

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(於中華人民共和國註冊成立之股份有限公司)
(Stock Code 股份代號: 00811)

* For identification purposes only
僅供識別

2009




INTERIM REPORT
中期報告



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

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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

AUTHORISED REPRESENTATIVES

Mr. Luo Jun

Mr. You Zugang

ALTERNATE AUTHORISED REPRESENTATIVE

Mr. Ngai Wai Fung

INTERNATIONAL AUDITOR

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PRC AUDITOR

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Landmark

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Hong Kong

PRINCIPAL BANKERS

The Industrial and Commercial Bank of China

China Construction Bank

HONG KONG H SHARE REGISTRAR

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COMPANY WEBSITE

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STOCK CODE

811

Interim Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Revenue		1,378,371	1,267,373
Cost of sales		(861,612)	(758,852)
Gross profit		516,759	508,521
Other income and gains		38,146	22,220
Selling and distribution costs		(288,232)	(247,276)
Administrative expenses		(91,828)	(82,509)
Other expenses		(28,345)	(34,358)
Earthquake related expenses		—	(23,133)
Finance income, net	6	18,850	18,052
Share of losses of associates		(487)	(2,331)
Profit before tax	5	164,863	159,186
Tax	7	(1,026)	1,864
Profit for the period		163,837	161,050
Attributable to:			
Equity holders of the parent		163,071	158,873
Minority interests		766	2,177
		163,837	161,050
Dividends	8	—	—
Earnings per share attributable to ordinary equity holders of the parent			
— Basic (RMB)	9	0.14	0.14

Interim Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Profit for the period	163,837	161,050
Asset revaluation surplus arising on the acquisition of a subsidiary	11,018	—
Others	(646)	—
Other comprehensive income for the period, after tax	10,372	—
Total comprehensive income for the period, after tax	174,209	161,050
Attributable to:		
Equity holders of the parent	173,443	158,873
Minority interests	766	2,177
	174,209	161,050

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	675,831	533,473
Lease prepayments for land use rights		98,008	68,371
Investment properties		5,458	5,660
Goodwill		3,307	3,307
Other intangible assets		28,737	28,766
Investments in associates		18,497	49,079
Available-for-sale equity investments		428,835	428,835
Deferred tax assets		47,713	48,372
Property under development		126,917	126,203
Prepayment for investment	11	137,500	—
Total non-current assets		1,570,803	1,292,066
Current assets			
Inventories		652,399	827,046
Trade receivables	12	562,065	309,919
Prepayments, deposits and other receivables		156,918	153,546
Held-to-maturity investments		190,000	180,000
Pledged deposits		76,324	14,280
Cash and short-term deposits		2,203,552	2,610,701
Total current assets		3,841,258	4,095,492
Assets held for sale	13	16,078	—
Total current assets		3,857,336	4,095,492
Current liabilities			
Bank and other borrowings	14	22,600	9,600
Trade and bills payables	15	1,224,244	1,172,939
Deposits received, other payables and accruals		218,729	461,042
Dividend payable		216,359	—
Tax payable		1,195	4,926
Total current liabilities		1,683,127	1,648,507
Liabilities related to assets held for sale	13	28,862	—
Total current liabilities		1,711,989	1,648,507
Net current assets		2,145,347	2,446,985
Total assets less current liabilities		3,716,150	3,739,051
Non-current liabilities			
Bank and other borrowings	14	3,525	3,525
Deferred tax liabilities		8,162	—
Total non-current liabilities		11,687	3,525
Net assets		3,704,463	3,735,526

Interim Condensed Consolidated Statement of Financial Position (continued)

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Equity			
Equity attributable to equity holders of the parent			
Issued capital		1,135,131	1,135,131
Reserves		2,485,191	2,311,748
Proposed final dividend		—	227,026
		3,620,322	3,673,905
Minority interests		84,141	61,621
Total equity		3,704,463	3,735,526

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent									
	Issued capital	Share premium account*	Capital reserve*	Statutory surplus reserve*	Other reserve*	Proposed final dividend	Retained profits*	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009	1,135,131	1,708,203	31,332	126,853	48,393	227,026	396,967	3,673,905	61,621	3,735,526
Profit for the period	—	—	—	—	—	—	163,071	163,071	766	163,837
Other comprehensive income for the period	—	—	—	—	10,372	—	—	10,372	—	10,372
Total comprehensive income for the period	—	—	—	—	10,372	—	163,071	173,443	766	174,209
Final dividend for 2008	—	—	—	—	—	(227,026)	—	(227,026)	—	(227,026)
Dividends to minority equity holders	—	—	—	—	—	—	—	—	(3,353)	(3,353)
Acquisition of interest in a subsidiary	—	—	—	—	—	—	—	—	28,398	28,398
Loss of control of a subsidiary	—	—	—	—	—	—	—	—	(3,195)	(3,195)
Transactions with minority interests	—	—	—	—	—	—	—	—	(96)	(96)
As at 30 June 2009 (Unaudited)	1,135,131	1,708,203	31,332	126,853	58,765	—	560,038	3,620,322	84,141	3,704,463

	Attributable to equity holders of the parent									
	Issued capital	Share premium account*	Capital reserve*	Statutory surplus reserve*	Other reserve*	Proposed final dividend	Retained profits*	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Total comprehensive income for the period	—	—	—	—	—	—	158,873	158,873	2,177	161,050
Final dividend for 2007	—	—	—	—	—	(340,539)	—	(340,539)	—	(340,539)
Dividends to minority equity holders	—	—	—	—	—	—	—	—	(2,563)	(2,563)
Deemed acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	1,503	1,503
As at 30 June 2008 (Unaudited)	1,135,131	1,708,203	33,514	93,285	48,393	—	478,446	3,496,972	46,475	3,543,447

* These reserve accounts comprised the consolidated reserves of RMB2,485,191,000 (30 June 2008: RMB2,361,841,000) in the interim condensed consolidated statement of financial position as at 30 June 2009.

