Limited (貴州新華文軒發行有限責任公司). The newly established Guizhou Xinhua Winshare Distribution Company Limited set up 9 direct outlets including Guizhou Xinhua Winshare Bookcity (貴州新華文軒書城), which is currently operating steadily.

The Company holds 7.79% shareholdings in Anhui Xinhua Media Company Limited (安徽新華傳媒股份有限公司) (formerly known as "Anhui Xinhua Publication Group Co., Ltd. (安徽新華發行集團有限公司)") and 2.46% shareholdings in Bank of Chengdu Company Limited (成都銀行股份有限公司) (formerly known as "Chengdu City Commercial Bank Co., Ltd. (成都市商業銀行股份有限公司)"). During the Year, the above investments did not contribute any material gain and loss to the Group. The Company treats the investment in Anhui Xinhua Media Company Limited as a long term strategic investment and continued to seek cooperation with the investees to develop the business.

FUTURE PROSPECTS

Facing the new situation and new environment, with the strengths of our existing resources, the Group will develop our principal business actively and steadily, and dedicate to establish a complete publishing and distribution industry chain. Meanwhile, the Company will also actively explore the development in industries that are closely related to our core business, enhance our corporate profitability and possess the ability of sustainable development. To achieve the aforesaid target, the Company intends to implement the following key strategies:

(1) To speed up the integration of the business chain within the industry and have an advanced breakthrough in 2009.

(2) To enhance the overall construction ability of large scale Zhongpan network, set up a platform by means of acquisition and cooperation, accelerate our pace in developing into a nationwide Zhongpan network. At the same time, we also will accelerate our increase in market share in national Library Distribution business and textbooks for tertiary institutions and vocational schools business.

(3) To actively seek cooperation between trans-regional industries and transowership industries, and integrating our years of experience in operating educational content products, actively carry out research and expand into the cultural and educational industry that is closely related to our principal business.

(4) With the planned and sophisticated logistics network system, the logistics operation information system will be equipped and upgraded. While enhancing our operations support functions, we will also enhance the efficiency of the logistics operations, and decrease the logistics operating costs.

(5) To improve the information management systems, enhance and optimize existing information platform for the purpose of providing more efficient support for the Company in its expansion and cross-regional development.

(6) To further expand e-commerce business of paperback and digital book contents.

FINANCIAL REVIEW

Revenue

Sales revenue for the Year recorded a significant growth of 18.5%, which was mainly driven by the increase in sales of Subscription segment. The Group classifies its segments by nature of business. The Product segment is responsible for the provision of ancillary support and services to book publishers. The Subscription segment and the Retailing segment are responsible for selling products to their customers through different channels. The Zhongpan segment is responsible for centralized products procurement and distribution through different channels or selling products to external customers through the nationwide Zhongpan network of the Group. Under its integrated operation, with the exceptions of Zhongpan segment and Product segment where some of their goods are sold directly to external customers, most of the goods have to go through more than one of the segments before reaching the final customer. Thus, it resulted in an increase in intersegment sales and sales elimination.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit margin of the Group for the Year was 40.4%, a slight increase over 2007.

Management Discussion and Analysis (Continued)

SEGMENT ANALYSIS

Segment revenue of the Group for the year ended 31 December 2008 and the corresponding period of 2007 are as follows:

				Percentage of segment sales to revenue before intersegment sales elimination		Percentage of segment external sales to consolidated revenue	
	2008	2007	Changes	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	%	**%**	%	**%**	%
Product segment							
External sales	**27,562**	16,443	67.6	**0.6**	0.4	**1.0**	0.7
Intersegment sales	**447,868**	368,843	21.4	**9.1**	8.5		
Total	**475,430**	385,286	23.4	**9.7**	8.9		
Zhongpan segment							
External sales	**118,220**	38,728	205.3	**2.4**	0.9	**4.3**	1.7
Intersegment sales	**1,725,546**	1,677,671	2.9	**35.1**	38.5		
Total	**1,843,766**	1,716,399	7.4	**37.5**	39.4		
Subscription segment							
External sales	**2,180,595**	1,864,927	16.9	**44.4**	42.7	**79.7**	80.7
Intersegment sales	**—**	—	—	**—**	—		
Total	**2,180,595**	1,864,927	16.9	**44.4**	42.7		
Retailing segment							
External sales	**405,169**	387,246	4.6	**8.3**	8.9	**14.8**	16.8
Intersegment sales	**—**	4,434	(100.0)	**—**	0.1		
Total	**405,169**	391,680	3.4	**8.3**	9.0		
Other segments							
External sales	**5,390**	2,137	152.2	**0.1**	—	**0.2**	0.1
Intersegment sales	**337**	195	72.8	**—**	—		
Total	**5,727**	2,332	145.6	**0.1**	—		
Revenue before intersegment sales elimination	**4,910,687**	4,360,624	12.6	**100.0**	100.0		
Intersegment sales elimination	**(2,173,751)**	(2,051,143)	6.0				
Consolidated revenue	**2,736,936**	2,309,481	18.5			**100.0**	100.0

Management Discussion and Analysis (Continued)

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

	2008		2007	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Product (including intersegment revenue)	**79,110**	**16.6**	40,794	10.6
Zhongpan (including intersegment revenue)	**220,448**	**12.0**	254,983	14.9
Subscription (including intersegment revenue)	**718,347**	**32.9**	568,166	30.5
Retailing (including intersegment revenue)	**108,694**	**26.8**	118,119	30.2
Others (including intersegment revenue)	**2,887**	**50.4**	1,486	63.7
Intersegment revenue elimination	**(22,985)**	**N/A**	(57,587)	N/A
Total	**1,106,501**	**40.4**	925,961	40.1

Product

During the Year, the Product segment had a significant revenue growth of 23.4%, which was mainly attributable to the significant increase in the sales of cooperative supplementary materials products. The gross profit margin of the Product segment also increased from 10.6% in the corresponding period of last year to 16.6% for the year, which was the result of the Company's on-going development of ancillary support and services business.

Zhongpan

The Zhongpan segment had a revenue growth of 7.4% during the Year, among which sales to external customers recorded a revenue of RMB118 million, representing a two-fold increase when compared with RMB39 million in the corresponding period of 2007. The increase was driven by the rapid growth of the Group's nationwide distribution business, coupled with the two new businesses (Library Distribution and supply of textbooks for tertiary institutions and vocational schools) developed in 2008. Due to lower gross profit margin of these new businesses and rising purchasing costs of government-subsidised textbooks, gross profit margin of Zhongpan segment decreased from 14.9% in 2007 to 12.0% for the Year.

Subscription

The revenue of Subscription segment had a significant growth of 16.9% during the Year, which was attributable to a considerable growth recorded in the sales of government-subsidised textbooks with the government support to students under obligatory education in rural areas. As for the market-oriented supplementary reading materials, the Group also intensified their promotion and recorded a higher growth. Gross profit margin of this segment increased from 30.5% last year to 32.9% in the Year, mainly due to the decrease in sales discount offered for government-subsidised textbooks in Autumn term of 2008.

Retailing

The revenue of Retailing segment recorded a stable growth of 3.4% during the Year. Gross profit margin of this segment decreased from 30.2% last year to 26.8% for the Year which was due to changes in its sales composition during the Year, which constituted a higher ratio of products having lower gross profit margins.

EXPENSES AND COSTS

Selling and distribution costs and administrative expenses

During the Year, the total selling and distribution costs and administrative expenses were RMB781 million, representing an increase of 27.7% from RMB612 million in the corresponding period of last year. After deducting the write-back of accrued welfare of RMB26 million last year, expenses for the Year increased by 22.5% when compared with last year. This was due to relatively higher business development expenses for business expansion outside Sichuan Province, intensified marketing promotion of supplementary materials that caused corresponding increases in marketing expenses and transportation costs, newly-recruited staff in promoting new businesses and staff salaries increases that raised the staff costs during the Year and increase in maintenance costs caused by the 5.12 Wenchuan Earthquake.

Other expenses

Other expenses for the Year amounted to RMB77 million. During the Year, exchange losses decreased by RMB12 million and there was no allocation of expenses of RMB8 million as a result of the conversion of state-owned shares transferred to the National Council for the Social Security Fund for its listing during the Year. However, during the Year, donations related to 5.12 Wenchuan earthquake amounted to RMB22 million, and provision for inventories impairment increased by RMB13 million, causing other expenses to increase by 20.3%.

FINANCE INCOME, NET

Finance income, net for the Year amounted to RMB40 million, decreased by 12.6% when compared to 2007. This was mainly due to the absence of interest income on application monies in connection with the H Shares offering of the Company of RMB20 million during the Year, but was partially offset by the increase in interest income during the Year.

PROFIT

The Group's profit for the Year amounted to RMB338 million, representing a decrease of 12.6% from RMB387 million in the corresponding period of last year. The profit attributable to shareholders decreased by 13.1% to RMB338 million from last year.

The Group's profit for the Year and 2007 were affected by several non-operating factors. Non-operating factors for the Year included exchange losses of RMB1 million, government grants of RMB4 million and donations in relation to 5.12 Wenchuan earthquake of RMB22 million; while non-operating factors for the year 2007 included exchange losses of RMB13 million, government grants of RMB53 million, share conversion expenses due to the listing of the state-owned shares of RMB8 million, interest income on application monies in connection with the H Shares offering of the Company of RMB20 million and write-back of accrued welfare of RMB26 million.

After adjusting the above factors, the Group's profit for the Year amounted to RMB358 million, representing an increase of 16.0% from RMB308 million in 2007. The growth in profit for the Year was mainly due to the growth in sales in government-subsidised textbooks and supplementary materials.

EARNINGS PER SHARE

Earnings per share is calculated by dividing profits attributable to equity holders of the Company by weighted average number of ordinary shares in issue for the period. The Group's earnings per share for the Year was RMB0.30, representing a decrease of 25.0% from RMB0.40 in the corresponding period of last year. The decrease in earnings per share was mainly due to the substantial increase in the weighted average number of ordinary shares in issue during the Year as a result of the issuance of H Shares last year.

After adjusting the non-operating factors, earnings per share of the Group for the Year was RMB0.32, approximate to that of 2007.

Please refer to note 13 to financial statements for the calculation of earnings per share.

LIQUIDITY AND FINANCIAL RESOURCES

Except for the borrowings of Chengdu Xin Hui Industrial Company Limited, a subsidiary of the Company, the Group did not have any bank loans and other borrowings. As at 31 December 2008, the Group had other 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 2008, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 30.7% (31 December 2007: 24.5%). There was no significant change in the Group's capital structure during the Year.

As at 31 December 2008, the Group had cash and short-term deposits of approximately RMB2,611 million. In order to increase the yield of the fund, the Group deposited part of the fund in commercial banks in PRC as structured deposits according to its own cashflow projection. These 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 2008, the Group had cash and short-term deposits, pledged deposits and structured deposits of approximately RMB2,805 million in total.

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

WORKING CAPITAL MANAGEMENT

	As at 31 December 2008	As at 31 December 2007
Current ratio	**2.48**	3.14
Inventory turnover days	**157.1**	120.7
Trade receivables turnover days	**40.0**	48.3
Trade payables turnover days	**245.6**	249.4

As at 31 December 2008, the current ratio of the Group was 2.48 (31 December 2007: 3.14), which indicated that the Group remained financially stable. The decrease in current ratio was mainly due to the distribution of dividends for the year ended 2007 by the Company during the Year, and the receipt of advanced payments by the end of 2008 caused an increase in current assets and liabilities.

Inventory turnover days increased from 120.7 days in 2007 to 157.1 days in 2008. This was due to the higher inventory level caused by the expansion of the Group's distribution business outside Sichuan Province and its ancillary support business. Moreover, as the first day of school for Spring term 2009 was earlier than that in 2008, the Company purchased the required goods in advance and increased its inventories level by the end of 2008. Trade receivables turnover days decreased from 48.3 days in 2007 to 40.0 days in 2008, which was attributable to the Group's continuous implementation of strict control on trade receivables while maintaining a rapid growth in sales. Trade payables turnover days remained at a relative longer period of approximately eight months due to longer repayment term generally granted by suppliers.

Corporate Governance Report

In 2008, the Company has complied with the relevant laws and regulations of the Company Law of the People's Republic of China and relevant domestic and offshore regulatory rules, and the Company has constantly perfected its regulatory framework and optimized its organizational structure to ensure the development of the Company is in compliance, sustainable and steady, so as to safeguard the legal rights and interests of the shareholders. During the Year, we implemented the following measures:

- Established the following three policies, being Information Disclosure Policies, Connected Transaction Policies and Investor Relations Management Policies, and have further regulated various working mechanisms.

- Established the terms of reference for the Strategy and Investment Planning Committee of the Board, terms of reference for Nomination Committee of the Board, and further clarified the responsibility and authority of respective committees of the Board, so as to facilitate the operation of the Board in a more scientific and standardized manner.

- Strengthened the internal audit works, reviewed and followed up the sufficiency and effectiveness of internal control and risk management for the Company's main business areas, performed internal control assessment and special audit works, and further improved and optimized the Company's internal control and risk management.

During the Year, the Company has complied with the principles and the Code provisions of the Code on Corporate Governance Practices (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").

BOARD

Responsibilites 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; make decision on the Company's business plans and investment plans; formulate the Company's annual financial budget and annual report; formulate the Company's profit distribution plan and loss recovery plan; decide on the establishment of the Company's internal management structure; formulate our Company's basic management system; etc.

The Board is responsible for making decisions on specific issues, while the management is delegated the power to execute and manage the Company's day-to-day affairs. The Company does not maintain the position of a Chief Executive Officer but has 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. Luo Yong respectively, with clear division of work between them. The Chairman is in 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. Apart from the information disclosed in the section "Profile of Directors, Supervisors and Senior Management" of the annual report, there is no financial, business, family and other major related relationship between respective Directors and Chairman and the general manager.

Composition of the Board

The Board comprises 13 members, including 2 executive Directors, 8 non-executive Directors and 3 independent non-executive Directors as at 31 December 2008. The number of members and composition of the Board are in compliance with the requirements of the relevant laws and regulations.

The term of office for the Company's first session of the Board expired in 2008. On 30 July 2008, the Company held an extraordinary general meeting for the re-election and appointment of Directors. According to the resolutions at the extraordinary general meeting, Mr. Gong Cimin, Mr. Zhang Bangkai, Ms. Wang Jianping, Mr. Zhang Chengxing, Mr. Mo Shixing, Mr. Li Jiawei, Mr. Luo Jun, Mr. Yu Changjiu, Mr. Wu Qiang, Mr. Zhao Junhuai, Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong were appointed as the members of the second session of the Board. On 10 February 2009, the Company held an extraordinary general meeting, in which approving the appointment of Mr. Zhao Miao as a non-executive Director and Mr. Mo Shixing's resignation as a non-executive Director with effect from that day.

At the date of this report, biographical details of the Directors are set out in the section "Profile of Directors, Supervisors and Senior Management" in the annual report.

