新華文軒出版傳媒股份有限公司
XINHUA WINSHARE PUBLISHING AND MEDIA 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公司)
(Stock Code 股份代號: 00811)

Annual Report 2010 二零一零年年度報告

* For identification purposes only
僅供識別

Contents

CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

新華文軒出版傳媒股份有限公司
(formerly known as "四川新華文軒連鎖股份有限公司")

COMPANY NAME IN ENGLISH

XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD.*
(formerly known as "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

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CORPORATE INFORMATION

(CONTINUED)

SUPERVISORY COMMITTEE

Supervisors

Mr. Xiao Changjiu *(Chairman)*
Mr. Xu Yuzheng
Mr. Ma Chuan
Mr. Li Kun
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

Independent Supervisors

Mr. Li Guangwei
Mr. Fu Daiguo

COMPANY SECRETARY

Mr. You Zugang

QUALIFIED ACCOUNTANT

Mr. Mak Ming Fai

AUTHORISED REPRESENTATIVES

Mr. Luo Jun
Mr. You Zugang

ALTERNATE AUTHORISED REPRESENTATIVE

Ms. Ma Sau Kuen Gloria

INTERNATIONAL AUDITOR

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

PRC AUDITOR

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

HONG KONG LEGAL ADVISER

Li & Partners
22nd Floor, World-wide House
19 Des Voeux Road Central
Central, Hong Kong

REGISTERED OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

The Industrial and Commercial Bank of China
China Construction Bank

HONG KONG H SHARE REGISTRAR

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

COMPANY WEBSITE

http://www.winshare.com.cn

STOCK CODE

811

BUILD A FAMILY OF BOOKS
建立書的家園

FINANCIAL SUMMARY

RESULTS

	For the years ended 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Income	2,217,625	2,309,481	2,736,936	3,208,988	**3,724,239**
Profit before tax	305,860	388,759	341,214	366,654	**441,542**
Income tax	(3,422)	(1,765)	(3,058)	(2,922)	**(1,359)**
Profit for the year	302,438	386,994	338,156	363,732	**440,183**
Minority interests	363	1,802	(168)	(5,074)	**(3,246)**
Profit attributable to equity holders of the Company	302,801	388,796	337,988	358,658	**436,937**

ASSETS AND LIABILITIES

	As at 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Total assets	2,406,660	4,935,265	5,387,558	5,798,025	**7,263,857**
Total liabilities	(1,093,611)	(1,211,269)	(1,652,032)	(1,901,311)	**(2,461,796)**
	1,313,049	3,723,996	3,735,526	3,896,714	**4,802,061**
Equity attributable to equity holders of the Company	1,265,889	3,678,638	3,673,905	3,810,079	**4,630,676**
Minority interests	47,160	45,358	61,621	86,635	**171,385**
	1,313,049	3,723,996	3,735,526	3,896,714	**4,802,061**

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Xinhua Winshare Publishing and Media Co., Ltd. (the "Company"), I am pleased to present to the shareholders the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 (the "Year").

During the last year, the Group stood on the mission of expanding and strengthening our principal operating business of publishing and distribution; and strived to explore its market potential and to extend our industry chain. We responded actively to the aggressive emergence of domestic publishing media groups and the impact of intensified market competition brought by emerging business forms. Our operating results, therefore, grew steadily, alongside with increasing core competitiveness of our traditional business. As our competitive advantages became noticeable among our industry peers, our resource integration and aggregation grew stronger. Sales income and profit of the Group in 2010 had both achieved stable growth over the year 2009. In 2010, the Group recorded a turnover of RMB3,724 million, representing an increase of 16.1% over 2009; with net profit of RMB440 million and basic earnings per share of RMB0.39. Profit attributable to equity holders of the Company was RMB437 million, representing an increase of 21.8% over 2009.

In 2010, with regard to our traditional core business segments such as education subscription, retail chain, nationwide Zhongpan and publishing, the Group adhered to the market-oriented strategy by optimizing our operating strategies and enhancing our core competitiveness to achieve steady growth. At the same time, the Group seized the opportunities arising from the development of digital publishing and new media technology through optimizing our industry structure to identify new profit business growth for the Group in an effort to add vitality to our traditional core businesses.

In 2010, the Group stepped up cooperation with industry peers and made use of the implementation of key projects to promote brand building and community influence of the Group. The Group was the sole sponsor of the "National Book Fair" three years in a row. In 2010, the Group co-organized the "20th National Books Expo" and took charge of the publishing and exclusive promotion of the simplified Chinese version of "100 East Asian Literature" Series (東亞人文100叢書), a large-scale international cultural exchange publishing project. The Group was granted the Gold Award in the Integrated Book Category (綜合讀物類圖書金獎) by the Asia-Pacific Publishers Association with the "100 East Asian Literature" (東亞人文100導讀). In the meanwhile, 22 publications of the Group have been included in the state's key book publication project for the "Twelfth Five-Year Plan". In undertaking the regional distribution of publications for "Courtyard Bookhouse" (農家書屋), a key cultural development project of the PRC government, the Group achieved win-win situation for both the community and economy.

In 2010, the Group completed the acquisition of the entire equity interests in 15 publication entities (the "Fifteen Publishers") under Sichuan Publishing Group Co., Ltd. and changed the name of the Company to "Xinhua Winshare Publishing and Media Co., Ltd.". Since then, the Group has become an integrated cultural company engaging in publication production, sales and diversified cultural development. Meanwhile, combining with urban development plans and future growth strategies of the enterprise, the Group kicked off the construction project of "Western China Cultural Products Logistics Centre". Such project, upon completion, will

CHAIRMAN'S STATEMENT

(CONTINUED)

greatly increase the storage and distribution capacity of the Group's projects. The successful listing on the Shanghai Stock Exchange of Anhui Xinhua Media Co., Ltd. ("Wan Xin Media"), which is one of the Company's investees, increased the return on equity of our investors considerably.

The year 2011 is the starting year of the "Twelfth Five-Year Plan" and so is a year crucial to promoting the cultural industry in China. Undoubtedly, this will further help speeding up the pace of industry's business assimilation and integration, thereby bringing new opportunities to the Group in further achieving industry expansion and strengthening our core competitiveness and on-going development capabilities. On the other hand, with the emersion of emerging business environment in publishing industry like digitalized publications and new media and its inter-twined assimilation with traditional publication industry, transformation of traditional publication environment towards modernized publication environment as well as mutual penetration among our industry and the associated cultural industries in the course of development will remain the focus of the Group. In this respect, the Group will endeavor to become a leading cultural media group in the PRC; explore the synergistic effects after the industry chain integration of the Group; allocate resources in a reasonable manner; facilitate the publishing of quality publications; continue to rationalize the operation model of retail business; enhance our education materials and supplementary education related service ability and market adaptability; and seek new profit opportunities. At the same time, the Group will implement our business development strategies approved at the general meeting, continue to push forward the innovative industry environment of the Group through equity investment (either non-controlling or controlling) and strategic co-operation; and build a strategic development structure of the Group in realizing a step by step cross-industry business development, with a view to further strengthening our market core competitiveness and ability for sustainable development.