Interim Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	(177,243)	70,993
Net cash inflow/(outflow) from investing activities	(238,104)	269,167
Net cash outflow from financing activities	(1,433)	(332,809)
Net increase/(decrease) in cash and cash equivalents	(416,780)	7,351
Cash and cash equivalents at beginning of period	2,534,945	1,336,434
Cash and cash equivalents at end of period	2,118,165	1,343,785
Analysis of end of period balances:		
Cash and short-term deposits	2,203,552	1,583,785
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(85,387)	(240,000)
Cash and cash equivalents at end of period	2,118,165	1,343,785



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 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 Company and its subsidiaries (collectively, the “Group”) is principally engaged in the production and trading of publications and related products in the PRC. The registered office of the Company is located at 12/F, No. 86 Section One, People’s South Road, Qingyang District, Chengdu, Sichuan, the PRC.

As at 30 June 2009, in the opinion of the directors of the Company, the parent and the ultimate holding company of the Company is Xinhua, a state-owned enterprise established in the PRC.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2009 (the “Period”) have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2008.

2.1 Impact of new and revised international financial reporting standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008, except for the adoption of the new and revised International Financial Reporting Standards and interpretations as noted below:

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
IFRS 2 Amendments	Amendments to IFRS 2 Share-based payment – Vesting Conditions and Cancellations
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Cost
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
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”

2. BASIS OF PREPARATION *(Continued)*

2.1 Impact of new and revised international financial reporting standards *(Continued)*

The adoption of IFRS 8 and IAS 1 (Revised) has the following impacts on the financial statements:

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in note 4, including comparative information.

IAS 1 (Revised) Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present in two linked statements.

Except for the above, the adoption of new and revised International Financial Reporting Standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

3. VALUE-ADDED TAX POLICY

Pursuant to value-added tax regulations of PRC, distribution network of the Company at county level (including county level cities) and below were exempted from payment of value-added tax for the local sales of publication materials from 2006 to 2008. As this preferential policy has expired on 31 December 2008 and the finance and tax department has not yet issued the notice for the continuation of such preferential policy or policy revision, the Company recorded the accounts and made tax declaration to the tax authority in accordance with rules relevant to the payment of value-added tax for the first half of this year. However, the possibility of the issuance of new preferential tax policy by PRC to stimulate the development of cultural industries and from which the Company can be benefited on an ongoing basis cannot be ruled out.

4. SEGMENT INFORMATION

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 operating 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 operating segments. A summary of the operating 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.

The following tables present revenue and operating results by segments of the Group for the six months ended 30 June 2009 and six months ended 30 June 2008:

For the six months ended 30 June 2009

	Product RMB'000 (Unaudited)	Zhongpan RMB'000 (Unaudited)	Subscription RMB'000 (Unaudited)	Retailing RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Revenue and other income							
Sales to external customers	115,399	73,946	978,724	203,826	6,476	—	1,378,371
Intersegment sales	70,996	584,840	—	—	204	(656,040)	—
Other income	706	11,850	285	12,024	696	—	25,561
	187,101	670,636	979,009	215,850	7,376	(656,040)	1,403,932
Results							
Segment results	8,191	(16,964)	139,653	(19,167)	(1,593)	45,560	155,680
Unallocated expenses							(21,765)
Unallocated income and gains							12,585
Finance income, net							18,850
Share of losses of associates	—	—	—	—	(487)	—	(487)
Profit before tax							164,863

4. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2008

	Product RMB'000 (Unaudited)	Zhongpan RMB'000 (Unaudited)	Subscription RMB'000 (Unaudited)	Retailing RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Revenue and other income							
Sales to external customers	3,324	74,713	997,448	190,187	1,701	—	1,267,373
Intersegment sales	169,529	647,651	—	—	338	(817,518)	—
Other income	9,059	7,818	2,339	6,202	293	(8,711)	17,000
	181,912	730,182	999,787	196,389	2,332	(826,229)	1,284,373
Results							
Segment results	36,032	(5,654)	173,393	(20,228)	(1,670)	4,811	186,684
Unallocated expenses							(48,439)
Unallocated income and gains							5,220
Finance income, net							18,052
Share of losses of associates	—	—	—	—	(2,331)	—	(2,331)
Profit before tax							159,186

The following table presents asset by segment of the Group as at 30 June 2009 and 31 December 2008:

	Product RMB'000	Zhongpan RMB'000	Subscription RMB'000	Retailing RMB'000	Others RMB'000	Unallocated assets RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets								
As at 30 June 2009								
(Unaudited)	640,702	2,664,250	1,040,995	560,663	198,193	756,334	(432,998)	5,428,139
As at 31 December 2008								
(Audited)	517,573	2,791,436	1,185,150	541,549	188,501	611,541	(448,192)	5,387,558

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Depreciation and amortization	27,890	22,116
Loss/(gain) on disposal of items of property, plant and equipment, net	(2)	36
Minimum lease payments under operating lease on properties	24,643	26,130
Staff costs (including directors' and supervisors' emoluments)		
Wages, salaries and other employee benefits	107,865	93,146
Post-employment pension scheme contributions	10,465	8,270
	118,330	101,416
Impairment of trade and other receivables	5,779	15,310
Write-down of inventories to net realisable value	15,131	11,086

6. FINANCE INCOME, NET

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Bank interest income	19,912	18,471
Interest expenses on bank and other borrowings, wholly repayable within five years	(1,062)	(419)
	18,850	18,052

7. 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 arising in Hong Kong.

Pursuant to the relevant PRC income tax regulations and the approval from the relevant PRC finance and tax department, the Company, as a cultural system reform unit, was granted a corporate income tax exemption from 2006 to 2008. Pursuant to the new PRC income tax regulations recently issued by the national finance and tax department, the Company, as a cultural system reform unit, are continually granted corporate income tax exemption for the period from 1 January 2009 to 31 December 2013.