Board Meetings

During the Year, the first session of the Board had convened a total of 7 Board meetings, reviewed and approved the resolutions including the Connected Transaction Policies, Information Disclosure Policies, acquisition of the equity interests in Sichuan Xinhua Shang Paper Co., Ltd. and announcement of annual results etc., and proposed the candidates for the second session of the Board. The second session of the Board had convened a total of 6 Board meetings, of which 4 meetings were attended in person and 2 meetings were held by way of written resolutions. The meetings reviewed and approved the resolutions including the proposed granting of the general mandate to repurchase H shares, the continuing connected transactions between the Company and Sanzhou Xinhua Bookstores and announcement of interim results etc. The meetings had also decided the management of the new session. All the Board meetings in first and second sessions were convened in accordance with the requirements and provisions of the Articles of Association of the Company, terms of reference of Board meeting and the Code. The attendance of the Directors is listed below:

Attendance Records of the First Session of the Board
(During the period from 1 January 2008 to 29 July 2008)

Name	Attendance in person/ Required attendance	Attendance rate
Executive Directors		
Gong Cimin *(Chairman)*	7/7	100%
Dai Chuanping *(Vice Chairman)*	6/7	86%
Yang Miao	7/7	100%
Zhang Yexin	7/7	100%
Non-Executive Directors		
Wang Jianping	7/7	100%
Li Jiawei	6/7	86%
She Jingping	6/7	86%
Wu Qiang	2/7	29%
Zhao Junhuai	7/7	100%
Mo Shixing	7/7	100%
Independent Non-executive Directors		
Chan Yuk Tong	7/7	100%
Cheng Sanguo	7/7	100%
Han Xiaoming	7/7	100%

Attendance Records of the Second Session of the Board
(During the period from 30 July 2008 to 31 December 2008)

Name	Attendance in person/ Required attendance	Attendance rate
Executive Directors		
Gong Cimin *(Chairman)*	6/6	100%
Zhang Bangkai *(Vice Chairman)*	6/6	100%
Non-Executive Directors		
Wang Jianping	6/6	100%
Zhang Chengxing	6/6	100%
Li Jiawei	4/6	67%
Luo Jun	6/6	100%
Yu Changjiu	6/6	100%
Wu Qiang	3/6	50%
Mo Shixing	4/6	67%
Zhao Junhuai	6/6	100%
Independent Non-executive Directors		
Chan Yuk Tong	6/6	100%
Cheng Sanguo	6/6	100%
Han Xiaoming	6/6	100%

Note: Most of the Directors who were unable to present in person had entrusted other Directors to attend and vote on their behalf.

BOARD COMMITTEES

The Board has set up five committees, namely Strategy and Investment Planning Committee, Editorial and Publication Committee, Audit Committee, Remuneration and Review Committee and Nomination Committee. Details of each of the committees are as follows:

Strategy and Investment Planning Committee

The main responsibilities of the Strategy and Investment Planning Committee are to carry out research on the Company's long term development strategies and significant investment decisions and to make recommendations to the Board.

The Strategy and Investment Planning Committee comprises five Directors, current members being Mr. Cheng Sanguo, Mr. Han Xiaoming, Mr. Zhang Bangkai, Mr. Yu Changjiu and Mr. Zhao Junhuai. Mr. Cheng Sanguo, an independent non-executive Director, is the chairman of the committee.

For the Year, the Strategy and Investment Planning Committee convened a total of four meetings, all members of the committee had attended all the meetings in person to study the Company's development strategies and significant investment decisions. The committee provided its professional recommendations to the Board when the Board considered the resolutions about the Company's development strategies and significant investment decisions, playing a positive role in helping the Board's decision making.

Editorial and Publication Committee

For the purpose of business development and bring into full play the responsibilities of the Board, the Company established its Editorial and Publication Committee on 30 July 2008. The Editorial and Publication Committee comprises five Directors, current members being Mr. Zhang Bangkai, Mr. Zhao Miao, Mr. Yu Changjiu, Mr. Zhang Chengxing and Ms. Wang Jianping. Mr. Zhang Bangkai is the chairman of the committee.

For the Year, the Editorial and Publication Committee did not convene any meeting.

Audit Committee

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

The Audit Committee comprises three Directors, current members 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 a professional accountant and is the chairman of the committee.

During the Year, the Audit Committee convened a total of six meetings, all members of the committee attended all the meetings in person to consider the resolutions including interim and annual results, financial reports, internal control issues, auditors engagement etc. The committee communicates with the Company's management, external auditors and internal control consultant, following up on the implementation of management recommendations put forth by auditors, and provide opinion to the Board on important issues.

The Audit Committee of the Company has reviewed and confirmed the audited consolidated financial statements as set out in the annual report.

Remuneration and Review Committee

The main responsibilities of the Remuneration and Review Committee are: (1) to examine the assessment criteria of Directors and senior management, conduct assessment and provide recommendations; and (2) to evaluate and examine the remuneration policies and proposals applicable to the Directors, the Company's supervisors (the "Supervisors") and senior management.

The Remuneration and Review Committee comprises three Directors, current members being Mr. Han Xiaoming, Mr. Chan Yuk Tong and Mr. Zhang Bangkai. Mr. Han Xiaoming, an independent non-executive Director, is the chairman of the committee.

During the Year, the Remuneration and Review Committee convened three meetings. All members of the committee attended all the meetings in person. The meetings mainly examined the relevant issues such as the remuneration criteria of Directors and Supervisors, the Company's remuneration structure, and incentives for management, discussed on share appreciation rights incentive scheme, and reviewed and approved the Management Measures for the Annual Remuneration and Performance Evaluation of the Company's Senior Management.

Nomination Committee

Pursuant to the articles of association of the Company, the candidates for the appointment of Directors shall be nominated and proposed by the current Board, and shareholders who jointly or severally holding more than 3% of shares can also nominate and propose candidates for directorship. The Board examines the qualifications and conditions of the candidates. Upon passing of a board resolution, the proposal will be submitted in writing to the general meeting for approval.

The Company set up the Nomination Committee on 18 April 2008. The main responsibilities of the Nomination Committee include: (1) to examine the standards and procedures for selecting Directors and senior management, and make its recommendations to the Board; (2) to seek comprehensively qualified candidates for directorship and senior management positions; (3) to examine and make recommendations regarding the candidates for directorship and senior management positions.

The Nomination Committee comprises three Directors, current members being Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Luo Jun. Mr. Han Xiaoming, an independent non-executive Director, is the chairman of the committee.

During the Year, the Nomination Committee convened a total of three meetings. All members of the committee attended all the meetings in person. Subsequent to the term expiration of the first session of the Board and election of members for the second session of the Board, the Nomination Committee enhanced its understanding of the requirements of the Company in respect of the candidates for directorship and senior management positions, and identified suitable candidates within and outside the Company accordingly. The committee examined the qualifications and conditions of the candidates and made its recommendations to the Board accordingly. The committee played a significant role in the successful election of the Board and senior management at expiration of office terms.

DIRECTORS

Appointment and Re-election of Directors

The Directors are elected by shareholders in general meetings, with a term of 3 years for each session of the Board. The 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 the Board and put forward for shareholders' consideration and approval in general meeting. The Directors of the new session of the Board are appointed by voting for each of the candidates for the directorship in general meeting.

Independence of Directors

The Company has 3 independent non-executive Directors, which is in compliance with the requirements of the number prescribed by the Listing Rules. Independent non-executive Directors serve as chairmen in Board Committees under the Board. 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 of listed companies. During the Year, with a responsible attitude and extensive professional knowledge and experience, the independent non-executive Directors have provided professional advice for the Board's decision making, as well as motivating senior management to execute the resolutions made by the Board seriously. The independent non-executive Directors actively give their advice and recommendations in respect of the Company's operation and development, maintaining the Company's operation compliant and stability.

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 Year. The Company is of the view that all the existing independent non-executive Directors are independent persons in compliance with the requirements under Rule 3.13 of the Listing Rules.

Remuneration of Directors and Supervisors

Details of the remuneration of the Directors and the Supervisors for the Year are set out in note 9 to the financial statements of the annual report.

Securities Transactions by Directors and Supervisors

For the purpose of governing securities transactions by the Directors and the Supervisors, the Company has adopted "Model Code for Securities Transactions by Directors of Issuers" as set out in Appendix 10 to the Listing Rules as a code of conduct for securities transactions by the Directors and Supervisors. Having made specific enquiries to each of Directors and Supervisors, all Directors and Supervisors confirmed that they have complied with all the terms in the Model Code during the Year.

SHAREHOLDERS AND GENERAL MEETINGS

The Company endeavors to ensure all shareholders of the Company (the "Shareholders"), especially minority shareholders, are treated equally and entitled to fully exercise their rights.

Controlling Shareholder

As at 31 December 2008, the controlling shareholder of the Company was Sichuan Xinhua Publishing Group Co. Ltd. The Company is independent from the business operations of the controlling shareholder in terms of personnel, organization, assets and business. Sichuan Xinhua Publishing Group Co. Ltd. conformed to the regulations and had never bypassed any general meetings to directly or indirectly interfering with the Company's decisions and operations.

The shareholding details of the substantial shareholders during the Year are set out in the section "Report of the Directors" of the annual report.

General Meetings

As the highest authority of the Company, the general meeting exercises its power in accordance with the law. General meetings are convened by the Board. Shareholders whose name appear on the register of members of the Company are served with a written notice 45 days prior to convening the general meeting and are being notified of all matters to be considered and approved and the date, time and place of the meeting. The Board, the Company's supervisory committee (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 had convened one annual general meeting and three extraordinary general meetings. The meetings reviewed and passed the resolutions related to the 2007 annual report, profit distribution proposal of 2007, election for the second session of the Board and Supervisory Committee, continuing connected transactions regarding Sanzhou supply agreement and Sanzhou agency agreement and the acquisition of 51% of the equity interests in Sichuan Xinhua Shang Paper Co., Ltd, etc. The Directors and some of the senior management attended the meetings and answered the questions raised by Shareholders. Each resolution was voted by poll after full communications between shareholders and Directors, Supervisors and management of the Company. The announcements regarding the result by poll in general meetings are disclosed on the Stock Exchange's website and the Company's website in a timely manner.

SUPERVISORY MECHANISM

Supervisory Committee

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

The term of the first session of the Supervisory Committee of the Company expired in 2008. The general meeting held on 30 July 2008 completed the re-election of the Supervisory Committee. The second session of the Supervisory Committee comprises 9 members, including 4 members recommended by Shareholders, 2 independent supervisors and 3 members representing employees. The number of members and composition of the committee are in compliance with the requirements of relevant laws and regulations. Mr. Xiao Changjiu was appointed as the chairman of the Supervisory Committee. The Supervisors and independent Supervisors who are recommended by Shareholders are subject to election and removal by Shareholders in general meetings; the Supervisors representing employees are subject to election and removal by the staff of the Company in a democratic manner as confirmed by Shareholders in general meetings. The term of each session of the Supervisory Committee is 3 years, and the Supervisors are eligible for re-election. The biographical details of the Supervisors are set out in the section "Profile of Directors, Supervisors and Senior Management" of this annual report.

During the Year, the Supervisory Committee convened a total of five meetings and attended the Board meetings and general meetings. Details of work of the Supervisory Committee are set out in the section "Report of the Supervisory Committee" of the annual report.

Internal Control

The Board is responsible for establishing, improving and effectively implementing an internal control system. The Audit Committee of the Board is responsible for supervising whether the internal control is being effectively implemented. The management is delegated with the power to implement the internal control system, and responsible for organizing and leading the daily operation of the internal control of the Company. The Company's internal control system includes the Company's organizational structure, codes and policies, processes and procedures, relevant operational manual, implementation rules, etc, which cover areas in financial control, investment management, regulation of business, operation and risk management, compliance control, etc.

The Company establishes an audit department, which is responsible for inspecting and following-up the effectiveness of internal control. A Discipline Inspection Office has also been established, which is responsible for handling the matters on reporting and clarifying the procedures and requirements for handling the reporting and complaints. All employees are well aware of the reporting system. Horwath Risk Advisory Services Limited was engaged by the Board to examine and review the Company's internal control system and made recommendations to those areas with weaknesses. The areas under review involved risks in fund management, financial reporting, control on external investment, operating income and accounts receivable, etc. At the same time, Horwath Risk Advisory Services Limited will follow up the recommendations it made as well as the management recommendation proposed by the auditors in rectifying the situation.

The Company is aware that the requirement of retaining a qualified accountant by listed companies was removed under the Listing Rules, the Company, however, after considering the needs of the Company, decides to continue to retain such position of qualified accountant. Such position will be continuously taken up by Mr. Mak Ming Fai who is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, to enhance the resources on the Company's financial reporting and internal control functions.

During the Year, the Board of the Company had reviewed the effectiveness of the internal control system of the Group and was in the opinion that there was no material control set back in the Company.

Corporate Governance Report (Continued)

AUDITORS AND THEIR REMUNERATION

At the annual general meeting held on 20 June 2008, the Company approved the appointment of Ernst & Young as the international auditor in 2008 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 authorized to determine their remunerations through negotiation with each of them in accordance with market practice.

During the Year, the Group paid a total of RMB2.7 million to Ernst & Young for professional audit service fee on financial audit, and RMB0.5 million on the agreed-upon procedures services on interim financial information and continuing connected party transactions. Save as aforesaid, the Group did not engage Ernst & Young to perform any substantial non-audit service.

DIRECTORS' RESPONSIBILITIES ON FINANCIAL STATEMENTS

The Directors have confirmed their responsibilities for the preparation of the financial statements. The Directors are responsible for monitoring the preparation of the financial statements of each fiscal year so as to ensure that the financial statements give a true and fair view of the state of the Company's business conditions, results as well as cash flow. 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

In order to propel the institutionalized management and the standardized construction of investor relations, the Company has formulated an investor relations management system to ensure an efficient and orderly management of investor relations. The Company has enhanced and accomplished the understanding and communication with investors by means of various forms and channels of communications such as road shows, accommodation for visiting investors, teleconferences, e-mails, telephone hotlines, investors' websites, etc in 2008. The Company also contacted various investors and analysts extensively and disclosed to the investors the relevant information in compliance with the laws and regulations. At the same time, the Company analyzed the investors' recommendations on the Company's strategic and operational management, etc and has achieved a two-way communications in investor relations. The Company specially issued two announcements in May 2008 after the "5.12 Wenchuan Earthquake" in Sichuan, informing the investors the relevant information and impact of the earthquake to the Company in a timely manner. The Company practically fulfilled the continuing disclosure obligations.

The Company will further strengthen the communications with investors and enhance the investors' understanding of the Company. At the same time, the Company also welcomes more concern and support from our investors.

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Gong Cimin (龔次敏), aged 54, was appointed as Director in June 2005 and was appointed as chairman of our Company in September 2006. 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. Between the period of 1984 and 1994, Mr. Gong held the positions of deputy manager, general manager and Party Secretary with Chengdu City Xinhua Bookstore. Mr. Gong joined Sichuan Xinhua Publishing Group ("Parent Company") in December 2003 and worked as the head of Chengdu City Management Centre (成都市管理中心主任). From June 2005 to September 2006, Mr. Gong served as the executive Director and general manager, vice chairman of our Company. From January 2006 to February 2007, Mr. Gong served as the vice president of the Parent Company, and subsequently served as the chairman and Party Secretary of the Parent Company in February 2007, and still holds those positions. Mr. Gong has over 35 years of extensive experience in administration and business management of relevant distribution industry.

Zhang Bangkai (張邦凱), aged 56, was appointed as executive Director and vice chairman of the Company on 30 July 2008. Mr. Zhang graduated from Sichuan University (四川大學) majoring in Chinese Language, and obtained the certification of completion of master's degree course in investment and management from China Academy of Social Sciences. Between the period of May 1985 and November 2003, Mr. Zhang was the secretary of General Office of Sichuan Province Committee of the Communist Party of China, deputy chief officer of General Office of Standing Committee, deputy chief officer of General Office of Sichuan Province Committee of the Communist Party of China, and deputy chief secretary and chief officer of the Standing Committee of the Chinese People's Political Consultative Conference Sichuan Province (中國人民政治協商會議四川省委員會副秘書長及辦公廳主任). He joined Sichuan Publication Group in 2003 and was general manager, deputy chief officer, chief officer and Party Secretary of management committee of Sichuan Publication Group. He is currently the chief officer of management committee of Sichuan Publication Group and the secretary of the Communist Party of China (黨委書記) of Sichuan Publication Group. Mr. Zhang is also the chairman of Sichuan Lian Xiang Printing Company Limited and a director of Sichuan Shangrui Education Textbooks Company Limited. Mr. Zhang has more than 24 years of extensive experience in administration management.