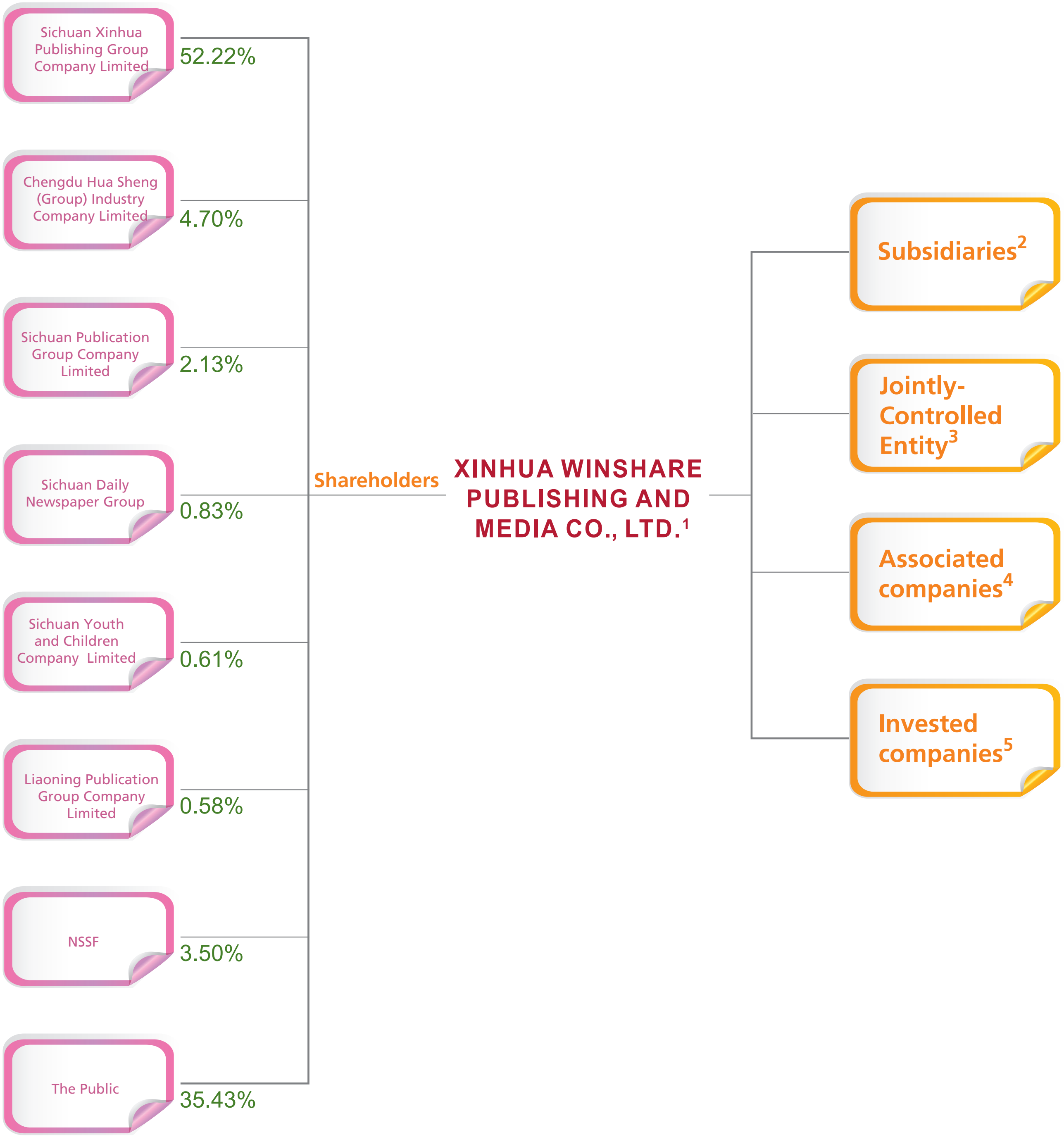
We believe, with the continuous efforts of our management team and staff, we will be able to bring good investment returns to all the shareholders of the Company.

Finally, I would like to take this opportunity to express my sincere gratitude to all the shareholders and stakeholders of the Company for their trust and support.

Gong Cimin
Chairman

30 March 2011

CORPORATE STRUCTURE OF THE GROUP



Note 1: On 27 August 2010, the name of the Company was changed from "Sichuan Xinhua Winshare Chainstore Co., Ltd.* (四川新華文軒連鎖股份有限公司)" to "Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司)".

* For identification purpose only

CORPORATE STRUCTURE OF THE GROUP

(CONTINUED)

Note 2: The main subsidiaries are as follows:

No.	Company Name	Interests attributable to the Group (%)	Remarks
1	Sichuan Winshare Education Technology Company Limited (四川文軒教育科技有限公司) Formerly known as Chengdu Yin Xing Bo Wen Book and Cultural Development Company Limited (成都銀杏博文圖書文化發展有限公司)	100	
2	Sichuan Xinhua Online Network Company Limited (四川新華在線網絡有限責任公司)	100	
3	Beijing Xinhua Li Pin Book Company Limited (北京新華立品圖書有限公司)	100	
4	Sichuan Publication Printing Company Limited (四川出版印刷有限公司)	100	In August 2010, the relevant acquisition of equity of items 4 to 18 was completed.
5	Sichuan Printing Material Company Limited (四川省印刷物資有限責任公司)	100	
6	Sichuan Shangrui Education Textbooks Company Limited (四川上瑞教育圖書有限責任公司)	100	
7	Sichuan People's Publishing House Company Limited (四川人民出版社有限公司)	100	
8	Sichuan Education Publishing House Company Limited (四川教育出版社有限公司)	100	
9	Sichuan Youth and Children's Publishing House Company Limited (四川少年兒童出版社有限公司)	100	
10	Sichuan Digital Publishing & Media Company Limited (四川數字出版傳媒有限公司)	100	
11	Sichuan Literature & Art Publishing House Company Limited (四川文藝出版社有限公司)	100	
12	Sichuan Fine Arts Publishing House Company Limited (四川美術出版社有限公司)	100	
13	Sichuan Science & Technology Publishing House Company Limited (四川科學技術出版社有限公司)	100	
14	Sichuan Lexicographical Publishing House Company Limited (四川辭書出版社有限公司)	100	
15	Sichuan Bashu Publishing House Company Limited (四川巴蜀書社有限公司)	100	
16	Sichuan Tiandi Publishing House Company Limited (四川天地出版社有限公司)	100	
17	Sichuan Reader's Journal Press Company Limited (四川讀者報社有限公司)	100	
18	Sichuan Pictorial Company Limited (四川畫報社有限公司)	100	