Some of the subsidiaries of the Group and associates are subject to corporate income tax at a rate of 25% (2008: 25%) on their respective taxable income during the period.

An analysis of the corporate income tax provision is as follows:

	For the six months ended	
	30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax	1,026	527
Deferred income tax	—	(2,391)
	1,026	(1,864)

8. DIVIDENDS

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (for the six months ended 30 June 2008: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the net profit attributable to equity holders of the parent for the period of approximately RMB163,071,000 (for the six months ended 30 June 2008: RMB158,873,000) and 1,135,131,000 ordinary shares in issue (for the six months ended 30 June 2008: 1,135,131,000 ordinary shares in issue) during the Period.

Diluted earnings per share for the six months ended 30 June 2009 and six months ended 30 June 2008 have not been presented because no diluting events existed during the two periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group newly acquired property, plant and equipment at a total cost of RMB21,236,000 (2008: RMB37,421,000).

During the six months ended 30 June 2009, the net book value of property, plant and equipment increased by RMB111,573,000 (2008: Nil) through acquisition of subsidiaries.

Property, plant and equipment with a net book value of RMB236,000 (2008: RMB321,000) were disposed of by the Group during the six months ended 30 June 2009, resulting in a net gain on disposal of RMB2,000 (2008: net loss on disposal of RMB36,000).

11. PREPAYMENT FOR INVESTMENT

The Company has signed a capital increase and equity transfer agreement with independent third parties on 8 June 2009, pursuant to which RMB130,000,000 will be paid to subscribe for 12.15% equity interest in Chengdu Institute Sichuan International Studies University and another RMB130,000,000 will be paid to acquire 12.15% equity interest in Chengdu Institute Sichuan International Studies University from an independent third party. As at 30 June 2009, as the relevant equity transfer procedures has not been completed, the balance of RMB137,500,000 paid by the Company during the Period was listed as prepayment for investment.

12. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 270 days to its customers. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at 30 June 2009, based on invoice date and net of impairment, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	231,828	94,907
3 to 6 months	257,049	131,998
6 months to 1 year	67,977	65,161
1 to 2 years	4,647	17,208
Over 2 years	564	645
	562,065	309,919

13. ASSETS HELD FOR SALE AND THE RELATED LIABILITIES

The Company intends to dispose of its equity interests in Sichuan Xin Dun Cultural Company Limited (“Xin Dun Cultural”), and is currently carrying out the formalities with regards to disposal in accordance with the relevant procedures for the transfer of state-owned equity interests. Therefore, assets and liabilities of Xin Dun Cultural are separately stated in the consolidated statement of financial position. In July 2009, the Company entrusted Sichuan Lan Dun Technology Company Limited to manage the 51% equity interests in Xin Dun Cultural on its behalf. Following the entrustment, the Company no longer exerts control over Xin Dun Cultural.

14. BANK AND OTHER BORROWINGS

As at 30 June 2009, bank borrowings represented borrowings (secured by lease prepayment for land use rights) of RMB13,000,000 at an interest rate of 5.31% per annum granted by Bank of Chengdu to Sichuan Xinhua Colour Printing Co., Ltd. (“Xinhua Colour Printing”), a subsidiary of the Company, and was repayable on 18 June 2010. Other borrowings represented the entrusted loans where Xinhua agreed to entrust China Construction Bank Company Limited (“CCB”) to grant loans to Chengdu Xin Hui Industrial Co., Ltd. (“Chengdu Xin Hui”), a subsidiary of the Company. Other borrowings consisted of two loans of RMB9,600,000 and RMB3,525,000, which bore interest rate of 5.31% and 6.08% per annum and were repayable on 27 April 2010 and 1 July 2010, respectively.

15. TRADE AND BILLS PAYABLES

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

An aged analysis of the trade and bills payables as at 30 June 2009, based on invoice date, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	461,656	446,861
3 to 6 months	179,007	248,928
6 months to 1 year	347,766	270,747
1 to 2 years	159,731	139,062
Over 2 years	76,084	67,341
	1,224,244	1,172,939

As at 30 June 2009, the bills payable of the Group amounting to RMB143,121,000 (31 December 2008: RMB34,907,000) was secured by the Group's pledged time deposits and inventories.

16. BUSINESS COMBINATION

(A) Acquisition of Xinhua Colour Printing

In April 2009, the Group acquired 20% equity interest in an associate Xinhua Colour Printing from two independent third parties at a cash consideration of RMB13,647,000. Prior to the acquisition, the Company had held 45% equity interest in that company and such long-term equity investment had been accounted for under the equity method. After the acquisition, Xinhua Colour Printing became a 65% owned subsidiary of the Group. Xinhua Colour Printing is engaged in the provision of publication printing service.

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

	Fair value recognised on acquisition	Previous carrying amount
	RMB'000	RMB'000
Property, plant and equipment	111,352	98,265
Lease prepayments for land use rights	32,005	12,042
Other intangible assets	1,927	1,927
Long-term equity investments	94	498
Cash and short-term deposits	10,222	10,222
Inventories	11,675	11,675
Trade receivables	7,828	7,828
Prepayments and other receivables	713	713
Trade payables	(20,492)	(20,492)
Accruals and other payables	(66,025)	(66,025)
Deferred tax liabilities	(8,162)	—
Net assets	81,137	56,653
Minority interests (35%)	(28,398)	
Carrying amount of equity interest held prior to acquisition (45%)	(25,494)	
Valuation surplus of equity interest held prior to acquisition (45%)	(11,018)	
Total net assets acquired	16,227	
Excess over the cost of business combination	(2,580)	
Total cash consideration	13,647	

16. BUSINESS COMBINATION *(Continued)***(A) Acquisition of Xinhua Colour Printing** *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Xinhua Colour Printing is as follows:

	RMB'000
Cash and short-term deposits acquired	10,222
Cash consideration	(13,647)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(3,425)

Since its acquisition, Xinhua Colour Printing contributed RMB12,233,000 to the Group's turnover and RMB222,000 operating profit to the consolidated profit for the period ended 30 June 2009.