Non-Executive Directors

Wang Jianping (王建平), aged 54, was appointed as non-executive Director of our Company with effect from 11 June 2005. Ms. Wang graduated from Sichuan Normal Institute (四川師範學院) majoring in Chinese Literature. Between the period of 1984 and 2004, Ms. Wang worked as deputy head (副主任) of editorial department, chief officer (主任) of chief editorial department, editor of artist editorial room, and vice president (副社長) of "Hong Ling Jin" magazine (《紅領巾雜誌》) of Sichuan Youth and Children publishing house. Ms. Wang was appointed as president of Sichuan Youth and Children Publishing House in May 2004 and still holds that position. Ms. Wang has more than 30 years of experience in book publication and distribution industry.

Yu Changjiu (余長久), aged 52, was appointed as non-executive Director of our Company since 30 July 2008. Mr. Yu graduated from Sichuan University majoring in Economics and also holds the qualification of senior political officer. Mr. Yu was the Secretary of County Party Committee of Jiulong County, Sichuan, deputy head of Spiritual Civilization Office of Sichuan Province (四川省精神文明辦) and deputy director of Propaganda Department of the Sichuan Province Committee of the Communist Party of China (中共四川省委宣傳部) from September 1992 to August 2001. He joined Sichuan Daily Newspapers Group in 2001, and was the deputy secretary of party committee and general manager. Mr. Yu was appointed as the secretary, chairman, general manager and president of Sichuan Daily Newspapers Group and president of Sichuan Daily Newspapers in March 2003 and currently still holds those positions. Mr. Yu is also the chairman of Chengdu Jianchuan Real Estate Co., Ltd., Sichuan Anren Town Laogongguan Cultural Development Co., Ltd. (四川安仁鎮老公館文化發展有限公

Profile of Directors, Supervisors and Senior Management (Continued)

司), all of which are controlled by Sichuan Daily Newspaper Group. Mr. Yu was the chairman of Sichuan Xin Wen Newspapers and Periodical Distribution Company Limited. Mr. Yu has over 13 years of extensive experience in operating management in news publication industry and media industry.

Zhang Chengxing (張成行), aged 52, was appointed as non-executive Director of our Company since 30 July 2008. Mr. Zhang graduated from Sichuan Nanchong Teachers College (四川南充師範學院) majoring in Chinese Language and obtained a master diploma in law from Sichuan Provincial Communist Party School (四川省委黨校). Mr. Zhang was the chief officer, deputy director of the press publication office of the Propaganda Department of the Sichuan Province Committee of the Communist Party of China (中共四川省委宣傳部新聞出版處) from 1989 to 1998, and was the director of the publishing office of the Propaganda Department of the Sichuan Province Committee of the Communist Party of China (中共四川省委宣傳部出版處) in April 1998. Mr. Zhang has been the vice president of the Parent Company since January 2006 and still holds the position. Mr. Zhang has performed in-depth research on media management and has over 20 years of extensive experiences in publication and distribution management.

Li Jiawei (李家巍), aged 53, was appointed as non-executive Director of our Company with effect from 11 June 2005. 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 is currently the vice president and general manager of Liaoning Publication Group, the director of Northern United Publishing & Media (Group) Company Limited (formerly known as Liaoning Publication Media Company Limited) (listed on the Shanghai Stock Exchange with stock code: 601999).

Luo Jun (羅軍), aged 43, was appointed as non-executive Director of our Company since 30 July 2008. Mr. Luo graduated from Shaanxi Institute of Finance and Economics (陝西財經學院) with a bachelor's degree majoring in Materials, Economics and Management. He completed a master's degree course in economics management at the Central Chinese Communist Party School (中央黨校). He was the secretary of the directly administered entities youth league committee (直屬機關團委書記), deputy head and head of the personnel education department (人事教育處副處長) from 1990 to 2006. He was appointed as 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 been the vice president of Parent Company since January 2006 and still holds the position. Mr. Luo was the Supervisor from April 2006 to July 2008 and the Chairman of the Supervisory Committee in May 2006. Furthermore, Mr. Luo is also the chairman of Sichuan Xinhua Hotel Management Co., Ltd. (四川新華酒店管理有限公司). Mr. Luo has over 22 years of experience in publication industry and government and corporate management.

Zhao Junhuai (趙俊懷), aged 41, was appointed as non-executive Director of our Company with effect from 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). 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 Southwestern University of Finance and Economics (西南財經大學). Mr. Zhao was the vice-director of the committee of Chengdu Economic Development Zone, 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. Mr. Zhao is currently the vice-chairman of Chengdu Hua Sheng (Group) Industry Company Limited ("Chengdu Hua Sheng Group").

Wu Qiang (武強), aged 44, was appointed as non-executive Director of our Company with effect from 11 June 2005. 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 over 21 years of experience in economic management and business.

Profile of Directors, Supervisors and Senior Management (Continued)

Zhao Miao (趙苗), aged 49, was appointed as non-executive Director of our Company with effect from 10 February 2009. Mr. Zhao graduated from the Correspondence College of the Party School of Sichuan Provincial Committee of the Communist Party of China, majoring in economics management and later completed the postgraduate course of economics management launched by the Correspondence College of the Party School of the Central Committee of the Communist Party of China. Mr. Zhao holds the professional qualification of senior political officer and senior economist. Mr. Zhao was a teacher of Hedong Primary School, Qu County of Sichuan (四川省渠縣河東小學) and worked in Sichuan Petroleum Administration from July 1980 to May 2002 as a teacher of the Technical School of the Sichuan Petroleum Administration, an educational officer and employment relationship officer in the Personnel Department, a clerk of the General Office of the Party Committee, a secretary of the Communist Youth League Committee, and a manager of Sichuan Petroleum Travel Agency. From May 2002 to July 2008, Mr. Zhao was the deputy-chief of the Autonomous Prefecture of Aba Zangs and Qiangs of Sichuan Province and a member of the Leading Party Group of the Prefecture Government and was a member of the Standing Committee of the Communist Party of China of the Autonomous Prefecture of Aba Zangs and Qiangs, Sichuan Province and a secretary of the Discipline Inspection Commission of the Prefecture. Mr. Zhao joined Sichuan Publication Group in July 2008 and worked as general manager and deputy head of the management committee. Mr. Zhao has over 31 years of experience in education and administration management and supervising.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Han Xiaoming (韓小明), aged 56, was appointed as independent non-executive Director with effect from 11 June 2005. Mr. Han graduated from the People's University of China majoring in Politics and Economics. He was an 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 of China, 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台項目評審組). 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). Mr. Han is currently a professor in the department of Economics in the People's University of China and 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).

Cheng Sanguo (程三國), aged 46, was appointed as independent non-executive Director of our Company on 20 April 2006. Mr. Cheng graduated from Wuhan University (武漢大學) majoring in Library Science and obtained his master's degree from the same university. 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. He has been a member of the editorial committee of Publishing Research Quarterly (US) (出版研究季刊), 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 was the general manager of Beijing Xinliugan Cultural Communications Co., Ltd., currently the general manager of Beijing Bookdao Century Information Technology Limited (北京百道世紀信息技術有限公司) and he is also 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 over 19 years of experience in publication industry and business administration.

Profile of Directors, Supervisors and Senior Management (Continued)

Chan Yuk Tong (陳育棠), aged 46, was appointed as independent non-executive Director of our Company on 20 April 2006. Mr. Chan obtained his bachelor's degree in commerce from the University of Newcastle in Australia and a master's degree in business administration from the Chinese University of Hong Kong. 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. Mr. Chan also holds directorships in the following publicly listed companies:

Name of Company	Stock code	Title
Asia Cassava Resources Holdings Limited	Hong Kong Stock Exchange: 841	Executive director
Vitop Bioengery Holdings Limited	Hong Kong Stock Exchange: 1178	Non-executive director
Jia Sheng Holdings Limited (formerly known as 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 and Shanghai Stock Exchange: 600585	Independent non-executive director
Global Sweeteners Holdings Limited	Hong Kong Stock Exchange: 3889	Independent non-executive director

Moreover, Mr. Chan was an executive director of Tak Sing Alliance Holdings Limited (which is listed on the Stock Exchange, stock code: 126), directors 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) and 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 has over 22 years of experience in audit, accounting, management consulting and financial consulting services.

SUPERVISORS

Xiao Changjiu (肖長久), aged 59, was appointed as Supervisor of the our Company and the Chairman of the Supervisory Committee since 30 July 2008. Mr. Xiao obtained a diploma of Self-Taught Higher Education for Examination of Sichuan (四川省高等教育自學考試) majoring in law in 2003. Mr. Xiao joined People's Liberation Army of China in March 1969 and worked in the propaganda team and the Cultural Division of Political Department (政治部文化科). Mr. Xiao joined the Propaganda Department of the Sichuan Province Committee of the Communist Party of China (中共四川省委宣傳部) in September 1981. He joined Sichuan Publication Group in November 2003 and is the secretary of Disciplinary Committee of Sichuan Publication Group and still holds that position. Mr. Xiao is also a supervisor of Sichuan Shangrui Education Textbooks Company Limited. Mr. Xiao has over 40 years of extensive experience in supervisory and administration management.

Xu Yuzheng (許玉鄭), aged 52, was appointed as Supervisor of our Company since 30 July 2008. Mr. Xu graduated from Sichuan Radio and Television University majoring in Law, and obtained a diploma in economic management from Sichuan Normal University, and holds the professional qualification as a lawyer. Mr. Xu was an officer of Sichuan Provincial Department of Supervision (四川省監察廳), supervisor and deputy chief officer of Disciplinary Investigation Committee of Sichuan Party Committee and No. 3 Office of Disciplinary Investigation and Supervision of Sichuan Provincial Department of Supervision from August 1988 to December 2005. Mr. Xu joined Sichuan Xinhua Publishing Group in January 2006 and is the secretary of disciplinary committee and still holds that position. From April 2007, Mr. Xu was also appointed as the chairman of the supervisory committee of Sichuan Xinhua Hotel Management Co., Ltd. (四川新華酒店管理有限公司) and from March 2008, Mr. Xu was appointed as the chairman of the labour union of Sichuan Xinhua Publishing Group. Mr. Xu has over 22 years of extensive experience in supervision and laws.

Dai Wen (戴文), aged 42, was appointed as Supervisor of our Company since 30 July 2008. Ms. Dai graduated from the Southwestern University of Finance and Economics with a bachelor's degree, majoring in Accounting. She completed the course of financial controller of Sichuan Provincial Communist Party School (四川省委黨校) and the course of EMBA at the School of Economics of Peking University. Ms. Dai once worked as an assistant to director and deputy director of planning and finance department of Sichuan Daily. She was deputy chief officer of investment planning department, chief officer of finance department and financial controller of Sichuan Daily Newspaper Group from 2000 to March 2008, she acted as operating controller of Sichuan Daily Newspaper Group Since March 2008 and still holds the position. Ms. Dai was the chairman of Sichuan Daily Newspaper Network Media Development Company Limited, a director of Sichuan Xin Wen Resource Trading Co., Ltd. (四川欣聞物資貿易有限責任公司) and Sichuan Anren Town Laogongguan Cultural Development Co., Ltd. (四川安仁鎮老公館文化發展有限公司), and a director of Sichuan Lian Xiang Printing Company Limited which Sichuan Daily Newspaper Group held shares in. Ms. Dai has over 23 years of extensive experience in financial and corporate management.

Peng Xianyi (彭先毅), aged 44, was appointed as Supervisor of our Company with effect from 11 June 2005. Mr. Peng graduated from Southwestern University of Finance and Economics and is a qualified accountant and senior accountant. Mr. Peng 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 an assistant to general manager of the finance department, thereafter 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 over 25 years of experience in financial accounting.

Profile of Directors, Supervisors and Senior Management (Continued)

Lan Hong (蘭紅), aged 42, was appointed as 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 Southwestern University of Finance and Economics, then she completed the course of accounting in Sichuan Radio and Television University. She is a member of the International Institute of Certified Internal Auditors. Ms. Lan worked at Chengdu City Xinhua Bookstore, then joined our Parent Company in December 2001 as head of the finance and audit department, and subsequently worked as the 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 over 20 years of experience in financial accounting.

Liu Nan (劉南), aged 44, was appointed as Supervisor of our Company with effect from 11 June 2005 while also being an elected employee representative Supervisor. Ms. Liu graduated from Chengdu University majoring in Book Publication Management. She obtained a master's level course completion certificate in economics and business administration at Sichuan University. Ms. Liu also completed a specialized course in computer application at the University of Chengdu. 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 an assistant to 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). Ms. Liu is deputy general manager of our Company's procurement centre. Ms. Liu has more than 17 years of experience in audio-visuals sourcing and publication and more than 26 years of experiences in information technology.

Li Qiang (李強), aged 35, was appointed as Supervisor of our Company with effect from 11 June 2005 while also being an elected employee representative Supervisor. Mr. Li graduated from Wuhan University with a bachelor's degree, majoring in Book Publication. 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 the general manager of the textbook distribution department of our Company. Mr. Li has over 12 years of experience in distribution and publication industry.

INDEPENDENT SUPERVISORS

Fu Daiguo (傅代國), aged 44, 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 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 Reorganization 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 over 21 years of experience in corporate accounting industry.

Profile of Directors, Supervisors and Senior Management (Continued)

Li Guangwei (李光煒), aged 68, was appointed as independent Supervisor of our Company on 20 April 2006. Mr. Li graduated from Kunming Polytechnic University (昆明工學院) majoring in Mechanical Science. Mr. Li was given the professional qualification of editor-revisor (編審). 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) and is currently the chairman of the supervisory committee of LIFAN Industry (Group) Co., Ltd (力帆實業(集團)股份有限公司). Mr. Li has over 24 years of experience in publication industry and business management.

SENIOR MANAGEMENT

Luo Yong (羅勇), aged 46, was appointed as General Manager of the Company with effect from July 2008. Mr. Luo graduated from the Faculty of Chinese Language of Southwest University for Nationalities majoring in News, and completed a journalism course at the College of Arts of Southwest University for Nationalities and an advance programme on business administration at Renmin University of China, respectively, and with an editor background. Mr. Luo joined Sichuan Nationalities Publishing House in November 1987, and had worked as editor, office head and assistant to the director of Sichuan Nationalities Publishing House. In November 2003, he was appointed as the deputy head of management committee of Sichuan Publication Group and the director of Sichuan Nationalities Publishing House. Mr. Luo was awarded the Top 10 Outstanding Youths of Sichuan Province in 2005. Mr. Luo was granted special government subsidy by the State Council in 2008. Mr. Luo has over 21 years of experience in publication industry and operating management.

Zhang Jing (張京), aged 54, was appointed as Chief Editor of the Company with effect from July 2008. Mr. Zhang graduated from the Faculty of Chinese Language of Sichuan University, majoring in journalism, and completed a training course on director theory at Sichuan Provincial Committee Party School and in-service training course for publisher director and chief editor held by Administration of Press and Publication, respectively and with an editor background. Prior to 1980, Mr. Zhang had worked as an editor of Sichuan People's Press. From October 1980 to May 2004, Mr. Zhang was appointed as an editor, deputy head of general editorial office, vice president and the president of Sichuan Province Youth and Children Press, and then became the president of Sichuan Province Youth and Children Press, and was appointed as the deputy head of Administration Committee of Sichuan Publication Group since November 2003. Mr. Zhang was granted special government subsidy by the State Council in 2004. Mr. Zhang has over 32 years of experience in publication industry and operating management.

Xiao Liping (肖莉萍), aged 52, was appointed the executive deputy general manager of our Company in August 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 and completed a Master of Business Administration degree course at the People's University of China in September 2002. Ms. Xiao worked at Sichuan Province Xinhua Bookstore as deputy Party secretary and Deputy General Manager from 1993 to June 2006. Ms. Xiao served as deputy general manager of our Parent Company from 2000 to 2005 and as executive deputy general manager of our Company from June 2005 to July 2008. Ms. Xiao has over 32 years of experience in book publication and distribution industry as well as corporate administration.