CORPORATE STRUCTURE OF THE GROUP

(CONTINUED)

No.	Company Name	Interests attributable to the Group (%)	Remarks
19	Beijing Shu Chuan Xinhua Bookstore Book Distribution Company Limited (北京蜀川新華書店圖書發行有限責任公司)	82.5	
20	Beijing Xinhua Wenxuan Advertising Company Limited (北京新華文軒廣告有限公司)	81.54	
21	Xinhua Winshare Sichuan Information Technology Company Limited (新華文軒四川信息科技有限公司)	80	Established in November 2010
22	Sichuan People's Education Times Xinhua Audio and Video Company Limited (四川人教時代新華音像有限責任公司)	80	
23	Sichuan Winshare Online E-commerce Company Limited (四川文軒在線電子商務有限公司)	75	Established in July 2010
24	Sichuan Xinhua Winshare Media Company Limited (四川新華文軒傳媒有限公司)	70	
25	Sichuan Xinhua Colour Printing Company Limited (四川新華彩色印務有限公司)	65	
26	Beijing Huaying Winshare Movie & TV Culture Company Limited ("Huaying Winshare") (北京華影文軒影視文化有限公司)	65	In August 2010, Qinghuangdao Daqi Cultural Industry Investment Company Limited (秦皇島大旗文化產業投資有限公司) made a capital contribution of RMB10.77 million to Huaying Winshare. Upon capital increase, the shareholding of the Company in such company decreased from 100% to 65%.
27	Chengdu Xin Hui Industrial Co., Ltd. (成都鑫匯實業有限公司)	62.5	
28	Sichuan Winshare Arts Investment Management Co., Ltd. (四川文軒藝術投資管理有限責任公司)	60	Established in January 2010
29	Sichuan Winshare Education Investment Company Limited (四川文軒教育投資有限公司)	51	Established in July 2010
30	Sichuan Winshare Properties Co., Ltd. (四川文軒置業有限公司)	51	Established in August 2010
31	Sichuan Winshare Logistics Company Limited (四川文軒物流有限公司)	51	Established in December 2010
32	Xinhua Shang Paper Co., Ltd. (四川新華商紙業有限公司)	51	
33	Beijing Huaxia Shengxuan Book Company Limited (北京華夏盛軒圖書有限公司)	51	
34	Sichuan Winshare Preschool Educational Management Co., Ltd. (四川文軒幼兒教育管理有限公司)	51	Established in August 2010

Note 3: The main jointly-controlled entity is as follows:

No	Company Name	Interests attributable to the Group (%)	Remarks
1	Hainan Publishing House Company Limited (海南出版社有限公司)	50	Established in January 2010

CORPORATE STRUCTURE OF THE GROUP

(CONTINUED)

Note 4: The main associated companies are as follows:

No	Company Name	Interests attributable to the Group (%)	Remarks
1	Bazhong Shu Dong Real Estate Development Company Limited (巴中蜀東房地產開發有限公司)	51	In November 2010, the Company owns 51% equity interests in such company through Sichuan Winshare Education Investment Company Limited (四川文軒教育投資有限公司).
2	Guizhou Xinhua Winshare Distribution Co., Ltd. (貴州新華文軒發行有限責任公司)	45	
3	Sichuan Xin Wen Newspapers and Periodicals Distribution Company Limited (四川欣聞報刊發行有限責任公司)	39	
4	Ming Bo Education Technology Co., Ltd. (明博教育科技有限公司)	34	
5	Hainan Chuangxiang Cultural Development Company Limited (海南創享文化發展有限公司)	33.8	Established in January 2010
6	Ren Min Eastern (Beijing) Book Industry Company Limited (人民東方（北京）書業有限公司)	20	

Note 5: The main invested companies are as follows:

No	Company Name	Interests attributable to the Group (%)	Remarks
1	Chengdu Institute Sichuan International Studies University (四川外語學院成都學院)	24.3	
2	Shanghai Eastern Publishing & Trading Centre Co., Ltd. (上海東方出版交易中心有限公司)	10	
3	Sichuan Periodical Media (Group) Company Limited (四川期刊傳媒（集團）股份有限公司)	8	
4	Anhui Xinhua Media Co., Ltd. (安徽新華傳媒股份有限公司)	6.85	In January 2010, Anhui Xinhua Media Co., Ltd. (安徽新華傳媒股份有限公司) issued new shares and was listed on the Shanghai Stock Exchange and the percentage of shareholding held by the Company decreased from 7.79% to 6.85%.
5	Sichuan Xinhua Cultural Communication Company Limited (四川新華文化傳播有限責任公司)	2.92	
6	Bank of Chengdu Co., Ltd. (成都銀行股份有限公司)	2.46	

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2010, there was a continuous increase in national demand for cultural consumption and China's publishing industry was able to sustain a steady growth. A series of cultural industrial policies as promulgated by the Chinese government including the "planning for the revitalization of cultural industry" were implemented progressively. The Chinese government paid increasing attention towards the development of cultural industry and clearly proposed the need to develop cultural industry into a national economic pillar as stated in the recently approved "Twelfth Five-Year Plan for National Economic and Social Development". Meanwhile, with the merge of new media technology and traditional publishers developing rapidly, capital operations within the industry and the integration of the industry chain were further upgraded, signaling the entry of news and publishing industry into an important phase for strategic transformation.

In 2010, along with the gradually intensification in government support and guidance, digitalized publishing was able to maintain the rapid growth momentum experienced in these few years. On the back of the continuous increase in digitalized content and the constant expansion of the scale of industrial investments, coupled with the rapid increase in 3G penetration rate and the pilot program for the integration of three networks, China's digitalized publishing industry will certainly develop at a faster pace.

The Group believes, augmented by the nation's efforts to develop the cultural industry into a pillar industry for the domestic economy, better environment and opportunities will be available for the development of the Group. At the same time, facing intense industry competition, the emersion of digitalized publishing businesses, while the Group will gradually adjust and consolidate the traditional business, it will continue to seek new development models innovatively to promote the transformation and upgrade its traditional business, at the same time, in order to improve the overall competitiveness and profitability of the Group.