(B) Acquisition of Changdu Yin Xing Bo Wen Book and Cultural Development Co., Ltd. ("Yin Xing Bo Wen")

In June 2009, the Group acquired 59% equity interest in an associate Yin Xing Bo Wen from an independent third party at a cash consideration of RMB6,791,000. Prior to the acquisition, the Company had held 41% equity interest in that company and such long term equity investment had been accounted for under the equity method. After the acquisition, Yin Xing Bo Wen became a wholly-owned subsidiary of the Group. Yin Xing Bo Wen is engaged in the sale of publications and printing related products.

The fair values of the identifiable assets and liabilities of Yin Xing Bo Wen as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Previous carrying amount
	RMB'000	RMB'000
Property, plant and equipment	221	221
Cash and short-term deposits	5,974	5,974
Inventories	2,433	2,433
Trade receivables	10,951	10,951
Prepayments and other receivables	747	747
Trade payables	(7,050)	(7,050)
Accruals and other payables	(54)	(54)
Net assets	13,222	13,222
Equity interest held prior to acquisition (41%)	(5,421)	
Total net assets acquired	7,801	
Excess over the cost of business combination	(1,010)	
Total cash consideration	6,791	

16. BUSINESS COMBINATION *(Continued)***(B) Acquisition of Yin Xing Bo Wen** *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Yin Xing Bo Wen is as follows:

	RMB'000
Cash and short-term deposits acquired	5,974
Cash consideration	(6,791)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(817)

Since its acquisition, Yin Xing Bo Wen had not contributed to the Group's turnover and consolidated profit for the period ended 30 June 2009.

17. CONTINGENT LIABILITIES

As at 30 June 2009, the Group did not have any significant contingent liabilities.

18. PLEDGE OF ASSETS

Certain of the Group's assets are pledged to the bank for obtaining bank loans and other banking facilities. A summary of the assets pledged is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Lease prepayment for land use rights	32,198	—
Cash and bank balances	76,324	14,280
Inventories	10,500	9,220
	119,022	23,500

19. OPERATING LEASE ARRANGEMENTS

(A) As lessor

The Group leases 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 tenants to pay security deposits.

As at 30 June 2009, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within one year	8,441	1,835
In the second to fifth years, inclusive	18,284	1,019
After five years	17,380	—
	44,105	2,854

(B) As lessee

The Group leases certain properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twelve years.

As at 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within one year	27,103	35,154
In the second to fifth years, inclusive	11,167	13,612
After five years	7,702	8,223
	45,972	56,989

20. COMMITMENTS

The Group had the following capital and investment commitments as at 30 June 2009:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Capital commitment		
Property, plant and equipment		
Contracted, but not provided for	26,793	32,412
Investment commitment		
Contracted, but not provided for	138,500	16,000

21. RELATED PARTY TRANSACTIONS

(A) Significant related party transactions

During the six months ended 30 June 2009 and six months ended 30 June 2008, the Group had the following significant transactions with their related parties:

	For the six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Xinhua and its subsidiaries (collectively the "Xinhua Group"):		
Sales of merchandise	43,523	14,237
Rental income	672	672
Rental expenses	11,482	11,290
Interest expenses	362	655
Purchase of services	5,594	13,445
Purchase of property, plant and equipment	—	52
Payment of emoluments to key management personnel	205	305
Associates:		
Sales of merchandise	29	—
Purchase of merchandise	6,854	5,283
Purchase of printing services	877	578

21. RELATED PARTY TRANSACTIONS (Continued)

(B) Balances with related parties

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Trade and other receivables		
Trade receivables due from Xinhua Group	46,801	27,465
Trade receivables due from associates of the Group	12,936	11,492
Other receivables due from Xinhua Group	846	283
Other receivables due from associates of the Group	—	2,707
Trade and other payables		
Trade payables due to Xinhua Group	4,866	3,995
Trade payables due to associates of the Group	36,326	13,696
Other payables due to Xinhua Group	41,796	1,004
Other payables due to associates of the Group	—	100
Other borrowings due to Xinhua	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, please refer to note 14 for details.

(C) Emoluments of key management personnel of the Group

	For the six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Short term employee benefits	725	683
Post-employment benefits	—	7
Total Emoluments paid to key management personnel	725	690

22. SUBSEQUENT EVENTS

Subsequent to 30 June 2009, there has been no significant subsequent events occurring to the Group.

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2009 were approved and authorised for issue by the Board on 21 August 2009.

INDUSTRY OVERVIEW

The demand for cultural products such as books has been increasing over the years following the improvement in living standards, both materially and culturally. In the first half of 2009, despite the adverse effect caused by the global financial crisis, the market of book publishing in China maintained a steady growth. With the on-going positive development of China's macro-economy, it is expected that the demand of cultural consumer market will expand gradually.

In addition, the General Administration of Press and Publication of the PRC released "the guidelines pertaining to pressing ahead the reform in the system of the press and publishing industry" in April 2009 to assure the implementation of reforming the system of the press and publishing industry and the related supplementary policies, culminating the early advent of core publishing and media enterprises and strategic investors. At an executive meeting held in July 2009, the State Council discussed and passed, in principle, "the planning for revitalization of cultural industry", which aimed at speeding up the revitalization of cultural industry, catering for people's spiritual and cultural demand in terms of diversity, multi-level and versatility as well as boosting people's cultural consumption. Under the guidance of the relevant state policy, the press and publishing industry, being the "testing ground" for the national reform of cultural system, initiated a cross-region cooperation in setting up a huge publishing and media group and, in the capacity of a strategic investor, exploring resources integration by way of capital operation, which proved to have made a substantial step forward.