Yang Miao (楊杪), aged 38, was appointed as Deputy General Manager of the Company with effect from July 2008 and is currently the dean of the management research institute of the Company. Mr. Yang graduated from the University of Chengdu with a bachelor's degree, majoring in Public Relationships and Economical Law. He also completed two research courses in business administration at the School of Economics and Management of Tsinghua University and People's University of China, respectively. Mr. Yang started his career as a deputy sales manager and sales manager and deputy manager of Sichuan Province Xinhua Bookstore Textbook Company in 1994 and 1999, respectively. He also worked as the deputy manager of Sichuan Xinhua Book & Trading Company Limited from 1999 to 2000. From 2001 to June 2005, Mr. Yang served as manager at the textbook distribution company of Xinhua Publishing Group. In June 2005, Mr. Yang was

Profile of Directors, Supervisors and Senior Management (Continued)

appointed as the deputy general manager of the Company and general manager of textbook distribution department of the Company. Mr. Yang was the general manager of the Company from April 2006 to July 2008. He also was an executive director of the Company from September 2006 to July 2008. Mr. Yang has over 14 years of experience in book publication and distribution industry.

Zhang Yexin (張業信), aged 52, has been Deputy General Manager of the Company since June 2005. He has been the associate dean of the management research institute of the Company since September 2007 Mr. Zhang obtained a master's degree programme completion certificate in technology, economics and business administration from Sichuan University. Mr. Zhang was promoted to deputy head of the science and teaching materials department, head of the computer department and manager of Sichuan Province Xinhua Bookstore Textbook Company from 1985 to 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 Xinhua Publishing Group in 2000 and was a deputy general manager until 2005. From June 2005 to July 2008, Mr. Zhang was an executive director and a deputy general manager of the Company and was a director of Sichuan Xin Dun Cultural Company Limited. Currently, Mr. Zhang is a director of Anhui Xinhua Media Company Limited and Shanghai Eastern Publishing and Trading Centre and part-time professor of the School of Business Administration of Southwestern University of Finance and Economics. Mr. Zhang has more than 31 years and 23 years of experience in publication and distribution industry and administration management respectively.

Chen Dali (陳大利), aged 46, He has been a Deputy General Manager of the Company since June 2005. Mr. Chen obtained his master's degree in the history of Chinese language from Sichuan Normal University and a PhD Degree in ancient Chinese literature from Sichuan University. Mr. Chen worked as vice president at Sichuan Bashu Book Shop in 2000. From May 2001 to May 2005, Mr. Chen worked as deputy general manager of Xinhua Publishing Group and general manager of its publication department. Mr. Chen has more than 19 years of experience in book publication and distribution industry.

Deng Xinming (鄧新明), aged 52, has been a Deputy General Manager of the Company since June 2005. Mr. Deng completed a Master of Business Administration degree course at the 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 and subsequently became deputy general manager. He joined our Parent Company and became a deputy general manager in November 2001. During Mr. Deng's employment with our Parent Company he also worked as general manager of Sichuan Xinhua Bookstore Group Wenxuan Chainstore from March 2004 to May 2005. Mr. Deng also served as general manager of our retail department (零售連鎖事業部) from 2005 to August 2006. Mr. Deng has over 26 years of experience in book publication and distribution industry and also corporate administration.

You Zugang (游祖剛), aged 46, was appointed as Board secretary and Chief Administrative Officer (行政總監) in June 2005. Mr. You completed a Master of Business Administration degree course at the People's University of China in August 2002. Mr. You is also a member of the Institute of International Internal Auditors. Mr. You was the deputy department head of the planning and finance department of Sichuan Province Xinhua Bookstore, deputy manager of Guangyuan City Xinhua Bookstore, in charge of Sichuan Province Audio-visual Products Wholesale Market Operations Office (四川圖書音像批發市場辦公室), and head of the audit office and deputy head of the planning and finance department of Sichuan Province Xinhua Bookstore from February 1989 to May 2000. From May 2000 to May 2005, Mr. You was the head of the audit office, deputy head of the financial management department, and head of the manager's office of our Parent Company. He was also head of Guangyuan City Management Centre of our Parent Company from April 2004 to May 2005. He was also the Chief Administrative Officer of our Company from June 2005 to July 2008. Mr. You has over 26 years of experience in financial accounting.

Profile of Directors, Supervisors and Senior Management (Continued)

Zhu Zaixiang (朱在祥), aged 48, was appointed as our Chief Financial Officer in June 2005. Mr. Zhu completed a Master of Business Administration degree course at the People's University of China in August 2002. He is a senior qualified accountant. Mr. Zhu was the deputy department head of the planning and audit office, department head and chief officer (主任) of the planning and finance department of Sichuan Province Xinhua Bookstore from 1982 to 2000. Mr. Zhu worked as head of the financial management department of our Parent Company from 2000 to May 2005, and served as general chief accountant of our Parent Company from 2004 to May 2005. Mr. Zhu has over 25 years of experience in financial accounting.

Liu Yuecheng (劉岳成), aged 44, has been the Chief Operating Officer of our Company since 30 July 2008. Mr. Liu graduated from Chengdu University majoring in Book Distribution and Management. Mr. Liu worked as deputy manager, manager of Sichuan Province Xinhua Bookstore Textbook Company and as manager of Sichuan Xinhua Bookstore & Trading Company (四川新華圖貿有限責任公司) from 1990 to December 2000. Mr. Liu was 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 served as executive deputy general manager, general manger of our textbook distribution department from June 2005 to September 2006. He was Chief Sales Officer of our Company from September 2006 to July 2008. Mr. Liu has over 17 years of experience in textbook publication industry and corporate administration.

Yuan Rongjian (袁榮儉), aged 42, was appointed as the Chief Capital Operating Officer of the Company with effect from 30 July 2008. Mr. Yuan completed his post-graduate course majoring in business administration from the University of Electronic Science and Technology of China. From 1996 to 2005, Mr. Yuan served at Chengdu City Education Newspaper and Journal Press Agency and Chengdu City Education Development Consultation Centre and worked as the head of Chengdu Teenagers Science and Technology Park and the president of Chengdu City Educational Technology Equipment Institute. From September 2005 to October 2006, he was appointed as the general manager of Sichuan Xinhua Wenxuan Media Co., Ltd., and then became the deputy general manager of the textbook distribution department of the Company in Sichuan from November 2006 to July 2008. Mr. Yuan has over 13 years of experiences in teaching and administration and book distribution.

Zhang Jian (張踐), aged 43, was appointed as the Head of Information Technology of our Company in 30 July 2008. Ms. Zhang graduated from Chengdu University majoring in Book Distribution and Management. Ms. Zhang was deputy department head and department head of the computer centre from October 1998 to May 2000. Ms. Zhang was head of the information centre of Sichuan Province Xinhua Bookstore Group, chief operating officer of Sichuan Xinhua Bookstore Group Wenxuan Chainstore, and the head of the industrial development department of our Parent Company from May 2000 to May 2005. She served as the Chief Operating Officer of our Company from June 2005 to July 2008. Ms. Zhang has over 19 years of experience in book distribution and publication industry and also information technology.

Shen Xiaoyi (沈曉翊), aged 54, was appointed as the 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). 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 29 years of experience in publication industry and business administration.

Profile of Directors, Supervisors and Senior Management (Continued)

Zhao Xuefeng (趙學鋒), aged 45, was appointed as the 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. 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 and general manager of the procurement centre of our Company from September 2005 to July 2008. Mr. Zhao has over 27 years of experience in book sourcing and distribution.

Li Jian (黎堅), aged 45, was appointed as the Chief Legal Adviser of the Company with effect from July 2008. Mr. Li obtained a research diploma majoring in business administration from Sichuan Business Administration College. He holds the Certificate of Corporate Counsel of P.R. China. Mr. Li was deputy department general manager of Sichuan Province Xinhua Bookstore Group Audio and Visual Product Company, the manager of Xinghua Travel Agency of Sichuan Province Xinhua Bookstore Group Company Limited, the deputy general manager of Beijing Shu Chuan Xinhua Bookstore Book Distribution Co., Ltd., and the head of legal department of our Parent Company from July 1992 to May 2005, respectively. Mr. Li was also appointed as the head of legal department of the Company since June 2005, and worked as the assistant to general manager and head of legal department of the Company from August 2006. Mr. Li has over 26 years of experience book publication, corporate administration and laws.

JOINT COMPANY SECRETARIES

You Zugang (游祖剛), is one of the joint company secretaries of the Company. His biographical details are set out in the sub-section headed “Senior Management” above.

Ngai Wai Fung (魏偉峰), age 47, is the joint company secretary of the Company. 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 Chairman of its 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 Directors

The Directors hereby submit their report, together with the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Group's principal activities are i) the retailing of books and audio-visual products; ii) distribution of textbooks and supplementary materials; and 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 2008 and the profit of the Group for the year ended 31 December 2008 are set out on pages 56 to 58 of the annual report.

DIVIDEND

The Board has proposed the distribution of a final and special dividend for the year ended 31 December 2008 totaling RMB0.20 (tax inclusive) per share, (2007: RMB0.30 per share) totaling RMB227 million (tax inclusive). Whereas the total dividend comprised the final dividend of RMB0.08 per share (tax inclusive) (2007: final dividend of RMB0.09 per share), and the special dividend of RMB0.12 per Share (tax inclusive) (2007: special dividend of RMB0.21 per share). The distribution of the special dividend is not an indication of any future distribution of the same. Dividends payable to holders of the Domestic Shares (the "Domestic Shares") will be made and paid in RMB, whereas dividends payable to holders of the Company's H shares (the "H Shares") will be declared in RMB and payable in Hong Kong dollars.

In accordance with the "Corporate Income Tax Law of the PRC" and its regulations effective on 1 January 2008, non-resident enterprises shall pay corporate tax based on their income generated within the PRC, and the applicable tax rate is 10%, and the balance is withheld by the listed issuer. In this regard, any H Shares registered in the name of non-individual Shareholders, including HKSCC Nominees limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and the Company will distribute the final and special dividend to such non-resident enterprise shareholders after withholding a corporate income tax of 10%.

The proposed final dividend and special dividend are subject to approval by Shareholders at the annual general meeting (the "AGM") on 16 June 2009. Holders of H Shares and Domestic Shares whose names appear on the register of members of the Company on 16 June 2009 will be entitled to the final and special dividends and to attend and vote at the AGM.

The register of members of the Company will be closed from 16 May 2009 to 16 June 2009 (both dates inclusive), during which period no transfer of Shares will be registered. In order to qualify for the proposed final and special dividends and to attend and vote at the AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for the holders of H Shares, or the head office of the Company at No. 6 Wenxuan Road, Shang Mao Avenue, Cheng Bei, Chengdu, Sichuan (Postal code: 610081), the PRC, for the holders of Domestic Shares, for registration no later than 4:30 p.m. on 15 May 2009.

FINANCIAL SUMMARY

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

USE OF PROCEEDS RAISED

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 2008, approximately RMB438 million have been applied according to the intended use stated in the prospectus of the Company dated on 16 May 2007 (the "Prospectus"), as follows:

— Approximately RMB52 million was used for the establishment of retail chain bookstores and renovation of retail outlets for our retail network expansion;

— Approximately RMB213 million was used to expand our textbooks and supplementary materials distribution network within and outside Sichuan Province;

— Approximately RMB20 million was used for the co-operation with or acquisition of publishing organizations related to the ancillary support and services business;

— Approximately RMB48 million was used to finance the establishment of logistics centres and enhancement of our information management system; and

— Approximately RMB105 million was used to supplement the working capital.

As at 31 December 2008, the remaining proceeds of approximately RMB1,672 million was placed in commercial banks in the PRC as short-term deposits.

FIXED ASSETS

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

RESERVES

Details of movements in the Group's reserves during the year are set out in the audited consolidated statement of changes in equity for the Year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group accounted for approximately 31.33% of the total turnover of the Group. The largest customer accounted for approximately 27.68% of the total turnover of the Group.

For the year ended 31 December 2008, the five largest suppliers of the Group accounted for approximately 45.88% of the total purchases of the Group. The largest supplier accounted for approximately 32.59% 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 issued share capital of the Company had 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 2008, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2008, other than a pledged fixed deposit of RMB14.28 million and pledged inventories of RMB9.22 million, the Group did not have other asset under pledge or guarantee.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 19 and 20 to the audited consolidated financial statements for the Year.

DONATIONS

As at 31 December 2008, the Group made charitable and other donations with a total amount of approximately RMB28.5 million.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Company had a total of 6,265 (2007: 6,174) staff.

The Company has in place a performance appraisal system and incentive/penalty mechanism whereby salaries are linked to the performance of employees. The remuneration policy of the Company is regularly reviewed and is proactively promoted using appraisal as its core in motivating employees' performance, and remuneration system is regularly enhanced.

The standard remuneration package of the Company includes basic salary, performance-based bonus and benefits. Pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are available to employees. In addition, the Company has implemented paid annual leave policy with effect from 2008.

Internal training and regular training are available to the staff. During the Year, in view of the unique feature of regional development, the Company had implemented online classroom training sessions to expand the scope of training to the staff.

Report of the Directors (Continued)

SHARE CAPITAL

As at 31 December 2008, the total issued share capital of the Company was RMB1,135,131,000, divided into 1,135,131,000 shares of RMB1.00 each, 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.	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 34 to the audited consolidated financial statements for the Year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARES AND SHORT POSITIONS OF THE COMPANY

As at 31 December 2008, so far as is known to the Directors and Supervisors, 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 were required, pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), to be entered in the register required to be kept by the Company referred to therein:

Name of Shareholder	Number of Shares directly or indirectly held	Capacity	Class of Shares	Approximate % in the relevant class of Shares	Approximate % of total issued share capital	Long Position/ Short Position/ Lending Pool
The Parent Company	592,809,525	Beneficial owner	State-owned Shares	92.65%	52.22%	Long Position
Chengdu Hua Sheng (Group) Industry Co. Ltd. (Note)	53,336,000	Beneficial owner	Social Legal Person Shares	100%	4.70%	Long Position
Atlantis Investment Management Ltd	23,000,000	Investment manager	H Shares	5.20%	2.03%	Long Position
National Council for the Social Security Fund	40,176,100	Beneficial owner	H Shares	9.09%	3.54%	Long Position

Note: On 30 May 2008, Chengdu Hua Sheng (Group) Industry Co. Ltd. pledged all the Shares it held.

Save as disclosed above, as at 31 December 2008, so far as is known to the Directors and Supervisors, 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 were required, pursuant to section 336 of the SFO, to be entered in the register required to be kept by the Company referred to therein.

Apart from (i) Mr. Gong Cimin (Executive Director and Chairman of the Company) who is the Chairman of the Parent Company, (ii) Mr. Wu Qiang (Non-executive Director) who is the Chairman of Chengdu Hua Sheng (Group) Industry Co. Ltd.; and (iii) Mr. Zhao Junhuai (Non-executive Director) who is the Vice-chairman of Chengdu Hua Sheng (Group) Industry Co. Ltd., as at 31 December 2008, none of the Directors held any positions as directors or employed as employees in any company having interests or short positions 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 CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, the Directors, Supervisors and chief executives of the Company had interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Issuers set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were set out as follows:

Director/Supervisor	Name of company	Nature of interest	Number of Shares	Approximate % of registered capital of the Company	Long Position/ Short Position/ Lending Pool
Mr. Wu Qiang	Chengdu Hua Sheng (Group) Industry Co. Ltd.	Interests in controlled corporation (Note)	53,336,000	4.70%	Long Position

Note: Mr. Wu Qiang owns 90% equity interest in Chengdu Hua Sheng (Group) Industry Co. Ltd., hence is deemed to be interested in the Shares held by Chengdu Hua Sheng (Group) Industry Co. Ltd.

Save as disclosed above, as at 31 December 2008, so far as is known to the Directors, none of the Directors, Supervisors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries had 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 of the Company 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, which is in compliance with the Listing Rules.