OPERATING RESULTS AND FINANCIAL REVIEW

In 2010, the Group achieved revenue of RMB3,724 million and net profit of RMB440 million. The Group, was still able to maintain a rather substantial increase in the sales of supplementary education materials while the retail sales of books and the distribution business to libraries in Sichuan primary and secondary schools continued to grow. A nationwide distribution network basically took shape and the sales through "Wenxuan Platform", a specialized e-commerce platform of the Group, grew rapidly. The Group also completed the acquisition of 100% equity interests in the Fifteen Publishers. Synergy effects resulting from the integration of purchasing, logistics, information, production and processing platforms became more evident.

Revenue

During the year, the Group recorded a sales revenue of RMB3,724 million, representing an increase of 16.1% as compared with the same period last year, mainly attributable to the growth of sales of subscription segment, retailing segment and paper sales of the product segment, as well as the impact of consolidation of the Fifteen Publishers.

Gross Profit Margin

The gross profit margin of the Group for the Year was 37.7%, which was higher than the 37.4% for the corresponding period of last year, primarily as a result of the consolidation with the financial statements of the Fifteen Publishers.

Segment analysis

Segment revenue of the Group for the year and the corresponding period of last year is as follows:

	2010 RMB'000	2009 RMB'000	Change %	Percentage of segment sales to revenue before intersegment sales elimination 2010 %	Percentage of segment sales to revenue before intersegment sales elimination 2009 %	Percentage of segment external sales to consolidated revenue 2010 %	Percentage of segment external sales to consolidated revenue 2009 %
Product segment							
External sales	**544,641**	285,210	91.0	**8.9**	5.7	**14.6**	8.9
Intersegment sales	**392,015**	160,017	145.0	**6.5**	3.2		
Total	**936,656**	445,227	110.4	**15.4**	8.9		
Zhongpan segment							
External sales	**135,303**	115,586	17.1	**2.2**	2.3	**3.6**	3.6
Intersegment sales	**1,981,551**	1,668,185	18.8	**32.5**	33.1		
Total	**2,116,854**	1,783,771	18.7	**34.7**	35.4		
Subscription segment							
External sales	**2,450,503**	2,288,013	7.1	**40.2**	45.4	**65.8**	71.3
Intersegment sales	**–**	–	–	**–**	–		
Total	**2,450,503**	2,288,013	7.1	**40.2**	45.4		
Retailing segment							
External sales	**549,557**	503,922	9.1	**9.0**	10.0	**14.8**	15.7
Intersegment sales	**–**	–	–	**–**	–		
Total	**549,557**	503,922	9.1	**9.0**	10.0		
Other segment							
External sales	**44,235**	16,257	172.1	**0.7**	0.3	**1.2**	0.5
Intersegment sales	**–**	215	(100.0)	**–**	–		
Total	**44,235**	16,472	168.5	**0.7**	0.3		
Revenue before intersegment sales elimination	**6,097,805**	5,037,405	21.1	**100.0**	100.0		
Intersegment sales elimination	**(2,373,566)**	(1,828,417)	29.8				
Consolidated revenue	**3,724,239**	3,208,988	16.1			**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 2009 are as follows:

	2010		2009	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Product (including intersegment revenue)	**144,867**	**15.5**	70,107	15.7
Zhongpan (including intersegment revenue)	**345,054**	**16.3**	201,838	11.3
Subscription	**801,297**	**32.7**	745,147	32.6
Retailing	**136,828**	**24.9**	134,417	26.7
Others (including intersegment revenue)	**7,913**	**17.9**	4,171	25.3
Intersegment revenue elimination	**(31,445)**	**N/A**	44,479	N/A
	1,404,514	**37.7**	1,200,159	37.4

Product

The Group's product segment covers businesses including publication, printing and paper trading. During the year, the Group completed the merger and acquisition of 100% equity interests in the Fifteen Publishers in accordance with the strategic planning, hence achieving the integration of the industry chain, which was beneficial to the effective control of costs.

During the year, the product segment recorded a revenue of RMB937 million (including intersegment sales), representing an increase of 110.4% as compared to the corresponding period last year. The gross profit margin of the segment was 15.5%, a reduction of 0.2 percentage point as compared with 15.7% in the same period last year.

Excluding the effect of consolidation of results of the Fifteen Publishers from September to December 2010, the revenue from sales of such segment grew by 50.4% over the same period last year. The increase in sales revenue was mainly due to the expanding scales of sales of papers, the growth of sales of publication products and the increase in turnover of printing. As for gross profit margin, excluding the influence of the Fifteen Publishers, papers sales and printing business, the gross profit margin for the segment rose by 0.6 percentage point as compared to the corresponding period of last year, which was mainly due to the change in structure of publication products.

Zhongpan

The Group's Zhongpan segment is engaged in the centralized purchasing and delivery of products across the Group's internal channels. It also includes distribution to external customers through the Group's nationwide distribution network.

During the year, the Group continued to push forward steadily the construction of Zhongpan operation nationwide and strengthened the management of its sales channel, as a result of which a nationwide distribution network was basically formed by way of arrangement, construction, optimization and adjustment in the past few years.

During the year, such segment recorded a revenue of RMB2,117 million (including intersegment revenue), representing an increase of 18.7% over the same period last year. In particular, the revenue from external sales was RMB135 million for the year, representing an increase of 17.1% as compared with the corresponding period last year. The gross profit margin of Zhongpan segment was 16.3% for the year, an increase of 11.3% over the same period of last year, which was mainly due to the lower purchase costs of libraries distribution business.

MANAGEMENT DISCUSSION AND ANALYSIS

(CONTINUED)

Retailing

The Group's retailing segment covers the store retail operation, the group-buying operation and the distribution business to libraries in Sichuan primary and secondary schools, etc. During the year, through methods including improving store functions, enriching joint venture product items and conducting value-added channel operations, the Group was able to maintain growth in retail volume and turnover and the effects of the cultural mall model initially emerged.

During the year, such segment recorded a revenue of RMB550 million, representing an increase of 9.1% over the same period of last year, mainly attributable to the continuous growth of retailing and libraries distribution businesses. The gross profit margin of the segment fell to 24.9% for the year as compared with 26.7% in the same period last year, mainly due to the change in structure of commodities under the libraries distribution business.

Subscription

The Group's subscription segment covers the distribution of education materials, supplementary education reading and the promotion of our digitalized classrooms system "You Ke". Despite the impact from the continuous reduction in the number of students in Sichuan Province and the policy for the recycling of education materials, sales of educational materials continued to decline during the year. Nevertheless, the Company further reinforced the marketing of supplementary education materials leveraging advantages of its channels, as a result of which the sales of supplementary education materials was able to grow continuously, hence driving the sales of this business segment. Meanwhile, the implementation of the "You Ke" project, aiming at providing overall informatized education solutions for primary and secondary schools, has been started.