The Group believes that under the auspices of a range of revitalization policies encompassing the expansion of domestic demand, modulation of the economic structure, acceleration in developing the key cultural industry, promotion of cross-region and cross-industry consolidation or restructuring, cultivation of core cultural enterprises and further reform of the system of the press and publishing industry, the Group will be presented with a more advantageous environment and ample opportunities.

BUSINESS REVIEW

During the Period, the Group's sales revenue amounted to RMB1,378 million, representing an increase of 8.8% over the same period of 2008. Excluding the effect of value-added tax exemption for 2008, a growth of sales revenue of 17.3% was recorded in 2009 as compared with the same period of 2008. Profit attributable to shareholders was RMB163 million, representing an increase of 2.6% over the same period of 2008. After excluding the Earthquake related expenses and donations of RMB23 million and the effect of value-added tax exemption of RMB33 million for the first half of 2008, a growth of profit attributable to equity holders of the parent of 9.7% was recorded in 2009 as compared with the same period of 2008. Earnings per share was RMB0.14, in line with that of the same period of 2008. If the above incomparable factors are excluded, a growth of 9.7% was recorded in 2009 as compared with the same period of 2008.

Pursuant to the value-added tax regulations of the PRC, distribution network of the Company at county level (including county level city) and below are exempted from value-added tax for the local sales of publication materials from 2006 to 2008. As this preferential policy has expired on 31 December 2008 and the notice for the continuation of such value-added tax preferential policy has not been issued yet, the Company recorded the accounts and made tax declaration to the tax authorities on the assumption that value-added tax exemption will no longer be granted. However, the Company will not rule out the possibility that the Company will continue to enjoy such exemption on the basis that new preferential tax policy will be enacted for the purpose of promoting the development of cultural industries. As such, both sales revenue and profit of the Group for the Period were affected.

Product

During the Period, through its diversification to the upstream sectors of the industry, the Group enhanced cooperation with publisher and integrated related resources like paper supply and printing services to improve its capability of providing ancillary support and services. The Group optimized the product (“co-operative products”) structure catering for the provision of ancillary support and services to book publishers, which resulted in a decrease in the category and number of books available to book publishers in this segment as compared with the corresponding period of last year. The sales of paper increased as a result of the integration of related resources such as paper supply and printing services. During the Period, sales revenue of this segment amounted to approximately RMB186 million (including intersegment revenue).

Zhongpan

During the Period, leveraging on its involvement in organizing the national fair for the exhibition and procurement of new books for nationwide libraries under the Beijing Book Ordering Fair 2009, the Group had further developed the business of the book distribution to libraries (“libraries distribution”) and textbooks for tertiary institutions and vocational schools which underpinned the growth of sales revenue. However, affected by the optimization of the structure of co-operative products, the sales revenue of distribution outside Sichuan province slightly dropped. During the Period, sales revenue of this segment amounted to approximately RMB659 million (including intersegment revenue).

Retailing

During the Period, the Group continued to focus on the establishment, optimization and development of its retail network. By optimizing merchandise organization, it speed up the turnover of merchandise and strengthened the merchandise distribution among retail outlets and inventory management so as to enhance the combined competitiveness of the retail business. The retail sales of books during the Period recorded a simultaneous growth in terms of units sold and turnover for the first time. Channel advantage and improvement of profitability are becoming manifest. Affiliated products business maintained a high growth, with the affiliated commission income (stated as other income) amounted to RMB9 million, representing an increased of 78.6% compared with the same period of last year. During the Period, the sales revenue of this segment was approximately RMB204 million.

Subscription

Affected by the promotion of recycling some of the government-subsidized textbooks as well as the slight drop in number of students enrolled in secondary and primary schools, the sales of textbooks decreased compared with the same period of last year. As for supplementary materials, the Company has adapted to the market-oriented operation mode and managed to maintain a higher sales growth, benefitting from the channel advantage. In addition, due to the uncertainty of the value-added tax exemption policy, the Company recorded the accounts on the basis of no value-added tax exemption treatment for the Period, which resulted in the decrease of the sales revenue of this segment. The Group will keep exploring and fine-tuning its strategy to diversify business beyond Sichuan province. During the Period, the sales revenue of this segment was approximately RMB979 million.

FUTURE PROSPECTS

Under the existing state policy of “planning for revitalization of cultural industry” with an emphasis on quickening the pace of the revitalization process, expanding the scale of the industry and reinforcing the cultural industry’s overall strength and competitiveness, based on the Company’s strength in existing resources, having approved by the Board on 16 June 2009, the Company timely adjusted its strategies to exploring its existing principal business of book publishing and distribution; to grasp opportunities brought by the reforming of the PRC news publishing system; to materialize one-stop operation for the Company’s book publishing business; to actively develop (including but not limited to) its media and cultural education related business; and to turn the Company into a major cultural media group in the PRC. These strategies have been considered and approved at the extraordinary general meeting convened on 21 August 2009.

Based on such strategy, the Company will actively yet prudently develop its core business, striving to materialize publishing and distribution industry chain integration and extension of relevant industries. Meanwhile, the Company will enhance its corporate profitability and the ability of sustainable development. To achieve this goal, the Company is carrying out all the operation plans step by step with the following strategies as the key tasks:

- (1) to accelerate the Company’s core competitiveness arising from the industry chain integration in publishing and distribution industry; to actively seek any opportunities of cooperation, development and expansion on a cross-region, cross-ownership and cross-industry chain basis; and to integrate the high quality publishing resources.
- (2) to constantly enhance the Company’s business mode and internal control system in order to strengthen ability of operational management and control.
- (3) to strengthen the overall ability of the network of large-scale Zhongpan across the nation by utilizing the channel resources to increase the Group’s market share in nationwide libraries distribution and textbooks for tertiary institutions and vocational schools, while creating synergy effect in selling the Company’s co-operative products.