CONNECTED TRANSACTIONS

Non-Exempted Continuing Connected Transactions

During the Year, the Company entered into continuing connected transactions pursuant to Chapter 14A of the Listing Rules and had either been granted a waiver by the Stock Exchange or had obtained an approval from independent Shareholders (if necessary) and have strictly complied with the requirements specified under Chapter 14A of the Listing Rules. Details of the relevant continuing connected transactions are as follows:

Transactions with Parent Company

The Parent Company is the Controlling Shareholder (as defined in the Listing Rules) and the promoter of the Company, holding 52.22% issued share capital in the Company. Under the Listing Rules, the Parent Company is a connected person of the Company.

1. Leases entered into by the Company and the Parent Company
    a. The Company entered into two leases with the Parent Company on 16 April 2007 and 29 April 2007 respectively. Pursuant to the leases, properties comprising of 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 2008, rental payment made by the Group to the Parent Company amounted to RMB22,823,664.

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

       For the year ended 31 December 2008, rental payment received by the Company from the Parent Company amounted to RMB 1,343,554.

2. Sales arrangements between the Parent Company and the Company in respect of Sanzhou Xinhua Bookstores (as defined in the Prospectus)

    On 21 October 2008, the Company and the Parent Company entered into the sanzhou supply agreement (the "Sanzhou Supply Agreement") and the sanzhou agency agreement (the "Sanzhou Agency Agreement") to amend and restate the terms of sanzhou agreement entered into with the Parent Company on 29 April 2007, and to terminate the said sanzhou agreement. According to the Sanzhou Supply Agreement, the Company (i) will supply non-government-subsidized products to Sanzhou Xinhua Bookstores (excluding the Sanzhou franchise stores); (ii) will supply franchise products to Sanzhou franchise stores; and (iii) will supply government-subsidized textbooks for primary and junior secondary schools in Sanzhou Area to Sanzhou Xinhua Bookstores (excluding the Sanzhou Franchise Stores). According to Sanzhou Agency Agreement, Sanzhou Xinhua Bookstores will supply to the Company in connection with the provision of Sanzhou products to the chainstores and textbook distribution divisions of the Company in Sanzhou Area. The Sanzhou Supply Agreement and the Sanzhou Agency Agreement will expire on 31 December 2010.

For the year ended 31 December 2008, the sales made by the Company to Sanzhou Xinhua Bookstores amounted to RMB97,934,713 and RMB2,203,170 was paid to Sanzhou Xinhua Bookstores in respect of agency services.

3. A property management agreement was entered into between the Company and Chengdu Huang Peng Property Limited Liability Company, a wholly-owned subsidiary of the Parent Company, 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 2008, payment made by the Group to Chengdu Huang Peng Property Limited Liability Company in respect of the provision of property management services was amounted to RMB2,991,264.

4. An information technology service agreement was entered into between the Company and Sichuan Xin Xing Information Technology Limited Liability Company, a company which is owned as to 80% by the Parent Company, 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 2008, payment made by the Group to Sichuan Xin Xing Information Technology Limited Liability Company in respect of information technology products amounted to RMB61,629.

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 ("Beijing Hongzhe"), 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 2008, the payment made by the Group to Xinhua Colour Printing in respect of printing services was amounted to RMB1,675,146.

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 leasing term commencing from 1 January 2007 and ending on 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 2008, the rental payment made by the Company to Chengdu Huasheng Group was 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 to the Company and the Company agreed to purchase textbooks, supplementary materials and other publications from 1 January 2007 to 31 December 2009.

The 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 2008, the payment made by the Group to the Publication Group in respect of the purchase of textbooks, supplementary materials and other publications was amounted to RMB430,923,935.

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 to the Company, and the Company agreed to purchase supplementary materials and other publications from 1 January 2007 to 31 December 2009.

Jie Li Press holds 10.8% 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 a connected person of the Company under the Listing Rules.

For the year ended 31 December 2008, the payment made by the Group to Jie Li Press in respect of the purchase of supplementary materials and other publications was amounted to RMB1,450,702.

Details of the respective continuing connected transactions mentioned above had already been stated in the Prospectus and the circular issued on 30 October 2008.

Non-Exempted Connected Transactions

Acquisition of Equity Interests in Sichuan Xinhua Shang Paper Co., Ltd.

The Company entered into the acquisition agreement with the Parent Company on 26 August 2008 to acquire the 50% equity interests held by the Parent Company in Sichuan Xinhua Shang Paper Co., Ltd., details of which were set out in the announcement and circular of the Company dated 26 August 2008 and 29 August 2008 respectively. As at the date of this report, the consideration for the acquisition has been paid and changes in the business registration record were completed.

The independent non-executive Directors have reviewed the aforementioned 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 to 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 the Listing Rules, the Company has engaged its auditors to perform certain agreed procedures in respect of the connected transactions of the Group. Ernst & Young, the auditor of the Company, has performed agreed-upon procedures on the aforementioned continuing connected transactions and reported the performance result to the Board that the aforementioned continuing connected transactions:

1. have been approved by the Board;

2. have been effected in accordance with pricing policies specified under the respective agreements relating to the transactions;

3. have been entered into on the terms of the respective agreements relating to the transactions; and

4. do not exceed the annual cap amounts as disclosed in the Prospectus or the relevant announcements made by the Company.

NON-COMPETITION UNDERTAKING AND SANZHOU ACQUISITION OPTION

The Parent Company has declared to the Company that as at 31 December 2008, it had complied with the Non-competition Undertaking (as defined in the Prospectus).

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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to sound corporate governance, and had complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the Year. Details of the compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules are set out in the section "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. Zhang Bangkai (appointed on 30 July 2008)
Mr. Dai Chuanping (resigned on 30 July 2008)
Mr. Yang Miao (resigned on 30 July 2008)
Mr. Zhang Yexin (resigned on 30 July 2008)

Non-Executive Directors

Ms. Wang Jianping
Mr. Yu Changjiu (appointed on 30 July 2008)
Mr. Li Jiawei
Mr. She Jingping (resigned on 30 July 2008)
Mr. Luo Jun (appointed on 30 July 2008)
Mr. Wu Qiang
Mr. Zhang Chengxing (appointed on 30 July 2008)
Mr. Zhao Junhuai
Mr. Zhao Miao (appointed on 10 February 2009)
Mr. Mo Shixing (resigned on 10 February 2009)

Independent Non-Executive Directors

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

Supervisors

Mr. Xiao Changjiu (appointed on 30 July 2008)
Mr. Xu Yuzheng (appointed on 30 July 2008)
Mr. Peng Xianyi
Ms. Dai Wen (appointed on 30 July 2008)
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang
Mr. Luo Jun (resigned on 30 July 2008)
Mr. Li Yunyi (resigned on 30 July 2008)
Mr. Wang Feng (resigned on 30 July 2008)

Independent Supervisors

Mr. Li Guangwei
Mr. Fu Daiguo

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Change of Directors

Pursuant to the Company's articles of association, a resolution was resolved at the Board meeting held on 11 June 2008, in which Mr. Gong Cimin, Ms. Wang Jianping, Mr. Li Jiawei, Mr. Mo Shixing, Mr. Wu Qiang, Mr. Zhao Junhuai, Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong, members of the first session of the Board, were nominated as candidates of the second session of the Board and had offered themselves for re-election. Mr. Zhang Bangkai, Mr. Yu Changjiu, Mr. Luo Jun and Mr. Zhang Chengxing were proposed as candidates for the second session of the Board. At the extraordinary general meeting held on 30 July 2008, Mr. Gong Cimin and Mr. Zhang Bangkai were elected as executive Directors of the second session of the Board, Ms. Wang Jianping, Mr. Yu Changjiu, Mr. Li Jiawei, Mr. Luo Jun, Mr. Wu Qiang, Mr. Zhang Chengxing, Mr. Zhao Junhuai and Mr. Mo Shixing were elected as non-executive Directors of the second session of the Board, Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong were re-elected as independent non-executive Directors.

As resolved at the first meeting of the second session of the Board, Mr. Gong Cimin was elected as chairman of the second session of the Board of the Company and Mr. Zhang Bangkai was elected as vice-chairman of the second session of the Board of the Company effective from 30 July 2008.

The Company convened a Board meeting on 16 December 2008, and consented that owing to changes of the work responsibilities of Mr. Mo Shixing in Sichuan Publishing Group (one of the promoters of the Company), he was no longer holding the positions of non-executive Director and member of Editorial and Publication Committee of the Company. At the same time, Mr. Zhao Miao was elected as non-executive Director and member of Editorial and Publication Committee, effective from 10 February 2009.

Change of Supervisors

Pursuant to the Company's articles of association, an extraordinary general meeting was held on 30 July 2008, in which Mr. Xiao Changjiu, Mr. Peng Xianyi, Mr. Xu Yuzheng and Ms. Dai Wen were elected as Supervisors of the second session of the Supervisory Committee, Mr. Fu Daiguo and Mr. Li Guangwei were elected as independent Supervisors of the second session of the Supervisory Committee; together with Ms. Lan Hong, Ms. Liu Nan and Mr. Li Qiang, elected as the Employee Representative Supervisors, forming the Second Supervisory Committee of the Company.

As resolved at the first meeting of the second session of the Supervisory Committee, Mr. Xiao Changjiu was elected as chairman of the second session of the Supervisory Committee of the Company effective from 30 July 2008.

Change in Senior Management

As resolved at the first meeting of the second session of the Board was held on 30 July 2008, Mr. Luo Yong was employed as general manager, Mr. You Zugang as Secretary to the Board as at 30 July 2008. Pursuant to the nomination by the general manager, Mr. Zhang Jing was employed as chief editor, Mr. Yang Miao, Mr. Zhang Yexin, Mr. Chen Dali and Mr. Deng Xinming as deputy general managers, Mr. Zhu Zaixiang as Chief Financial Controller, Mr. Liu Yuecheng as Chief Operating Officer, Mr. Yuan Rongjian as Chief Capital Operating Officer, Ms. Zhang Jian as Head of Information Technology, Ms. Shen Xiaoyi as Chief Production Officer, Mr. Zhao Xuefeng as Chief Procurement Officer and Mr. Li Jian as Chief Legal Adviser.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the date of this report, none of the Directors and Supervisors had entered into any service contracts with the Company or any of its subsidiaries, which were not determinable within one year without payment of compensation in addition to statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the Year, none of the Directors and Supervisors had any direct or indirect material interest in any contracts of significance to which the Company, its holding company, subsidiaries or subsidiaries of its holding company was a party and remained valid at the end of the Year.

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 the Parent Company for policy reasons (as disclosed in the Prospectus), neither the Parent Company 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 directly or indirectly 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 Company Limited 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 audited consolidated financial statements for the Year.

BOARD OF DIRECTORS AND BOARD COMMITTEES

Details of the Board and board committees are set out in the Corporate Governance Report.

SHARE APPRECIATION RIGHT INCENTIVE SCHEME

During the Year, the Share Appreciation Right Incentive Scheme was not yet in effect.

The proposal of the Share Appreciation Right Incentive Scheme had been submitted to the State-owned Assets Supervision and Administration Commission of the Sichuan Provincial Government (四川省政府國有資產監督管理委員會) and no approval has been obtained.

MATERIAL LITIGATION

On 7 July 2008, the legal proceeding involving our South-western Book City was reviewed by the Intermediate People's Court of Chengdu, Sichuan Province which gave its first-instance ruling to the effect that the Group shall pay to the plaintiff an outstanding usage fee of RMB3.885 million in respect of the period from 1 September 2002 to 31 December 2007. Provision has been made in the Group's accounts. An appeal against the ruling has been submitted to the High People's Court of Sichuan Province by the Group and the other defendants of the litigation.

Save as disclosed above, during the year ended 31 December 2008, the Group were not involved 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.

AUDITORS

Ernst & Young and ShineWing Certified Public Accountants have been appointed as the international and domestic auditors of the Company respectively for the Year. 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 together with ShineWing Certified Public Accountants will retire and shall be eligible for reappointment at the AGM.

By order of the Board
Gong Cimin
Chairman

9 April 2009

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 ("Company Law"), the Listing Rules and 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 six Supervisory Committee meetings, in which 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. The details of the meetings are as follows:

The first meeting of the first session of Supervisory Committee for the Year was convened on 18 April 2008. The Report of the Supervisory Committee for 2007, the Audited Financial Report for 2007, the Profit Distribution Proposal for 2007 and the Annual Report for 2007 were considered and unanimously approved in the meeting. On the same day, the Company convened an extraordinary meeting of the Supervisory Committee (the second meeting of the first session of Supervisory Committee for the Year), during which the Proposal in relation to the Extension of Office Terms of the first session of Supervisory Committee was considered and approved.

The third meeting of the first session of Supervisory Committee for the Year was convened on 11 June 2008, during which the Proposal of Nominating Supervisory Candidates of Non-employee Representatives of the second session of Supervisory Committee was reviewed and approved. At this meeting, Mr. Xiao Changjiu, Mr. Xu Yuzheng, Mr. Peng Xianyi and Dai Wen were nominated as supervisory candidates of Non-employees Representative of the second session of Supervisory Committee; and Mr. Fu Daiguo and Mr. Li Guangwei were nominated as candidates of independent Supervisors of the second session of Supervisory Committee.

The first meeting of the second session of Supervisory Committee for the Year was convened on 30 July 2008, during which Mr. Xiao Changjiu was elected as the Chairman of the second session of Supervisory Committee of the Company with immediate effect.

The second meeting of the second session of Supervisory Committee for the Year was convened on 25 August 2008, during which the Proposal Concerning the Unaudited Consolidated Financial Report for the six months ended 30 June 2008 was reviewed and approved.

An informal meeting of the second session of Supervisory Committee for the Year was held on 30 December 2008. During this meeting, the Company's management and the secretary to the Board presented their reports regarding the business operations and financial position of the Company in 2008, the implementation of the resolutions of Shareholders' and Board meetings of the Company. Certain other supervision matters were also discussed.

2. SUPERVISION AND INSPECTION CONDUCTED BY THE SUPERVISORY COMMITTEE

During the Year, the Company's Supervisory Committee had duly carried out its supervisory duties with a view to protecting the interests of the Company and its shareholders. In order to supervise the critical decision-making process of the Company and the performance of duties of Board members and senior management officers, members of the Company's Supervisory Committee were present at all Board meetings of the Company during the reporting period and communicated directly with the Company's management. By leveraging on its understanding in the relevant industry and entity, the Supervisory Committee gave suggestions in respect of an investment project proposed by the

Company, and urged the Company to conduct a thorough investigation on its co-operating partner and terminate the proposed project in time to avoid the investment risks. With its supervision, the Supervisory Committee was of the view that the decision-making procedures of all Board meetings are in compliance with the laws, the Board has duly implemented the resolutions of Shareholders and faithfully carried out their fiduciary duties. We were not aware of any act that is in breach of the Company's Articles of Association and other laws, regulations 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 during the course of performance of their duties for the Company.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON CERTAIN ISSUES OF THE COMPANY IN 2008

1) Operation of the Company Pursuant to the Relevant Laws

The overall business operation of the Company in 2008 was in compliance with the requirements specified by relevant laws. Internal control system was further improved. We were not aware of any act that is in breach of the Company's Articles of Association and other laws, regulations 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 during the course of performance of their duties for the Company.

2) Financial Position of the Company

The Supervisory Committee has duly reviewed the financial statements for 2008 which was being audited and prepared by Ernst & Young with an unqualified opinion. 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 2008 and the operating results for the Year of the Company in all material aspects.

3) Connected Transactions for the Company

The Supervisory Committee has conducted supervision and verification on the Company's connected transactions during the Year, and is not aware of any connected transactions have not been conducted at fair prices and were against the interests of the Company and minority Shareholders.

4) Acquisitions and Disposals of Company Assets

As at 31 December 2008, we are not aware of any material acquisitions made by the Company which involve any insider dealing or any act against the interests of Shareholders, and cause losses to the Company's assets.