During the year, the subscription segment recorded a revenue of RMB2,450 million, representing an increase of 7.1% as compared to the same period last year. The gross profit margin of the segment was 32.7%, equaling the corresponding period last year.

EXPENSES AND COSTS

Selling and distribution costs and administrative expenses

During the Year, total selling and distribution costs and administrative expenses were RMB1,090 million, representing an increase of 21.3% from RMB900 million in the corresponding period of last year. This was mainly due to the higher proportion of sales of supplementary materials, resulting in an increase in promotional expenses; and the increase in labour costs due to upsizing. In addition, the increase in expenses was also attributable to the consolidation with the financial statements of the Fifteen Publishers acquired from September to December 2010.

Other expenses

Other expenses for the Year amounted to RMB52 million, an increase of 33.9% as compared with RMB39 million in the same period last year, which was primarily due to the increase in the relevant professional expenses such as audit and legal fee resulting from the Group's acquisition of equity interests in the Fifteen Publishers during the Year.

Finance Income, Net

Finance income, net for the year amounted to RMB23 million, decreased by 27.1% when compared to the same period last year. The decrease in finance income was mainly due to the continuous decrease in holding of monetary assets as various investments of the Company gradually took place.

Profit

The Group's profit for the Year amounted to RMB440 million, representing an increase of 21.0% from RMB364 million in the corresponding period of last year. The profit attributable to shareholders of the Company increased by 21.8% to RMB437 million from last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(CONTINUED)

Earnings Per Share

Earnings per share is calculated by dividing profits attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the Year. The Group's earnings per share for the Year was RMB0.39, representing an increase of 22.1% from RMB0.32 in the corresponding period of last year. Please refer to note 13 to the financial statements for the calculation of earnings per share.

Liquidity and Financial Resources

As at 31 December 2010, the Group had cash and short-term deposits of approximately RMB1,880 million, and the bank and other borrowings of the Group represented RMB85 million of fixed-interest financing and RMB160 million of floating-rate financing of the subsidiaries. The Company did not have any bank and other borrowings. The robust financial conditions safeguarded the continuing development of the Group.

As at 31 December 2010, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 33.9 % (31 December 2009: 32.7 %). During the Year, there was no significant change in the Group's capital structure during the Year.

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

	31 December 2010	31 December 2009
Current Ratio	**1.60**	2.04
Inventory Turnover Days	**119.6**	138.4
Trade Receivables Turnover Days	**39.0**	36.1
Trade Payables Turnover Days	**198.0**	217.8

As at 31 December 2010, the current ratio of the Group was 1.60 (31 December 2009: 2.04) and 1.29 excluding the Fifteen Publishers, representing a substantial decrease as compared with last year, which was mainly attributable to the Company's payment of bank deposits amounting to RMB1,255 million during the period for the acquisition of equity interests in the Fifteen Publishers.

Inventory turnover days decreased from 138.4 days in 2009 to 119.6 days in 2010, and was 119.0 days excluding the Fifteen Publishers. This was primarily because of the shorter turnover days of the new paper trading business, which shortened the overall turnover days of the Group. Trade receivables turnover days increased from 36.1 days in 2009 to 39.0 days in 2010, and was 36.8 days excluding the Fifteen Publishers, representing a slight increase of 0.7 day as compared with last year. Trade payables turnover days decreased from 217.8 days in 2009 to 198.0 days in 2010, and was 227.8 days excluding the Fifteen Publishers, representing a slight increase as compared with last year, which was due to longer credit term generally granted by suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

(CONTINUED)

Overview of Material Investments

During the year, the Group actively integrated the industry resources, improved the industry chain structure, increased the investment in logistics capabilities development, e-commerce and cultural education on the basis of fostering its traditional publishing and distribution business with a view to achieving the strategic objective of building itself into a first-class cultural media group in China.

During the year, the Company acquired 100% equity interests in fifteen wholly-owned subsidiaries under Sichuan Publication Group Company Limited at RMB1,255 million. Such acquisition was approved at the extraordinary general meeting of the Company held on 20 August 2010. For details of the transaction, please refer to the announcement of the Company dated 22 June 2010 and the circular dated 28 June 2010 to shareholders. As at 31 December 2010, the consideration for the acquisition was settled and the procedures for transfer of equity interests were completed. The Company is currently accelerating the full-scale integration with the Fifteen Publishers in the areas of strategy, business, brand and culture in accordance with the stated plans to achieve reasonable resource allocation and utilization of strengths, accelerate integration operation of industry chain, and strengthen the competitiveness of the principal businesses of the Company.

Save as the above acquisition, during the year, the Group expanded its investments in logistics capabilities development and e-commerce business. In April 2010, as approved by the Board of the Company, the Group kicked off the construction project of "Western China Cultural Products Logistics Centre" to satisfy the increasing demand for logistics services of the Group in the future. In July 2010, the Company invested RMB22.50 million to establish Sichuan Winshare Media Company Limited with the Parent Company to develop an e-commerce transaction and service platform for publication to better cope with the market competition.

On 18 January 2010, Anhui Xinhua Media Co., Ltd. ("Wan Xin Media", stock code: 601801), in which the Group has an interest, was successfully listed on the Shanghai Stock Exchange. During the year, the Company, which is interested in 62,320,000 shares, recognised other comprehensive income of RMB756,490,000 and dividend income of RMB4,360,000. During the year, the Company also received a dividend income for 2009 of RMB9,600,000 from Bank of Chengdu Co., Ltd., in which the Company has an interest. Chengdu Institute of Sichuan International Studies University attained steady operating conditions during the year. The Company recorded an investment gain of RMB23,400,000.

Save as disclosed above, the Company did not have any other material acquisitions and disposals during the period.

FUTURE PROSPECTS

On the back of the State's vigorous drive for the development of cultural industry, the Company will grab hold of opportunities, continue to develop and enhance the integrated management of publishing and distribution industry chains, enhance its earnings capabilities and capacity for sustainable development and actively develop media, cultural education and related businesses, and turn the Company into a first-class cultural media group in China. Having said that, the Company will focus on the implementation of the following strategies:

1. Take full advantage of the Group's edge in publishing resources and distribution channels so as to achieve an integrated business operation and strengthen the competitiveness of the Company's core businesses;

2. Drive the construction of the Company's e-commerce and digitalized publishing platform and improve the business model and the mode of operation of digitalized publishing leveraging resources of the traditional publishing and distribution businesses;

3. Further improve and increase the Company's logistics capabilities with the support of the project "Western China Cultural Products Logistics Centre";

4. Improve the Group's research-and-development capabilities in publication creativity, with the support of the project "Winshare Publishing and Media Products Creativity Centre" as a temporary name.