- (4) to study the possibility of operating a comprehensive cultural business mall in a proactive way, speed up the network establishment of the retailing outlets, renovate the network of outlets and enhance the overall competitiveness.
- (5) to further expand e-commerce business of paperback and digital book contents.

FINANCIAL REVIEW

Revenue

Sales revenue for the Period recorded a growth of 8.8%, which was mainly driven by the increase in sales of Product segment. The Group classifies its operating 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 the customers through respective channels. The Zhongpan segment is responsible for centralized products procurement and distribution through different channels or selling products to external customers through the nationwide distribution network of the Group. Under the Group's integrated operation, with the exceptions of Zhongpan segment and Product segment where some of their goods are sold directly to external customers, other goods have to go through more than one of the segments before reaching the end customers. Thus, it resulted in a higher level of intersegment sales and sales elimination.

Gross profit margin

The gross profit margin of the Group for the Period was 37.5%, which was lower than the 40.1% for the corresponding period of 2008. The decrease in consolidated gross profit margin was mainly due to the lower gross profit for the Period generated by the newly acquired subsidiaries.

Management Discussion and Analysis (continued)

Segment analysis

Segment revenue of the Group for the Period and the corresponding period of 2008 are as follows:

	For the six months ended 30 June			Percentage of segment sales to revenue before intersegment sales elimination		Percentage of segment external sales to consolidated revenue	
	2009	2008	Changes	2009	2008	2009	2008
	RMB'000	RMB'000	%	%	%	%	%
Product segment							
External sales	115,399	3,324	3371.7	5.7	0.2	8.4	0.3
Intersegment sales	70,996	169,529	(58.1)	3.5	8.1		
Total	186,395	172,853	7.8	9.2	8.3		
Zhongpan segment							
External sales	73,946	74,713	(1.0)	3.7	3.6	5.4	5.9
Intersegment sales	584,840	647,651	(9.7)	28.7	31.1		
Total	658,786	722,364	(8.8)	32.4	34.7		
Subscription segment							
External sales	978,724	997,448	(1.9)	48.1	47.8	70.9	78.7
Intersegment sales	—	—	—	—	—		
Total	978,724	997,448	(1.9)	48.1	47.8		
Retailing segment							
External sales	203,826	190,187	7.2	10.0	9.1	14.8	15.0
Intersegment sales	—	—	—	—	—		
Total	203,826	190,187	7.2	10.0	9.1		
Other segments							
External sales	6,476	1,701	280.7	0.3	0.1	0.5	0.1
Intersegment sales	204	338	(39.6)	—	—		
Total	6,680	2,039	227.6	0.3	0.1		
Revenue before intersegment sales elimination	2,034,411	2,084,891	(2.4)	100.0	100.0		
Intersegment sales elimination	(656,040)	(817,518)	(19.8)				
Consolidated revenue	1,378,371	1,267,373	8.8			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 Period and the corresponding period of 2008 are as follows:

	For the six months ended 30 June			
	2009		2008	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Product (including intersegment revenue)	20,939	11.2	38,605	22.3
Zhongpan (including intersegment revenue)	56,366	8.6	68,411	9.5
Subscription (including intersegment revenue)	328,021	33.5	333,227	33.4
Retailing (including intersegment revenue)	56,972	28.0	51,560	27.1
Others (including intersegment revenue)	1,903	28.5	1,201	58.9
Intersegment revenue elimination	52,558	N/A	15,517	N/A
Total	516,759	37.5	508,521	40.1

Product

During the Period, the Product segment had a revenue growth of 7.8% over the corresponding period of 2008, which was mainly attributable to two factors. First, the Group engaged in paper trading business during the Period after the acquisition of equity interest in Sichuan Xinhua Shang Paper Co., Ltd. in October 2008. This increased the external sales of the Product segment significantly. At the same time, there was a decrease in both product types and sales amount for co-operative produced books of the Group during the Period, which partially off-set the growth of paper trading business. As the paper trading industry was facing a difficult operating environment during the Period, the newly acquired paper trading business recorded a lower gross profit margin, which caused the gross profit margin of the Product segment to decrease from 22.3% for the corresponding period of 2008 to 11.2% for the Period.

Zhongpan

Revenue of the Zhongpan segment decreased by 8.8% during the Period, among which sales to external customers recorded a revenue of RMB74 million, which was basically the same as that of the corresponding period of 2008. During the Period, the sales of co-operative produced books through the distribution network outside Sichuan Province affected the growth of Zhongpan segment's sales to external customers during the Period.

Subscription

Revenue of the Subscription segment decreased slightly by 1.9% during the Period, which was due to a change in value-added tax policy during the Period. In 2008, the Company was granted exemption from paying output value-added tax for county level or lower cities by the national finance and tax department, while the respective input value-added tax was not eligible for deduction. Up to the date of this report, the national finance and tax department has not yet finalized the preferential value-added tax policy for the Company in 2009, thus the Group recorded the accounts on the basis of no value-added tax preferential treatment and this reduced the revenue and cost of sales for the Period. After deducting the impact of exemption of value-added tax, revenue of the Subscription segment for the first half of 2008 was RMB910 million, which indicated a revenue growth rate of 7.6% for the Period. Sales of textbooks for the Period dropped due to adverse factors such as the textbook-reuse policy and the moderate decrease in the number of students for primary and secondary schools, but the Group successfully maintained the strong growth of sales of supplementary education materials which in turn drove the overall growth of the Subscription segment. Gross profit margin for the first half of 2008, after deducting the impact of exemption of value-added tax, was 33.2%, which was basically the same as the Period.