In 2009, the Supervisory Committee will continue to perform its duties faithfully, further enhance the regulated operation of the Company, protect the interests of Shareholders and the Company as a whole, 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 Supervisory Committee
Xiao Changjiu
Chairman

9 April 2009

Independent Auditors' Report

ERNST & YOUNG
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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 56 to 127, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

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

Independent Auditors' Report (Continued)

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 2008 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
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

9 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**2,736,936**	2,309,481
Cost of sales		**(1,630,435)**	(1,383,520)
Gross profit		**1,106,501**	925,961
Other income and gains	5	**62,104**	95,717
Selling and distribution costs		**(546,035)**	(448,354)
Administrative expenses		**(234,904)**	(163,173)
Other expenses		**(76,675)**	(63,734)
Finance income, net	7	**39,995**	45,787
Share of losses of associates		**(9,772)**	(3,445)
PROFIT BEFORE TAX	6	**341,214**	388,759
Tax	10	**(3,058)**	(1,765)
PROFIT FOR THE YEAR		**338,156**	386,994
Attributable to:			
Equity holders of the parent		**337,988**	388,796
Minority interests		**168**	(1,802)
		338,156	386,994
DIVIDENDS — Proposed final	12	**227,026**	340,539
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	13	**0.30**	0.40

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**533,473**	494,119
Lease prepayments for land use rights	15	**68,371**	72,051
Investment properties	16	**5,660**	6,066
Goodwill	17	**3,307**	—
Other intangible assets	18	**28,766**	26,901
Investments in associates	20	**49,079**	47,308
Available-for-sale equity investments	21	**428,835**	188,835
Deferred tax assets	22	**48,372**	47,090
Property under development	23	**126,203**	126,025
Long-term prepayment	24	**—**	160,000
Total non-current assets		**1,292,066**	1,168,395
CURRENT ASSETS			
Inventories	25	**827,046**	576,218
Trade receivables	26	**309,919**	289,745
Prepayments, deposits and other receivables	27	**153,546**	156,293
Held-to-maturity investments	28	**180,000**	330,000
Investments at fair value through profit or loss	29	**—**	868,180
Pledged deposits	30	**14,280**	10,000
Cash and short-term deposits	30	**2,610,701**	1,536,434
Total current assets		**4,095,492**	3,766,870
CURRENT LIABILITIES			
Other borrowings	31	**9,600**	—
Trade and bills payables	32	**1,172,939**	1,021,007
Deposits received, other payables and accruals	33	**461,042**	171,007
Tax payable		**4,926**	6,130
Total current liabilities		**1,648,507**	1,198,144
NET CURRENT ASSETS		**2,446,985**	2,568,726
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,739,051**	3,737,121

Consolidated Balance Sheet (Continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Other borrowings	31	**3,525**	13,125
Total non-current liabilities		**3,525**	13,125
Net assets		**3,735,526**	3,723,996
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	**1,135,131**	1,135,131
Reserves	35	**2,311,748**	2,202,968
Proposed final dividend	12	**227,026**	340,539
		3,673,905	3,678,638
Minority interests		**61,621**	45,358
Total equity		**3,735,526**	3,723,996

Gong Cimin
Director

Zhang Bangkai
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital RMB'000 (note 34)	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000 (note 35 (b)(i))	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the parent									
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		—	—	—	—	(15,068)	—	—	(15,068)	—	(15,068)
Issue of H shares upon listing		369,400	1,726,743	—	—	—	—	—	2,096,143	—	2,096,143
Issue of H shares upon partial exercise of the over-allotment option		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		—	—	—	—	—	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
As at 1 January 2008		1,135,131	1,708,203*	33,514*	93,285*	48,393*	340,539	319,573*	3,678,638	45,358	3,723,996
Profit for the year		—	—	—	—	—	—	337,988	337,988	168	338,156
Final dividend for 2007		—	—	—	—	—	(340,539)	—	(340,539)	—	(340,539)
Appropriation to statutory surplus reserve		—	—	—	33,568	—	—	(33,568)	—	—	—
Proposed final 2008 dividend	12	—	—	—	—	—	227,026	(227,026)	—	—	—
Dividends to minority equity holders		—	—	—	—	—	—	—	—	(2,770)	(2,770)
Investment in a subsidiary		—	—	—	—	—	—	—	—	7,350	7,350
Acquisition of a subsidiary	36	—	—	—	—	—	—	—	—	8,733	8,733
Equity transactions with minority equity holders		—	—	(2,182)	—	—	—	—	(2,182)	2,782	600
As at 31 December 2008		1,135,131	1,708,203*	31,332*	126,853*	48,393*	227,026	396,967*	3,673,905	61,621	3,735,526

* These reserve accounts comprise the consolidated reserves of RMB2,311,748,000 (2007: RMB2,202,968,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**341,214**	388,759
Adjustments for:			
Finance income, net	7	**(39,995)**	(45,787)
Gain on held-to-maturity investments	5	**(27,093)**	(7,830)
Loss/(gain) on investment designated at fair value through profit or loss		**1,925**	(8,180)
Amortisation of intangible assets	6	**3,448**	2,833
Recognition of lease prepayments for land use rights	6	**3,766**	3,823
Share of losses of associates		**9,772**	3,445
Loss on disposal of items of property, plant and equipment	6	**152**	561
Depreciation	6	**39,869**	35,402
Expenses on conversion of shares	6	**—**	7,545
Impairment of trade and other receivables	6	**2,368**	6,002
Write-down of inventories to net realisable value	6	**35,340**	22,358
		370,766	408,931
Increase in inventories		**(257,749)**	(259,723)
Decrease in trade receivables		**9,942**	22,149
(Increase)/decrease in prepayments, deposits and other receivables		**23,620**	(57,358)
Increase in trade and bills payables		**93,050**	151,708
Increase/(decrease) in deposits received, other payables and accruals		**272,992**	(38,862)
Increase in property under development		**(178)**	(2,923)
Decrease in other long term assets		**—**	1,404
Cash generated from operations		**512,443**	225,326
Interest paid		**(782)**	(796)
PRC corporate income tax paid		**(1,576)**	(6,633)
Net cash inflow from operating activities		**510,085**	217,897

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		33,535	46,583
Gain on held-to-maturity investments	5	27,093	7,830
Dividends received		291	—
Proceeds from disposal of items of property, plant and equipment		1,063	2,319
Purchase of items of property, plant and equipment	14	(79,865)	(80,794)
Purchase of a lease prepayment for land use rights	15	—	(2,875)
Purchase of intangible assets	18	(5,313)	(10,343)
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months when acquired		124,244	(200,000)
Increase in investments in associates		(11,615)	—
Acquisition of a subsidiary, net of cash paid	36	2,170	—
Cash contribution from a minority equity holder		7,350	—
Acquisition of available-for-sale equity investments		(80,000)	(186,415)
Increase in long-term prepayment		—	(160,000)
Increase in pledged time deposits		(4,280)	(10,000)
(Purchase)/disposal of held-to-maturity investments		150,000	(330,000)
(Purchase)/disposal of investments at fair value through profit or loss		866,255	(860,000)
Equity transaction with minority equity holders		600	—
Net cash inflow/(outflow) from investing activities		1,031,528	(1,783,695)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of H shares		—	2,109,964
New other borrowings		—	13,125
Repayment of other borrowings		—	(15,395)
Expenses on conversion of shares		—	(7,545)
Dividends paid		(340,539)	(70,943)
Dividends paid to minority shareholders		(2,563)	—
Net cash inflow/(outflow) from financing activities		(343,102)	2,029,206
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,198,511	463,408
Cash and cash equivalents at beginning of year		1,336,434	873,026
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,534,945	1,336,434
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	30	1,311,898	1,196,434
Non-pledged time deposits with original maturity of less than three months when acquired	30	1,223,047	140,000
		2,534,945	1,336,434

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**530,495**	491,070
Lease prepayments for land use rights	15	**68,371**	72,051
Investment properties	16	**5,660**	6,066
Other intangible assets	18	**27,565**	25,514
Investments in subsidiaries	19	**108,898**	81,452
Investments in associates	20	**64,733**	53,118
Available-for-sale equity investments	21	**428,835**	188,835
Deferred tax assets	22	**47,090**	47,090
Long-term prepayment	24	**—**	160,000
Due from a subsidiary	27	**5,875**	—
Total non-current assets		**1,287,522**	1,125,196
CURRENT ASSETS			
Inventories	25	**802,727**	570,994
Trade receivables	26	**279,830**	285,622
Prepayments, deposits and other receivables	27	**186,753**	196,884
Held-to-maturity investments	28	**—**	330,000
Investments at fair value through profit or loss	29	**180,000**	868,180
Pledged deposits	30	**—**	10,000
Cash and short-term deposits	30	**2,525,698**	1,493,449
Total current assets		**3,975,008**	3,755,129
CURRENT LIABILITIES			
Trade and bills payables	32	**1,107,559**	1,007,966
Deposits received, other payables and accruals	33	**430,926**	160,541
Tax payable		**854**	3,144
Total current liabilities		**1,539,339**	1,171,651
NET CURRENT ASSETS		**2,435,669**	2,583,478
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,723,191**	3,708,674

Balance Sheet (Continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net assets		**3,723,191**	3,708,674
EQUITY			
Issued capital	34	**1,135,131**	1,135,131
Reserves	35	**2,361,034**	2,233,004
Proposed final dividend	12	**227,026**	340,539
Total equity		**3,723,191**	3,708,674

Gong Cimin
Director

Zhang Bangkai
Director

Notes to Financial Statements

31 December 2008

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 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 19 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 on a historical cost basis, 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 Group for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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.

Notes to Financial Statements (Continued)
31 December 2008

2.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation *(Continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is 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 as an equity transaction.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements. The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 — Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and* IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and* IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets (Continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) IFRIC 11 — *IFRS 2 — Group and Treasury Share Transactions*

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 buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 12 — *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC 14 — *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements (Continued)
31 December 2008

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 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based payment — Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 7 Amendments	*Amendments to IFRS 7 Financial Instruments: Disclosures*[1]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS[1] *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC 18	*Transfers of Assets from Customers*
IAS 39 and IFRIC 9 Amendments	*Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"* [5]

Apart from the above, IASB has also issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

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. The Group expects to adopt IFRS 3 (Revised) from 1 January 2010. The changes introduced by this revised standard must be applied prospectively and will affect future acquisitions.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows, IAS 12 Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rate*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The Group expects to adopt IAS 27 (revised) from 1 January 2010.

IFRS 7 has been amended to enhance disclosures about fair value measurement and liquidity risk. In the first year of application, entities need not provide comparative information for the disclosures required by the amended paragraphs of IFRS 7.

IFRS 8, which replaces 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. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard 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, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

IAS 23 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 on borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. The amendments are unlikely to have any financial impacts on the Group, as the Group has not issued such instruments.

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedge, the amendment is unlikely to have any financial impact on the Group.

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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 customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognize such assets.

The Amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial assets out of the fair value through profit or loss category; and the assessment to be made on the basis of the circumstances that existed on the later of the date when the entity first became a party to the contract, and the date of a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract. IAS 39 is also amended to state that, if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss.

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

(a) IFRS 5 *Non-current Assets Held for Sale* and *Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) IFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

(c) IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

(d) IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

(e) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(f) IAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(g) IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Improvements to IFRSs *(Continued)*

(i) IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

(j) IAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent 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 — 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, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Joint ventures

A joint venture is an entity set by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates and the capital contributions of the joint venture parties, the duration of the joint venture and the basis on with the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operation and any distribution of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-control entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets (other than goodwill)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets (other than goodwill) *(Continued)*

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;

(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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Property, plant and equipment

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

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment *(Continued)*

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 least at each balance sheet date.

Intangible assets (other than goodwill)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill) *(Continued)*

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 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 losses. Depreciation is calculated on the straight-line basis over the expected useful life of 20 to 40 years.

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.

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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and building as a finance lease in property, plant and equipment.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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. 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.

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.

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.

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(Continued)*

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.

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; and 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.

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost *(Continued)*

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.

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

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

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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.

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.

Deferred tax

Deferred tax is provided using the liability method on all 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

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(Continued)*

Deferred tax *(Continued)*

(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.

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

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.

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.

Notes to Financial Statements (Continued)
31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured. Reliably, on the following basis:

(a) Revenue from the sales 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.

(c) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 is as follows:

- Product: Provision of ancillary support and services to book publishers
- Zhongpan: Bulk purchase of publications from publishers and Product segment 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.

Notes to Financial Statements (Continued)

31 December 2008

4. SEGMENT INFORMATION *(CONTINUED)*

The following table presents revenue, profit and certain asset, liability and expenditure information for the segments of the Group for the year ended 31 December 2008.

Year ended 31 December 2008

	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	27,562	118,220	2,180,595	405,169	5,390	—	2,736,936
Intersegment sales	447,868	1,725,546	—	—	337	(2,173,751)	—
Other income	459	13,380	3,620	16,328	3	—	33,790
	475,889	1,857,146	2,184,215	421,497	5,730	(2,173,751)	2,770,726
Results							
Segment results	71,146	18,217	344,596	(48,135)	(3,920)	(42,451)	339,453
Unallocated expenses							(54,851)
Unallocated income and gains							1,221
Finance income, net							39,995
Gains on held-to-maturity investments							27,093
Losses on investments designated at fair value through profit or loss							(1,925)
Share of losses of associates	—	—	—	—	(9,772)	—	(9,772)
Profit before tax							341,214
Tax							(3,058)
Profit for the year							338,156
Assets and liabilities							
Segment assets	517,573	2,791,436	1,185,150	541,549	139,422	(448,192)	4,726,938
Investment in associates	—	—	—	—	49,079	—	49,079
Unallocated assets							611,541
Total assets							5,387,558
Segment liabilities	305,561	1,085,255	408,605	144,541	39,586	(347,886)	1,635,662
Unallocated liabilities							16,370
Total liabilities							1,652,032
Other segment information:							
Capital expenditure:							
— Property, plant and equipment	686	18,599	45,384	15,163	33	—	79,865
— Intangible assets	512	1,998	2,350	453	—	—	5,313
Depreciation	834	20,850	7,152	10,842	191	—	39,869
Amortisation of intangible assets	331	1,293	1,520	293	11	—	3,448
Write-down of inventories to net realisable value	(1,504)	8,673	19,017	9,154	—	—	35,340
Impairment of trade and other receivables	(2,321)	7,823	(5,704)	2,562	8	—	2,368

Notes to Financial Statements (Continued)

31 December 2008

4. SEGMENT INFORMATION *(CONTINUED)*

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

Notes to Financial Statements (Continued)
31 December 2008

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 elimination of all significant intergroup transactions.

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

	Notes	2008 RMB'000	2007 RMB'000
Revenue			
Sales of goods		**2,736,936**	2,309,481
Other income and gains			
Government grants	(i)	**3,678**	53,322
Gross rental income	(ii)	**4,464**	5,503
Commission income	(iii)	**21,756**	16,513
Gains on held-to-maturity investments		**27,093**	7,830
Gains on investments designated at fair value through profit or loss		**—**	8,180
Others		**5,113**	4,369
Total other income and gains		**62,104**	95,717

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:

	2008 RMB'000	2007 RMB'000
Gross rental income in respect of:		
Investment properties	**3,053**	3,248
Sub-letting of properties	**1,411**	2,255
	4,464	5,503
Less: Direct operating expenses	**(241)**	(111)
Net rental income	**4,223**	5,392

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

	2008 RMB'000	2007 RMB'000
Commission from concessionaire sales	**13,893**	10,039
Commission from agency services for printing	**7,863**	6,474
	21,756	16,513

Notes to Financial Statements (Continued)
31 December 2008

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**1,630,435**	1,383,520
Depreciation:			
Property, plant and equipment	14	**39,463**	35,151
Investment properties	16	**406**	251
		39,869	35,402
Recognition of lease prepayments for land use rights	15	**3,766**	3,823
Amortisation of intangible assets*	18	**3,448**	2,833
Minimum lease payments under operating leases on properties		**51,285**	42,763
Loss on disposal of items of property, plant and equipment, net		**152**	561
Impairment of trade and other receivables		**2,368**	6,002
Write-down of inventories to net realisable value		**35,340**	22,358
Auditors' remuneration		**4,574**	5,150
Staff costs:			
Directors' and supervisors' emoluments	9	**1,912**	2,508
Other staff costs			
Wages, salaries and other employee benefits		**250,297**	162,825
Post-employment pension scheme contributions		**22,106**	13,508
		272,403	176,333
		274,315	178,841
Expenses on conversion of shares		**—**	7,545
Foreign exchange difference		**1,193**	13,242

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

Notes to Financial Statements (Continued)

31 December 2008

7. FINANCE INCOME, NET

	Group	
	2008	2007
	RMB'000	RMB'000
Bank interest income	**40,777**	46,583
Interest expense on other borrowings, wholly repayable within five years	**(782)**	(796)
	39,995	45,787

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 2008 were approximately RMB22,137,000 (2007: RMB13,545,000).