CORPORATE GOVERNANCE REPORT

The Company has all along been striving to establish a corporate governance system which is in compliance with the PRC laws and supervisory regulations of its place of listing and under the actual position of the Company. In 2010, the Company had strictly complied with the relevant laws and regulations such as the Company Law of the People's Republic of China as well as the supervisory regulations of its place of listing. We continued to enhance the setting up of a corporate governance system, strengthened our risk management and internal control, and reinforced investors' relationship management, improved our transparency of information disclosure continuously and protected the shareholders' legal rights and interests effectively.

During the Year, the Company has complied with the principles and the code provisions of the Code on Corporate Governance Practices 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

Responsibilities and Division of Work

The Board acts on behalf of the interests of the shareholders as a whole and is accountable to shareholders in general meetings. The main duties of the Board are to: implement the resolutions passed in general meetings; make decision on the Company's business plans and investment plans; formulate the Company's annual financial budget and final financial 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 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 substantial related relationship among respective Directors and Chairman and general manager.

Composition of the Board

The current session of the Board is the second session of the Board of the Company and was elected at an extraordinary general meeting held on 30 July 2008. The Board comprises thirteen members, including two Executive Directors; eight Non-executive Directors; and three Independent Non-executive Directors. The number of members and composition of the Board are in compliance with the requirements of the relevant laws and regulations. According to the Articles of Association of the Company, the term of office of the Directors (including Non-executive Directors) is from the date of passing the resolutions at the extraordinary general meeting to the expiry date of the term of office of the Board of that session.

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

CORPORATE GOVERNANCE REPORT

(CONTINUED)

Board Meetings

During the Year, the Board convened a total of nine Board meetings, of which five of them were attended in person and four meetings were held by way of written resolutions. The Board meetings reviewed and approved the resolutions like continuing connected transactions, establishment of joint venture, general mandate to repurchase shares, acquisition of 100% equity interests in the Fifteen Publishers, change of company name, revision of the Articles of Association, appointment of senior management, announcement of annual results and interim results. All the above mentioned Board meetings were convened in accordance with the requirements and provisions of the Articles of Association of the Company, the Terms of Reference of Board meeting and the Code on Corporate Governance Practices. The attendance of the Directors is listed below:

Name	Attendance in person/ Number of meetings required attendance	Attendance rate
Executive Directors		
Gong Cimin *(Chairman)*	9/9	100%
Zhang Bangkai *(Vice Chairman)*	9/9	100%
Non-Executive Directors		
Wang Jianping	9/9	100%
Yu Changjiu	5/9	56%
Li Jiawei	7/9	78%
Luo Jun	8/9	89%
Wu Qiang	6/9	67%
Zhang Chengxing	9/9	100%
Zhao Junhuai	9/9	100%
Zhao Miao	9/9	100%
Independent Non-executive Directors		
Han Xiaoming	9/9	100%
Cheng Sanguo	8/9	89%
Chan Yuk Tong	8/9	89%

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.

CORPORATE GOVERNANCE REPORT

(CONTINUED)

During the Year, the Strategy and Investment Planning Committee convened a total of two meetings, committee members Mr. Cheng Sanguo, Mr. Han Xiaoming, Mr. Zhang Bangkai, Mr. Yu Changjiu and Mr. Zhao Junhuai had attended all the meetings in person to discuss the Company's significant investment decisions including the acquisition of 100% equity interests in the Fifteen Publishers, providing effective professional advice for the Board's decision making.

Editorial and Publication Committee

The main responsibilities of the Editorial and Publication Committee are: (1) to examine the Company's medium-to long-term publishing growth plans and make recommendations; (2) to examine and evaluate the Company's major publication projects and make recommendations for review and approval.

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.

During 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 implementation; (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 five meetings, of which four of them were attended in person and one meeting was held by way of teleconference. The Audit Committee members Mr. Chan Yuk Tong, Mr. Han Xiaoming and Ms. Wang Jianping had attended all the meetings in person to consider the various resolutions like interim and annual results, internal control issues, auditor's engagement and continuing connected transactions and to submit its recommendations to the Board, playing a positive role in helping the Board's decision making. Furthermore, the Audit Committee enhanced its communication with the Company's management, external auditors and internal control consultant, followed up the implementation of management recommendations put forth by the auditors and internal control consultant, and effectively facilitated the further enhancement of internal control standard of the Company.

The Audit Committee 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; (2) to evaluate and examine the remuneration policies and proposals applicable to the Directors 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 one meeting. Committee members Mr. Han Xiaoming, Mr. Chan Yuk Tong and Mr. Zhang Bangkai had attended the meeting in person. The meeting approved the resolutions relating to the revision of "Work Regulations of Remuneration and Review Committee of the Board" and "Administrative Measures for the Annual Remuneration and Performance Evaluation of the Company's Senior Management", and submitted its recommendations to the Board.

CORPORATE GOVERNANCE REPORT

(CONTINUED)

Nomination Committee

The main responsibilities of the Nomination Committee are: (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 who are subject to be engaged by the Board.

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. The committee members Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Luo Jun had attended all the meetings in person to consider the various resolutions like the revision of "Work Regulations of Nomination Committee", nomination of senior management and resignation of joint company secretary, and submitted its recommendations to the Board.

DIRECTORS

Appointment and Re-election of Directors

The Directors of the Company are elected by shareholders in general meetings, with a term of 3 years. 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.

Nomination of Directors

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 shareholder(s) who is/are jointly or severally holding more than 3% of the shares can also nominate and propose candidates for directorship. The Board examines the qualifications and conditions of the candidates. Upon the passing of a board resolution, the proposal will be submitted in writing to the general meeting for approval.

The Board of the Company has a Nomination Committee, which is mainly responsible for providing opinions and recommendations regarding the candidates, conditions, standards and procedures for the proposed directors, general manager and other senior management of the Company.

Independence of Directors

The Company currently has three Independent Non-executive Directors, which is in compliance with the requirements of the number of members and qualifications prescribed by the Listing Rules. Independent Non-executive Directors serve as chairpersons (apart from the chairman of the Editorial and Publication Committee) in Board Committees under the Board. Independent Non-executive Directors have no business or financial interests in the Company or its subsidiaries, nor do they assume any managerial position in the Company. Their independence is best guaranteed. Independent Non-executive Directors are experienced professionals from various industries including publishing and distribution, accounting and economics and are familiar with the rights and obligations of directors and independent non-executive 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. At the same time, the Independent Non-executive Directors communicated with the management of the Company by means of on-site workshops and seminars, and actively gave their advice and recommendations in respect of the Company's operation and development, maintaining the Company's operation compliance and stability.