Retailing

Through the continuous effort in optimizing the outlet networks and strengthening the internal management and operating capabilities, revenue for the Retailing segment recorded a growth of 7.2% for the Period. Gross profit margin of the Retailing segment rose slightly from 27.1% for the corresponding period of 2008 to 28.0% for the Period.

Expenses and costs

Selling and distribution costs and administrative expenses

During the Period, the total selling and distribution costs and administrative expenses were RMB380 million for the Period, representing an increase of 15.2% from RMB330 million for the corresponding period of 2008. This was mainly because promotional expenses of supplementary materials were higher than that of textbooks, resulting in an increase of related promotional expenses. In addition, labour costs also increased by RMB17 million for the Period.

Other expenses

Other expenses for the Period was RMB28 million, representing a decrease of 17.5% over the corresponding period of 2008. This was because of the decrease in provision for bad debts for the Period.

Finance income, net

Finance income, net for the Period was RMB19 million, representing an increase of 4.4% over the corresponding period of 2008.

Tax

As set out in note 7 to the interim condensed consolidated financial statements, the corporate income tax exemption policy granted to the Company expired in 2008. Pursuant to the “Notice on the issue of listing and recognition of cultural system reform enterprises issued by the Ministry of Finance, the State Administration of Taxation and the Central Department of Propaganda of the Communist Party of the PRC (財政部國家稅務總局中共中央宣傳部關於轉制文化企業名單及認定問題的通知)” (Caishui [2009] No. 105), the Company, as a cultural system reform unit, continues to enjoy exemption from corporate income tax for the period from 1 January 2009 to 31 December 2013.

Profit

The Group's profit for the Period amounted to RMB164 million, representing an increase of 1.7% from the corresponding period of 2008. The profit attributable to equity holders of the parent amounted to RMB163 million, representing an increase of 2.6% from the corresponding period of 2008.

The Group incurred earthquake related expenses and donations of RMB23 million in the first half of 2008 due to the 5.12 Wenchuan Earthquake, while the value-added tax exemption policy increased the Group's profit by RMB33 million. After adjusting for these factors, profit for the first half of 2008 amounted to RMB151 million. After deducting these factors, profit for the Period increased by 8.7% when compared to the corresponding period of 2008.

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 Period was RMB0.14, which remained stable compared to the corresponding period of 2008. After adjusting for non-operating factors, the earning per share for the corresponding period of 2008 was RMB0.13, representing a growth of 9.7% for the Period. Please refer to note 9 to the interim condensed consolidated financial statements for the calculation of earnings per share.

32 Cash flows

Cash flows from operating activities of the Group changed from net inflow of RMB71 million for the corresponding period of 2008 to net outflow of RMB177 million for the Period. This was mainly due to the receipt of over RMB200 million of advanced payments by the Group in December 2008 for books sold during the Period and part of the sales revenue of 2009 spring term textbooks purchased by government were not received until early July 2009, which caused a decrease in payments received during the Period.

Cash flows from investing activities of the Group changed from net inflow of RMB269 million for the corresponding period of 2008 to net outflow of RMB238 million for the Period. The cash outflow for the Period mainly represented the prepayment for investment in Chengdu Institute Sichuan International Studies University.

Cash flows from financing activities mainly represented dividends paid to shareholders of the Company. As the final dividend for 2008 was paid by the Company in July 2009, thus there was no significant cash outflow during the Period.

Liquidity and financial resources

As at 30 June 2009, the Group's bank and other borrowings were approximately RMB26 million of fixed-interest financing of the subsidiaries. The Company did not have bank and other borrowings. The robust financial conditions laid out a sound foundation for the continuing development of the Group.

As at 30 June 2009, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 31.8% (31 December 2008: 30.7%). There was no significant change in the Group's capital structure during the Period.

As at 30 June 2009, the Group had cash and short-term deposits of approximately RMB2,204 million. In order to increase the yield of the fund, the Group deposited part of the fund in commercial banks in the PRC as structured deposits according to its own cash flow 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. As at 30 June 2009, the Group had cash and short-term deposits, pledged deposits and structured deposits of approximately RMB2,470 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

	30 June 2009	31 December 2008
Current ratio	2.24	2.48
Inventory turnover days	156.7	157.1
Trade receivables turnover days	57.7	40.0
Trade payables turnover days	253.9	245.6

As at 30 June 2009, the current ratio of the Group was 2.24 (31 December 2008: 2.48), which indicated that the Group remained financially stable. The decrease in current ratio was due to the declaration of dividends for the year ended 2008 during the Period, and the prepayment for investment.

The inventory level was approximate to that of last year.

Trade receivable turnover days lengthened. This was because part of the sales revenue of textbooks purchased by government during the Period was not received until early July 2009, thus resulting in a larger ending balance for trade receivables. In addition, the paper trading business acquired in October 2008 has a different characteristic from the existing book business of the Group with longer trade receivables turnover days.

Trade payables turnover days remained at a relative longer period due to longer repayment term generally granted by suppliers.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Please refer to notes 17 and 18 to the interim condensed consolidated financial statements for details of the Group's contingent liabilities and pledge of assets as at 30 June 2009.

USE OF PROCEEDS RAISED

The Company was listed on the Stock Exchange in May 2007, raising net proceeds of RMB2,110 million, of which approximately RMB438 million has been applied according to the use stated in the Company's prospectus for the year ended 31 December 2008. As the Chinese Government has in recent years actively promoted the reform in cultural systems, especially that of press and publishing, by encouraging and implementing a consolidation within the industry, the Company, in the hope of capitalizing on the development opportunity, strengthening the core business and developing such new businesses as culture, education and other media which are closely related to the core business. On 8 June 2009, the Board of the Company approved an alteration to the use of remaining Initial Public Offering ("IPO") proceeds of RMB1,672 million to fully utilize the capital effectively.