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**1,270**	721	**189**	200
Other emoluments:				
Salaries, allowances and benefits in kind	**104**	623	**204**	264
Discretionary bonuses*	**54**	347	**60**	316
Post-employment pension scheme contributions	**7**	14	**24**	23
	165	984	**288**	603
Total	**1,435**	1,705	**477**	803

* 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.

Notes to Financial Statements (Continued)
31 December 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Mr. Chan Yuk Tong	161	140
Mr. Han Xiaoming	108	80
Mr. Cheng Sanguo	90	70
Total	359	290

The amount in 2008 represented the fees paid. There were no other emoluments payable to the independent non-executive directors during the year (2007: 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
2008					
Executive directors:					
Mr. Gong Cimin*	310	—	—	—	310
Mr. Zhang Bangkai*	125	—	—	—	125
Mr. Dai Chuanping*&**	175	—	—	—	175
Mr. Yang Miao**	—	54	30	3	87
Mr. Zhang Yexin**	—	50	24	4	78
	610	104	54	7	775
Non-executive directors:					
Ms. Wang Jianping	43	—	—	—	43
Mr. Yu Changjiu	25	—	—	—	25
Mr. Li Jiawei	28	—	—	—	28
Mr. Wu Qiang	28	—	—	—	28
Mr. Luo Jun*	73	—	—	—	73
Mr. Zhao Junhuai	38	—	—	—	38
Mr. Zhang Chengxing*	21	—	—	—	21
Mr. Mo Shixing	33	—	—	—	33
Mr. She Jingping**	12	—	—	—	12
	301	—	—	—	301
Total	911	104	54	7	1,076

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

** Pursuant to the resolution made in the extraordinary general meeting held on 30 July 2008, Mr. Dai Chuanping, Mr. Yang Miao, Mr. Zhang Yexin and Mr. She Jingping, who were members of the Board in the first session, did not stand for re-election as members of the Board in the second session.

Notes to Financial Statements (Continued)

31 December 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(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
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.

Notes to Financial Statements (Continued)

31 December 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

(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
2008					
Mr. Xiao Changyu	38	—	—	—	38
Mr. Xu Yuzheng*	13	—	—	—	13
Mr. Peng Xianyi	18	—	—	—	18
Mr. Dai Wen	12	—	—	—	12
Ms. Lan Hong	—	66	18	12	96
Ms. Liu Nan	—	66	18	6	90
Mr. Li Qiang	—	72	24	6	102
Mr. Fu Daiguo	48	—	—	—	48
Mr. Li Guangwei	48	—	—	—	48
Mr. Li Yunyi**	6	—	—	—	6
Mr. Wang Feng**	6	—	—	—	6
Total	189	204	60	24	477

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

** Pursuant to the resolution made in the extraordinary general meeting held on 30 July 2008, Mr. Li Yunyi and Mr. Wang Feng, who were members of the Supervisory Committee in the first session, did not stand for re-election as members of the Supervisory Committee in the second session.

Notes to Financial Statements (Continued)

31 December 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(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
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.

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 RMB881,890).

Notes to Financial Statements (Continued)
31 December 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

(d) Five highest paid employees

The five highest paid employees during the year included nil (2007: two) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining five (2007: three) non-director and non-supervisor highest paid employees are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,284**	717
Discretionary bonuses	**837**	324
Post-employment pension scheme contributions	**34**	16
	2,155	1,057

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 RMB881,890).

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 25% on their respective taxable income.

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

	2008	2007
	RMB'000	RMB'000
Current PRC income tax charge for the year	**2,669**	1,765
Deferred income tax (note 22)	**389**	—
	3,058	1,765

Notes to Financial Statements (Continued)
31 December 2008

10. INCOME TAX *(CONTINUED)*

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			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**341,214**		388,759	
Income tax at PRC statutory income tax rate of 25% (2007: 33%)	**85,303**	**25.0**	128,290	33.0
Expenses not deductible for tax purposes	**4,901**	**1.4**	7,657	2.0
Tax losses not recognised	**3,974**	**1.2**	5,585	1.4
Tax concessions*	**(91,120)**	**(26.7)**	(139,767)	(36.0)
Tax charge at the Group's effective rate	**3,058**	**0.9**	1,765	0.4

* 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 RMB519,000 (2007: RMB137,000), 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 2008 includes a profit of RMB355,056,000 (2007: RMB408,039,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2008	2007
	RMB'000	RMB'000
Proposed final — RMB0.2 (2007: RMB0.3) per ordinary share	**227,026**	340,539

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

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.

Notes to Financial Statements (Continued)
31 December 2008

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.

	2008 **RMB'000**	2007 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**337,988**	388,796

	Number of shares	
	2008	2007
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,135,131,000**	970,415,172

Diluted earnings per share for the years ended 31 December 2008 and 2007 have not been presented because no diluting events existed during these two years.

Notes to Financial Statements (Continued)

31 December 2008

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 2008						
As at 1 January 2008:						
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
As at 1 January 2008, net of accumulated depreciation	364,524	15,408	23,721	72,560	17,906	494,119
Additions	31,920	13,215	13,092	13,657	7,981	79,865
Transfers from construction in progress	23,711	—	—	1,041	(24,752)	—
Acquisition of a subsidiary (note 36)	—	—	117	50	—	167
Disposals	—	—	(709)	(506)	—	(1,215)
Depreciation charge for the year	(10,805)	(5,456)	(6,346)	(16,856)	—	(39,463)
As at 31 December 2008, net of accumulated depreciation	409,350	23,167	29,875	69,946	1,135	533,473
As at 31 December 2008:						
Cost	453,993	42,704	69,189	135,902	1,135	702,923
Accumulated depreciation	(44,643)	(19,537)	(39,314)	(65,956)	—	(169,450)
Net carrying amount	409,350	23,167	29,875	69,946	1,135	533,473

Notes to Financial Statements (Continued)

31 December 2008

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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 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 (note 16)	(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

Notes to Financial Statements (Continued)

31 December 2008

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 2008						
As 1 January 2008:						
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
As at 1 January 2008, net of accumulated depreciation	364,524	15,339	21,987	71,314	17,906	491,070
Additions	31,920	13,083	12,883	13,293	7,981	79,160
Transfers from construction in progress	23,711	—	—	1,041	(24,752)	—
Disposals	—	—	(487)	(490)	—	(977)
Depreciation charge for the year	(10,805)	(5,456)	(6,124)	(16,373)	—	(38,758)
As at 31 December 2008, net of accumulated depreciation	409,350	22,966	28,259	68,785	1,135	530,495
As at 31 December 2008:						
Cost	453,993	42,328	66,579	132,674	1,135	696,709
Accumulated depreciation	(44,643)	(19,362)	(38,320)	(63,889)	—	(166,214)
Net carrying amount	409,350	22,966	28,259	68,785	1,135	530,495

Notes to Financial Statements (Continued)

31 December 2008

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 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 (note 16)	(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

All of the Group's buildings are located in the PRC.

As at 31 December 2008, except for four (2007: three) properties with an aggregate net book value of approximately RMB70,296,000 (2007: RMB63,000,000), the Group has obtained the relevant building ownership certificates.

Notes to Financial Statements (Continued)

31 December 2008

15. LEASE PREPAYMENTS FOR LAND USE RIGHTS

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Carrying amount at 1 January	**75,903**	76,851
Addition	**—**	2,875
Recognised during the year	**(3,766)**	(3,823)
Carrying amount at 31 December	**72,137**	75,903
Less: Current portion, included in prepayments, deposits and other receivables	**(3,766)**	(3,852)
Non-current portion	**68,371**	72,051

The leasehold lands are held under long term leases and are situated in the PRC.

16. INVESTMENT PROPERTIES

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Carrying amount at 1 January	**6,066**	2,470
Transfers from owner-occupied properties (note 14)	**—**	3,847
Depreciation provided during the year	**(406)**	(251)
Carrying amount at 31 December	**5,660**	6,066
Fair value	**37,623**	39,269

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

The investment properties with a net carrying amount of RMB374,000 (2007: 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 40 (a) and 38 (a), respectively.

16. INVESTMENT PROPERTIES *(CONTINUED)*

The fair values of the investment properties as at the balance sheet dates 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. GOODWILL

	RMB'000
As at 1 January 2007 and at 31 December 2007	
Cost	—
Accumulated impairment	—
Net carrying amount	—
Cost at 1 January 2008, net of accumulated impairment	—
Acquisition of a subsidiary (note 36)	3,307
Cost and carrying amount at 31 December 2008	3,307
31 December 2008:	
Cost	3,307
Accumulated impairment	—
Net carrying amount	3,307

Notes to Financial Statements (Continued)
31 December 2008

18. OTHER INTANGIBLE ASSETS

Group

	Computer software RMB'000	Rights to use trademarks RMB'000	Total RMB'000
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	**25,583**	**1,318**	**26,901**
Additions	**5,313**	**—**	**5,313**
Amortisation provided during the year	**(3,266)**	**(182)**	**(3,448)**
At 31 December 2008, net of accumulated amortisation	**27,630**	**1,136**	**28,766**
At 31 December 2008:			
Cost	**37,250**	**1,764**	**39,014**
Accumulated amortisation	**(9,620)**	**(628)**	**(10,248)**
Net carrying amount	**27,630**	**1,136**	**28,766**
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

Notes to Financial Statements (Continued)
31 December 2008

18. OTHER INTANGIBLE ASSETS *(CONTINUED)*

Company

	Computer software	
	2008	2007
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**25,514**	17,820
Additions	**5,313**	10,337
Amortisation provided during the year	**(3,262)**	(2,643)
At 31 December, net of accumulated amortisation	**27,565**	25,514
At 31 December:		
Cost	**35,700**	30,387
Accumulated amortisation	**(8,135)**	(4,873)
Net carrying amount	**27,565**	25,514

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted investments, at cost	**108,898**	81,452

Notes to Financial Statements (Continued)

31 December 2008

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the principal 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 (%)	Direct (%)	Principal activities
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 Development Co., Ltd.
Beijing Hong Zhe Cultural Development Co., Ltd.	PRC	RMB4,980,000	—	90	Sale of publications
Beijing Xinhua Wenxuan Advertising Co., Ltd.	PRC	RMB13,000,000	—	81.54	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 Xinhua Shang Paper Co., Ltd. ("Sichuan Xinhua Shang")	PRC	RMB15,000,000	—	51	Sale of printing related products
Beijing Huaxia Shengxuan Book Co., Ltd.	PRC	RMB15,000,000	—	51	Sale of publications

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

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

Notes to Financial Statements (Continued)
31 December 2008

20. INVESTMENTS IN ASSOCIATES

	Group	
	2008	2007
	RMB'000	RMB'000
Share of net assets	**47,519**	45,748
Goodwill	**1,560**	1,560
	49,079	47,308

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted equity investments, at cost	**64,733**	53,118

The Group's trade payable balances with the associates are disclosed in note 32 and 40(b) to the financial statements, respectively.

Particulars of the principal 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. "Yin Xing Bo Wen"	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
Guizhou Xinhua Winshare Distribution Co., Ltd.	PRC	RMB12,000,000	45	Sale of publications

Notes to Financial Statements (Continued)

31 December 2008

20. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

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

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:

	2008 RMB'000	2007 RMB'000
Current assets	107,853	85,019
Non-current assets	136,179	148,579
Current liabilities	(135,314)	(121,128)
Non-current liabilities	—	—
Revenues	140,468	123,941
Losses	(20,722)	(9,844)

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group and Company	
	2008 RMB'000	2007 RMB'000
Unlisted equity investments, at cost	428,835	188,835

Particulars of the principal available-for-sale equity investments held by the Group are as follows:

Name	Place of registration and operations	Paid-up Capital RMB'000	Percentage of ownership interest attributable to the Group (%)	Principal activities
Bank of Chengdu Co., Ltd.	PRC	3,251,026	2.46	Provision of banking service
Anhui Xinhua Media Co., Ltd.	PRC	800,000	7.79	Sale of publications

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 2008 and 2007, 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.

Notes to Financial Statements (Continued)

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22. DEFERRED TAX ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**47,090**	62,158	**47,090**	62,158
Acquisition of a subsidiary (note 36)	**1,671**	—	**—**	—
Debited to the income statement (note 10)	**(389)**	—	**—**	—
Effect of change in tax rate	**—**	(15,068)	**—**	(15,068)
At end of year	**48,372**	47,090	**47,090**	47,090
Provision in respect of:				
Revaluation of items of property, plant and equipment and lease prepayments for land use rights for tax purposes	**47,090**	47,090	**47,090**	47,090
Temporary difference arising from write-down of inventories to net realisable value	**1,282**	—	**—**	—
	48,372	47,090	**47,090**	47,090

23. PROPERTY UNDER DEVELOPMENT

	Group	
	2008	2007
	RMB'000	RMB'000
Development costs	**126,203**	126,025

24. LONG-TERM PREPAYMENT

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Investment deposit	**—**	160,000

Notes to Financial Statements (Continued)
31 December 2008

24. LONG-TERM PREPAYMENT *(CONTINUED)*

On 26 December 2007 and 2 January 2008, the Company entered into a subscription agreement and a supplementary agreement with Bank of Chengdu Co., Ltd. ("Bank of Chengdu", former Chengdu City Commercial Bank Co., Ltd.) respectively to purchase Bank of Chengdu's newly issued shares containing 2.46% of the enlarged share capital of the bank at an aggregate consideration of RMB240,000,000. The balance as at 31 December 2007 represented the first installment deposit to Bank of Chengdu, which was transferred to available-for-sale equity investments during the year.

25. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Merchandise and products for resale	**827,046**	576,218	**802,727**	570,994

At 31 December 2008, the Group's inventories with a carrying amount of RMB9,222,000 along with pledged deposits of RMB14,280,000 were pledged as security for the Group's bills payable amounting to RMB34,907,000, as further detailed in note 32 to the financial statements.

26. TRADE RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**378,319**	360,225	**337,754**	344,059
Impairment of trade receivables	**(65,950)**	(66,735)	**(55,474)**	(54,692)
Allowance for sales returns	**(2,450)**	(3,745)	**(2,450)**	(3,745)
	309,919	289,745	**279,830**	285,622

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 RMB10,080,000. Trade receivables are non-interest-bearing.

Notes to Financial Statements (Continued)

31 December 2008

26. TRADE RECEIVABLES *(CONTINUED)*

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**94,907**	82,749	**75,678**	83,363
3 to 6 months	**131,998**	147,966	**130,420**	147,736
6 months to 1 year	**65,161**	49,103	**62,714**	46,175
1 to 2 years	**17,208**	9,927	**10,373**	8,348
Over 2 years	**645**	—	**645**	—
	309,919	289,745	**279,830**	285,622

Included in the balance as at 31 December 2008 are trade receivables from Xinhua and the fellow subsidiaries (collectively the "Xinhua Group") and associates of RMB27,465,000 (2007: RMB19,693,000) and RMB11,492,000 (2007: nil), respectively (note 40), which are repayable on similar credit terms to those offered to the major customers of the Group. These balances are unsecured and interest-free.