CORPORATE GOVERNANCE REPORT

(CONTINUED)

The three Independent Non-executive Directors confirmed in writing to the Company that they had fulfilled the level of independence as required by Rule 3.13 of the Listing Rules for the year 2010. According to their confirmations and to the understanding of the Board, 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 2010 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 the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") 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 the Directors and Supervisors of the Company, all Directors and Supervisors confirmed that they have complied with all the terms set out in the Model Code during the Year.

SHAREHOLDERS AND GENERAL MEETINGS

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

Details of Controlling Shareholder and Ultimate Controlling Shareholder

The controlling shareholder of the Company is Sichuan Xinhua Publishing Group Company Limited ("Xinhua Publishing Group" or "Parent Company"), which is a wholly-owned subsidiary of Sichuan Development (Holding) Co., Ltd. (四川發展 (控股) 有限責任公司) ("Sichuan Development"). Accordingly, Sichuan Development is the ultimate controlling shareholder of the Company.

The Company is independent from the business operations of the controlling shareholder in terms of personnel, organization, assets and business. The controlling shareholder conformed to the regulations and had never bypassed any general meetings to directly or indirectly interfere 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

The general meeting exercises its power in accordance with the law and is the highest authority of the Company.

In order to safeguard the interests and rights of Shareholders, the Company put forward an independent resolution for each of the important events and presents to the general meeting for review. The details of shareholders rights and the respective voting procedures are set out in the relevant circulars to Shareholders in accordance with the Company's Articles of Association and the Listing Rules. The relevant poll vote results also are published on the website of The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Company's self-established website.

During the Year, the Company had convened one annual general meeting and two extraordinary general meetings. The meetings reviewed and passed many important resolutions such as continuing connected transactions, the 2009 annual report, profit distribution proposal of 2009, auditor's engagement, general mandate to repurchase shares, acquisition of 100% equity interests in the Fifteen Publishers, change of company name and revision of the Articles of Association. The Directors and certain members of the senior management attended the meetings and answered the questions raised by the Shareholders. Each resolution was voted by poll after full communications among the Shareholders, Directors, Supervisors and management of the Company. The announcements regarding the poll results of general meetings are disclosed on the Stock Exchange's website and the Company's self-established website in a timely manner.

CORPORATE GOVERNANCE REPORT

(CONTINUED)

SUPERVISORY MECHANISM

Supervisory Committee

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

This session of the Supervisory Committee is the second session of the Supervisory Committee of the Company. It comprises four members recommended by Shareholders, two independent supervisors and three 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 term of Supervisor is effective on the day of passing the resolution by Shareholders in general meeting or staff democratic election until the date of the expiry of the term of the session of the Supervisory Committee. The Supervisors who are recommended by Shareholders and independent Supervisors are subject to election and removal passed by the shareholders of the Company in general meetings; the Supervisors representing employees are subject to election and removal by the staff of the Company in the employee representative meeting, staff meeting or otherwise in a democratic manner as confirmed by Shareholders in general meetings. The term of each session of the Supervisory Committee is three 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 three meetings and had attended those 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 of the Company is responsible for establishing a comprehensive internal control system and implementing its performance evaluation, and reviewing the internal control functions covering the areas of finance, operation, investment, compliance and risk management of the Group on an on-going basis through the Audit Committee. The management is delegated with the authority to organize and lead the daily operation of the internal control. The Company establishes an audit department, which is responsible for evaluating, inspecting and following-up on the effectiveness of internal control. A discipline inspection office has also been established, which is mainly responsible for handling the matters on complaints reporting. All employees are well aware of the reporting system.

During the Year, the Company actively adopted specific control measures, strengthened the building up of its internal control system and enhanced risk prevention and internal control capabilities. It comprehensively fulfilled and improved the regulatory system of the Company, and facilitated the setting up of internal control system. It commenced various internal audit projects and strengthened operational management to avoid market risks. As our employees and external parties are involved in handling matters on complaints reporting, a multi-angle and multi-channel internal control mechanism within the Group has been formed.

In addition, during the Year, Protiviti Shanghai Co., Ltd. was engaged by the Board to examine and review on the internal control functions for major business entities, material business matters and high risk areas of the Group. The areas under review included investment management, operational management and following-up of the improvements in respect of the problems discovered in internal review during last year.

During the Year, the Board of the Company had reviewed the effectiveness of the internal control system of the Company 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 9 June 2010, the Company approved the appointment of Ernst & Young as the international auditor for 2010 and ShineWing Certified Public Accountants as the PRC auditor of the Company. Their engagements shall continue until the conclusion of the forthcoming annual general meeting of the Company. The Board was authorized to determine their remunerations through individual negotiation in accordance with market practice.

During the Year, Ernst & Young provided the following services to the Group: (1) professional audit services in respect of the annual financial report; (2) limited assurance services on continuing connected transactions and agreed-upon procedures services on interim financial information (3) professional audit services in respect of the acquisition of the Fifteen Publishers. In respect of the above services, the Group paid a total of RMB5.55 million to Ernst & Young for audit service fee. Save as aforesaid, the Group did not engage Ernst & Young to perform any substantial non-audit service.

During the Year, the Group paid RMB1.25 million to ShineWing Certified Public Accountants for audit fee on its annual financial audit, and RMB0.14 million for non-audit service fee.

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 period so as to ensure that the financial statements give a true, fair and objective view of the status of the Company's business conditions, results as well as cash flow of that period. 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 INVESTORS RELATIONSHIP

The Company has fulfilled its obligations and responsibilities of on-going disclosures which is in compliance with the regulatory requirements of its place of listing, and carried out disclosures according to the principles of compliance, transparency, adequacy and sustainability, and safeguarded investors to be informed of the Company's information in a timely and comprehensive manner.

The Company has all along been persistent in maintaining a sound and efficient two-way communication in its investor relationship, and enables both the domestic and foreign investors be informed of the Company's operations and development in a timely and comprehensive manner. The Company was highly focused on its daily communication with investors and analysts, and through various means like participating in investor seminars, routine meetings with investors and analysts, and conducting road shows, which facilitated the interactions with investors. During the Year, by holding road shows for the 2009 annual results and 2010 interim results, we communicated effectively with investors regarding the operating results and business development conditions of the Group.