1. approximately 60% to 65% of the remaining proceeds continue to be used for the development of the Company's core publishing and distribution business. By grasping the development opportunities in the industry, steps will be taken to identify investment opportunities and optimize certain aspects of the Company's existing core businesses including those mentioned in the Prospectus;
2. approximately 25% to 30% of the remaining proceeds will be used for seeking and investing in such other areas as the culture, media and education sectors which are related to the Company's core businesses; and
3. the balance of the remaining proceeds will be used as the Company's general working capital.

For the six months ended 30 June 2009, the Company used the proceeds to the extent of approximately RMB207 million and the details are as follow:

1. as to approximately RMB70 million for the development of the Company's core publishing and distribution business;
2. as to approximately RMB137 million for investing in such other areas as the culture, media and education sectors related to the Company's core business.

As at 30 June 2009, the balance of the proceeds raised of approximately RMB1,465 million was placed with a commercial bank in China as short-term deposits.

ACQUISITIONS AND DISPOSALS

In pursuit of the Group's development strategies and building on its existing solid business foundation, the company have reached a new stage in the perfection of supplementary publishing services, integration of resources in the industry and arrangement and extension of the industry chain.

In April 2009, the Company acquired a 20% shareholding in Sichuan Xinhua Colour Printing Company Limited ("Xinhua Colour"), an associate, from other shareholders thereby obtaining the control over Xinhua Colour. Such move provides support to the Group's supplementary publishing services while facilitating the coordination and extension of the industry chain, further reducing product costs.

In June 2009, the Company entered into a cooperation agreement with Sichuan International Studies University, Sichuan Derui Enterprise Development Company Limited ("Derui") and Sichuan Hongming Properties Company Limited ("Hongming"). The Company also signed a capital increase agreement with Chengdu Institute Sichuan International Studies University ("Chengdu Institute"), Derui and Hongming. Pursuant to these agreements, the Company invested RMB260 million to acquire a 24.3% shareholding in Chengdu Institute. The Group believes that the education industry presents a stable earnings prospect and cash inflow, which will generate considerable investment return for the Group. In addition, making investment in the said institute is one of the key moves for the Group to tap into the cultural and educational areas.

Save as disclosed above, during the Period, there was no material acquisition or disposal of any subsidiaries, jointly-controlled entities or associates by the Company.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2009, the Company employed a total of 6,170 (30 June 2008: 6,166) employees.

The remuneration policy of the Company is regularly reviewed and is proactively promoted using appraisal as its core in motivating employees' performance, so as to implement a remuneration policy whereby salaries are linked to the performance of employees. 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. Moreover, the Company also provides its employees with internal training and external training to encourage continuous learning and thus enhancing their individual values.

SHARE CAPITAL

As at 30 June 2009, 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. (the "Parent Company")	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) The Social Legal Person Shares are held by Chengdu Hua Sheng (Group) Industry Co. Ltd., a Promoter.

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

As at 30 June 2009, so far as is known to the Directors and Supervisors of the Company, the following persons (not being Directors, Supervisors or chief executives of the Company) had, or were deemed to have interests or short positions in the shares, underlying shares and 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
Parent Company	592,809,525	Beneficial owner	State-owned Shares	92.65%	52.22%	Long Position
Chengdu Hua Sheng (Group) Industry Co. Ltd. <i>(Note)</i>	53,336,000	Beneficial owner	Social Legal Person Shares	100%	4.70%	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 30 June 2009, so far as is known to the Directors and Supervisors of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) had an interest or short position in the Shares, underlying shares or debentures of the Company which 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 (the Executive Director and Chairman of the Company) who is the chairman of the Parent Company, (ii) Mr. Wu Qiang (the Non-executive Director) who is the chairman of Chengdu Hua Sheng (Group) Industry Co. Ltd.; and (iii) Mr. Zhao Junhuai (the Non-executive Director) who is the vice-chairman of Chengdu Hua Sheng (Group) Industry Co. Ltd., as at 30 June 2009, none of the Directors of the Company held any position 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 30 June 2009, the Directors, Supervisors and chief executives of the Company had the following 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 to be kept by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange:

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 interests 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 30 June 2009, 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 of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register to be kept by the Company, or which were 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.

SHARE APPRECIATION RIGHT INCENTIVE SCHEME

During the period, the Share Appreciation Right Incentive Scheme of the Company 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 approval has not yet been obtained.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL LITIGATION AND ARBITRATION

In relation to a legal proceeding involving South-western Book City under the Group, a settlement agreement was entered into on 13 April 2009 by the Group and the plaintiff (the “Settlement Agreement”). Both parties have discharged their respective obligations under the Settlement Agreement. In accordance with the Settlement Agreement, the Group paid to the plaintiff property rentals in respect of the period from September 2002 to December 2007. Provision was made in the Group’s accounts in previous years. As such, the implementation of the Settlement Agreement has no effect on the profits of the Group for the period.

Save as disclosed above, during the six months ended 30 June 2009, the Group has not been involved in any litigation, arbitration 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 the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors of the Company are of the view that, during the six months ended 30 June 2009, the Company complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors and Supervisors of the Company, for the purpose of regulating securities transactions by the Directors and Supervisors. Having made specific enquiries of each Director and Supervisor of the Company, all Directors and Supervisors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2009.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (for the six months ended 30 June 2008: Nil).

AUDIT COMMITTEE

The Company has established its Audit Committee in compliance with Appendix 14 to the Listing Rules with specific written terms of reference. The Audit Committee has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2009 and has discussed financial reporting issues with the management. The Audit Committee considered that the financial statements have been prepared in accordance with the applicable accounting standards and requirements and have made appropriate disclosures accordingly.

By order of the Board

Sichuan Xinhua Winshare Chainstore Co., Ltd.

Gong Cimin

Chairman

Sichuan, the PRC, 21 August 2009

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WINSHARE

四川新華文軒連鎖股份有限公司

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