The movements in impairment for trade receivables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**66,735**	59,761	**54,692**	54,140
Charged for the year	**10,597**	10,475	**10,524**	2,913
Acquisition of a subsidiary	**2,318**	—	**—**	—
Amount written off	**(5,347)**	(2,333)	**(4,394)**	(2,361)
Amount reversed	**(8,353)**	(1,168)	**(5,348)**	—
	65,950	66,735	**55,474**	54,692

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.

Notes to Financial Statements (Continued)
31 December 2008

26. TRADE RECEIVABLES *(CONTINUED)*

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**264,028**	255,306	**241,779**	253,980
Less than three months past due	**28,038**	24,512	**27,033**	23,294
Over three months past due	**17,853**	9,927	**11,018**	8,348
	309,919	289,745	**279,830**	285,622

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.

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 of the Company 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.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	**7,539**	15,184	**7,404**	15,006
Prepayments to suppliers	**17,567**	47,437	**8,212**	47,312
Prepayments for construction fees	**6,973**	11,866	**6,977**	11,752
Input value-added tax receivables	**52,452**	60,857	**52,364**	60,791
Due from the Xinhua Group	**283**	1,836	**283**	1,836
Due from subsidiaries	**—**	—	**50,178**	44,345
Due from associates	**2,707**	—	**2,707**	—
Prepaid expenses	**7,090**	8,168	**6,705**	6,952
Other receivables	**58,935**	10,945	**51,923**	8,890
	153,546	156,293	**186,753**	196,884

Notes to Financial Statements (Continued)

31 December 2008

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Other receivables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**60,233**	12,119	**53,189**	10,000
Less: Provision for impairment	**(1,298)**	(1,174)	**(1,266)**	(1,110)
	58,935	10,945	**51,923**	8,890

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,174**	4,507	**1,110**	4,418
Charged for the year	**269**	73	**269**	73
Amount written off	**—**	(28)	**—**	(7)
Amount reversed	**(145)**	(3,378)	**(113)**	(3,374)
	1,298	1,174	**1,266**	1,110

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**58,935**	10,945	**51,923**	8,890

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 2008 was an entrusted loan of RMB16,000,000 lent by the Company (the "Lender") to Chengdu Xin Hui (the "Borrower"), which will mature in 2009, to finance the Borrower's working capital. Included in the amounts due from subsidiaries as at 31 December 2007 were two entrusted loans from the Lender to the Borrower of RMB16,000,000 and RMB5,875,000, respectively. The entrusted loan of RMB5,875,000 matured in December 2008 and was extended to December 2011. Therefore, the Company classified it as a long-term asset as at 31 December 2008. These 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 5.4% to 6.72% (2007: from 5.67% to 6.72%). These loans will mature in 2009 and 2011, respectively.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Other receivables *(Continued)*

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 31.

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.

28. HELD-TO-MATURITY INVESTMENTS

As at 31 December 2008, the held-to-maturity investment of the Group was stated at amortised cost. The investment was principal-secured, with an expected annual interest rate of 6.10% and will mature in May 2009.

29. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2008	2007
	RMB'000	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. These investment deposits were redeemed in 2008.

Notes to Financial Statements (Continued)
31 December 2008

30. CASH AND SHORT-TERM DEPOSITS

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Cash and bank balances		**1,311,898**	1,196,434	**1,226,895**	1,153,449
Pledged time deposits with original maturity of less than three months when acquired	32	**14,280**	10,000	**—**	10,000
Non-pledged time deposits with original maturity of:					
More than three months when acquired		**75,756**	200,000	**75,756**	200,000
Less than three months when acquired		**1,223,047**	140,000	**1,223,047**	140,000
		2,624,981	1,546,434	**2,525,698**	1,503,449
Less: Pledged time deposits with original maturity of less than three months when acquired		**(14,280)**	(10,000)	**—**	(10,000)
Cash and short-term deposits		**2,610,701**	1,536,434	**2,525,698**	1,493,449

At the balance sheet date, the Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounting to RMB2,606,929,000 (2007: RMB1,519,707,000), 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 one year 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 2008 and 2007:

	2008 RMB'000	2007 RMB'000
Cash and short-term deposits	**2,610,701**	1,536,434
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**(75,756)**	(200,000)
	2,534,945	1,336,434

Notes to Financial Statements (Continued)

31 December 2008

31. OTHER BORROWINGS

	Group	
	2008	2007
	RMB'000	RMB'000
Other borrowings:		
Unsecured	**13,125**	13,125
Total other borrowings	**13,125**	13,125
Analysed into:		
Other borrowings repayable:		
Within one year or on demand	**9,600**	—
In the second year	**3,525**	9,600
In the third to fifth years, inclusive	**—**	3,525
	13,125	13,125
Total other borrowings	**13,125**	13,125
Less: Portion classified as current liabilities	**(9,600)**	—
Long term portion	**3,525**	13,125

The balance as at 31 December 2008 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 6.08% per annum and were repayable on 27 April 2009 and 1 July 2010, respectively. The Group incurred interest expenses of RMB782,000 during the year (2007: RMB1,166,000) (note 40(a)).

These 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 27.

Notes to Financial Statements (Continued)
31 December 2008

32. 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**446,861**	376,011	**382,314**	340,894
3 to 6 months	**248,928**	306,531	**260,992**	317,083
6 months to 1 year	**270,747**	125,170	**262,442**	138,150
1 to 2 years	**139,062**	135,594	**134,834**	137,163
Over 2 years	**67,341**	77,701	**66,977**	74,676
	1,172,939	1,021,007	**1,107,559**	1,007,966

Included in the balance as at 31 December 2008 are trade payables to Xinhua Group and associates of RMB3,995,000 (2007: nil) and RMB13,696,000 (2007: RMB7,490,000), respectively (note 40(b)).

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

As at 31 December 2008, the bills payable of the Group amounting to RMB34,907,000 was secured by the Group's pledged time deposits amounting to RMB14,280,000 (2007: RMB10,000,000)(note 30) and inventories amounting to RMB9,222,000 (2007: nil) (note 25).

33. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued salaries, wages and benefits	**70,087**	68,712	**68,000**	65,689
Deposits from suppliers and lessees	**336,506**	46,268	**331,198**	44,036
Accrued operating expenses	**34,917**	30,786	**20,323**	25,691
Due to Xinhua Group	**1,004**	259	**812**	259
Due to associates	**100**	—	**100**	
Dividend payables to minority equity holders	**207**	—	**—**	—
Others	**18,221**	24,982	**10,493**	24,866
Total deposits received, other payables and accruals	**461,042**	171,007	**430,926**	160,541

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

Notes to Financial Statements (Continued)

31 December 2008

34. ISSUED CAPITAL

	Group and Company 2008 RMB'000	2007 RMB'000
Issued and fully paid:		
693,194,000 (2007: 693,194,000) Domestic Shares of RMB1.00 each	**693,194**	693,194
441,937,000 (2007: 441,937,000) H shares of RMB1.00 each	**441,937**	441,937
	1,135,131	1,135,131

There is no movement in the Group and Company's share capital in the year ended 31 December 2008.

35. 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 as set out in these financial statements.

(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 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	1,726,743	—	—	—	—	—	1,726,743
Issue of H shares upon partial exercise of the over -allotment option	151,270	—	—	—	—	—	151,270
Share issue expense	(169,810)	—	—	—	—	—	(169,810)
Profit for the year	—	—	—	—	408,039	—	408,039
Appropriation to statutory surplus reserve	—	—	40,010	—	(40,010)	—	—
Effect of change in tax rate (note 22)	—	—	—	(15,068)	—	—	(15,068)
Proposed final 2007 dividend	—	—	—	—	(340,539)	340,539	—
As at 31 December 2007 and 1 January 2008	1,708,203*	33,514*	91,559*	48,393*	351,335*	340,539	2,573,543
Final dividend for 2007	—	—	—	—	—	(340,539)	(340,539)
Profit for the year	—	—	—	—	355,056	—	355,056
Appropriation to statutory surplus reserve	—	—	33,568	—	(33,568)	—	—
Proposed final 2008 dividend	—	—	—	—	(227,026)	227,026	—
As at 31 December 2008	1,708,203*	33,514*	125,127*	48,393*	445,797*	227,026	2,588,060

Notes to Financial Statements (Continued)

31 December 2008

35. RESERVES *(CONTINUED)*

(b) Company *(Continued)*

* These reserve accounts comprise the reserves of RMB2,361,034,000 (2007: RMB2,233,004,000) 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 2008, the Company had retained profits of approximately RMB259,866,000 (2007: RMB246,495,000) 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.

36. BUSINESS COMBINATION

On 31 October 2008, the Group acquired 50% and 1% equity interest in Sichuan Xinhua Shang from Xinhua and an independent third party at a cash consideration of RMB12,156,000 and RMB240,000, respectively. Sichuan Xinhua Shang became a 51% subsidiary of the Group thereafter. Xinhua Shang is engaged in the trading of printing paper.

The fair values of the identifiable assets and liabilities of Sichuan Xinhua Shang as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000	Previous carrying amount RMB'000
Property, plant and equipment	14	167	167
Cash and bank balances		14,566	14,566
Inventories		28,419	28,226
Trade receivables		32,360	32,360
Prepayments and other receivables		13,841	13,841
Deferred tax assets	22	1,671	1,671
Trade payables		(58,882)	(58,882)
Accruals and other payables		(14,320)	(14,320)
Net assets		17,822	17,629
Minority interests (49%)		(8,733)	
Total net assets acquired		9,089	
Goodwill on acquisition	17	3,307	
Total cash consideration		12,396	

Notes to Financial Statements (Continued)

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36. BUSINESS COMBINATION *(CONTINUED)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and bank balances acquired	14,566
Cash consideration	(12,396)
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	2,170

Since its acquisition, Sichuan Xinhua Shang contributed RMB24,816,000 to the Group's turnover and RMB1,026,000 operating loss to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB2,861,078,000 and RMB338,639,000, respectively.

37. CONTINGENT LIABILITIES

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

38. 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 2008, 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	
	2008	2007
	RMB'000	RMB'000
Within one year	**1,835**	4,055
In the second to fifth years, inclusive	**1,019**	4,429
	2,854	8,484

38. OPERATING LEASE ARRANGEMENTS *(CONTINUED)*

(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 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**35,154**	33,524	**29,650**	33,407
In the second to fifth years, inclusive	**13,612**	47,654	**8,699**	47,654
After five years	**8,223**	33,172	**8,223**	33,172
	56,989	114,350	**46,572**	114,233

39. COMMITMENTS

Capital commitments

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

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Property, plant and equipment: Contracted, but not provided for	**32,412**	9,644

Investment commitments

The Group and the Company had the following investment commitments, principally for an available-for-sale equity investment and an investment in an associate, at the balance sheet date:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Available-for-sale equity investments: Contracted, but not provided for	**—**	80,000
Investment in associates: Contracted, but not provided for	**16,000**	—

Notes to Financial Statements (Continued)

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40. RELATED PARTY TRANSACTIONS

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

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Xinhua Group:			
Sale of merchandise	(i)	**93,611**	21,425
Rental income	(iii)	**1,344**	1,344
Rental expense	(iv)	**22,824**	22,824
Interest expense	(v)	**782**	1,166
Purchase of services	(ii)	**14,504**	20,785
Purchase of property, plant and equipment	(ii)	**193**	219
Entrusted loans	(v)	**—**	13,125
Acquisition of equity interests from Xinhua Group (note 36)	(vi)	**12,156**	—
Associates:			
Sale of merchandise*	(i)	**7,005**	—
Purchase of merchandise*	(ii)	**22,218**	11,612
Purchase of printing services	(ii)	**1,675**	687
Purchase of service	(ii)	**341**	—

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, 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 31 for details.

(vi) Please refer to note 36 for details.

* Except for the transactions with associates, all of the related party transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements (Continued)
31 December 2008

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties:

		Group	
	Notes	**2008** **RMB'000**	2007 RMB'000
Trade and other receivables			
Trade receivables due from Xinhua Group	26	**27,465**	19,693
Trade receivables due from associates of the Group	26	**11,492**	—
Other receivables due from Xinhua Group	27	**283**	1,836
Other receivables due from associates of the Group	27	**2,707**	—
Trade and other payables			
Trade payables due to Xinhua Group	32	**3,995**	—
Trade payables due to associates of the Group	32	**13,696**	7,490
Other payables due to Xinhua Group	33	**1,004**	259
Other payables due to associates of the Group	33	**100**	—
Other borrowings due to Xinhua	31	**13,125**	13,125

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 31 for details.

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

	2008 **RMB'000**	2007 RMB'000
Short term employee benefits	**1,428**	1,691
Post-employment benefits	**7**	14
Total compensation paid to key management personnel	**1,435**	1,705

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

41. 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 profit 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.

Notes to Financial Statements (Continued)
31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

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 deposits 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 2008, 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 RMB18,052,000 (2007: RMB26,727,000) 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.

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 prepayments, trade and other receivables are disclosed in notes 24, 26 and 27 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.

Notes to Financial Statements (Continued)
31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(Continued)*

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

	2008					
	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	241,310	270,747	660,882	—	—	1,172,939
Other payables	74,165	1,456	13,998	—	—	89,619
	315,475	272,203	684,480	3,525	—	1,275,683

	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

Notes to Financial Statements (Continued)
31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(Continued)*

Company

	2008					
	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	**201,811**	**262,442**	**643,306**	**—**	**—**	**1,107,559**
Other payables	**71,834**	**1,152**	**6,419**	**—**	**—**	**79,405**
	273,645	**263,594**	**649,725**	**—**	**—**	**1,186,964**

	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

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 for managing capital during the years ended 31 December 2008 and 2007.

Notes to Financial Statements (Continued)
31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(Continued)*

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

	2008 RMB'000	2007 RMB'000
Other borrowings	13,125	13,125
Trade and bills payables	1,172,939	1,021,007
Deposits received, other payables and accruals	461,042	171,007
Less: Cash and short-term deposits	(2,610,701)	(1,536,434)
Net debt	(963,595)	(331,295)
Equity attributable to equity holders	3,673,905	3,678,638
Adjusted capital	3,673,905	3,678,638
Capital and net debt	2,710,310	3,347,343
Gearing ratio	(35.6%)	(9.9%)

42. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following significant events:

On 20 February 2009, the Company entered into agreements with Chengdu Audio and Visual Press, Chengdu Times Press and Chengdu Education and Science Institute to acquire their respective equity interests of 11%, 12% and 26% in Yin Xing Bo Wen, an associate of the Company at cash consideration of RMB5,650,000. Up to the date of these financial statements, the abovementioned transactions have yet been completed. Should these transactions be completed, the Company's equity interest in Yin Xing Bo Wen would be 90% and Yin Xing Bo Wen would then be accounted for as a subsidiary of the Company.

The meeting of the board of directors was held on 9 April 2009, and a final dividend of approximately RMB227,026,000, equivalent to RMB0.2 per share, was proposed in respect of the year.

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 April 2009.

Financial Summary

RESULTS

	For the years ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Income	2,084,750	2,262,599	2,217,625	2,309,481	**2,736,936**
Profit before tax	295,797	345,108	305,860	388,759	**341,214**
Income tax	(95,036)	(71,142)	(3,422)	(1,765)	**(3,058)**
Profit for the year	203,392	273,966	302,438	386,994	**338,156**
Minority interests	(1,066)	(217)	363	1,802	**(168)**
Profit attributable to equity holders of the Company	202,326	273,749	302,801	388,796	**337,988**

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,450,484	2,144,992	2,406,660	4,935,265	**5,387,558**
Total liabilities	(839,768)	(1,114,638)	(1,093,611)	(1,211,269)	**(1,652,032)**
	610,716	1,030,354	1,313,049	3,723,996	**3,735,526**
Equity attributable to equity holders of the Company	601,527	1,023,298	1,265,889	3,678,638	**3,673,905**
Minority interests	9,189	7,056	47,160	45,358	**61,621**
	610,716	1,030,354	1,313,049	3,723,996	**3,735,526**

分享共贏

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