In the future, the Company will strengthen the communications and interactions with investors in order to enhance the investors' understanding on the development strategies and operating management of the Group and at the same time, also welcome more awareness and support from our investors.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Gong Cimin (龔次敏), aged 56, was appointed as Director of the Company on 11 June 2005 and was appointed as Chairman of the Company in September 2006. Mr. Gong obtained the certificate of completion for a master's degree in economics and business administration from Sichuan University in July 2002. Mr. Gong is vice president of China Book Publication Industry Association (中國書刊發行協會) and China Xinhua Bookstore Association, and he is also a senior 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 Company Limited 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 executive Director and General Manager, Vice Chairman of the 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 assumes those positions. Mr. Gong has over 37 years of extensive experience in administration and business management in the relevant distribution industry.

Zhang Bangkai (張邦凱), aged 58, was appointed as executive Director and Vice Chairman of the Company on 30 July 2008. Mr. Zhang graduated from Sichuan University majoring in Chinese Language, and obtained the certification of completion for a master's degree 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 Co., Ltd. (originally known and current name in short as "Sichuan Publication Group") in 2003 and was the general manager, deputy chief officer, chief officer and Party Secretary of management committee of Sichuan Publication Group. He was the director of Sichuan Shangrui Education Textbooks Co., Ltd. (四川上瑞教育圖書有限責任公司) He is currently the president and Party Secretary of Sichuan Publishing Group. Mr. Zhang is also the chairman of Sichuan Lian Xiang Printing Company Limited and Hainan Chuangxiang Cultural Development Company Limited. Mr. Zhang has more than 26 years of extensive experience in administration management.

Non-Executive Directors

Wang Jianping (王建平), aged 56, was appointed as non-executive Director of the Company on 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 the deputy head of editorial department, chief officer of chief editorial department, editor of artist editorial room, and vice president of "Hong Ling Jin" magazine (《紅領巾雜誌》) of Sichuan Youth and Children Press. Ms. Wang was appointed as the president of Sichuan Youth and Children Press in May 2004. Ms. Wang is currently the executive director, general manager and president of Sichuan Youth and Children Publishing Company Limited. Ms. Wang has more than 32 years of experience in the book publication and distribution industry.

Yu Changjiu (余長久), aged 54, was appointed as non-executive Director of the Company since 30 July 2008. Mr. Yu graduated from Sichuan University majoring in Economics. He possesses the qualification as a 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 Newspaper Group in 2001, and was the deputy secretary of party committee and general manager. Mr. Yu was appointed as the secretary, chairman and general manager of Sichuan Daily Newspaper Group, president of Sichuan Daily Newspapers since March 2003 and currently still assumes those

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

positions save as general manager. Mr. Yu was 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司) and Sichuan Xin Wen Newspapers and Periodical Distribution Company Limited, all of which are controlled by Sichuan Daily Newspaper Group. Mr. Yu has over 15 years of extensive experience in operating management in the news publication industry and media industry.

Zhang Chengxing (張成行), aged 54, was appointed as non-executive Director of the 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 was appointed the vice president of the Parent Company since January 2006 and still assumes that position. Mr. Zhang has performed in-depth research on media management and has over 22 years of extensive experience in publication and distribution management.

Li Jiawei (李家巍), aged 55, was appointed as non-executive Director of the Company on 11 June 2005. Mr. Li obtained a master's degree in economics management from Liaoning Provincial Government Chinese Communist Party School (中共遼寧省委黨校) in July 1997, and possesses the qualification as an editor. Mr. Li is currently the vice president and general manager of Liaoning Publication Group, chairman of Northern United Publishing & Media (Group) Company Limited (listed on the Shanghai Stock Exchange with stock code: 601999).

Luo Jun (羅軍), aged 45, was appointed as non-executive Director of the Company on 30 July 2008. Mr. Luo graduated from Shaanxi Institute of Finance and Economics (陝西財經學院) with an economics bachelor's degree in materials, economics and management. He obtained a master's degree 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 the 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 was appointed the vice president of Parent Company since January 2006 and still assumes that position. Mr. Luo was Supervisor from April 2006 to July 2008 and 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 24 years of experience in the publication industry and government and corporate management.

Zhao Junhuai (趙俊懷), aged 43, was appointed as non-executive Director of the Company on 16 October 2007. Mr. Zhao obtained a bachelor's degree in agricultural economic management from Sichuan Agricultural University (四川農業大學). He also obtained a master's degree in finance and a PhD degree in financial investment from 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 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"), and president of Shu Du sub-branch of Musical Kindergarten of Chengdu Conservatory of Music (成都音樂學院幼兒園蜀都分園), president of Chengdu Hezhengyang Investment Company Limited (成都市和正洋投資有限公司) and Chengdu Xin Hui Industrial Co., Ltd.,. He is currently also the director of Sichuan Winshare Logistics Company Limited (四川文軒物流有限公司), Sichuan Winshare Properties Co., Ltd. (四川文軒置業有限公司) and Sichuan Winshare Preschool Educational Management Co., Ltd. (四川文軒幼兒教育管理有限公司).

Wu Qiang (武強), aged 46, was appointed as non-executive Director of the Company on 11 June 2005. Mr. Wu became the chairman of Chengdu Hua Sheng Group in 1999, and is also the chairman of Chengdu Hua Sheng Industry Shu Du Garden Project

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

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 at 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 23 years of experience in economic management and business.

Zhao Miao (趙苗), aged 51, was appointed as non-executive Director of the Company on 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 on economics management instructed by the Correspondence College of the Party School of the Central Committee of the Communist Party of China. Mr. Zhao possesses the professional qualification as a senior political officer and senior economist. Mr. Zhao was a teacher at Hedong Primary School, Qu County of Sichuan (四川省渠縣河東小學) and worked at Sichuan Petroleum Administration from July 1980 to May 2002 as a teacher at the Technical School, educational officer and employment relationship officer in the Personnel Department, secretary of the General Office of the Party Committee, secretary of the Communist Youth League Committee, and 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 Prefecture and secretary of the Discipline Inspection Commission of the Prefecture. Mr. Zhao joined Sichuan Publication Group in July 2008 and worked as the general manager and deputy head of the management committee, then served as the president in Sichuan Publishing Group in November 2009. Mr. Zhao has over 33 years of experience in education and administration management and supervising.

Independent Non-Executive Directors

Han Xiaoming (韓小明), aged 58, was appointed as independent non-executive Director on 11 June 2005. Mr. Han graduated from Remin University of China majoring in Politics and Economics. He was the 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 organized 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臺項目評審組). He was a consultant involved in the asset reorganization and strategic development projects. He participated in the strategic development plan of Beiren Group Corporation (北人集團公司) and also participated in formulating the research in the development 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 Remin University of China and a member of the Expert Committee on Telecommunication Economic and Management of the Ministry of Industry and Information Industry (工業和信息化部電信經濟和電信管理專家委員會).

Cheng Sanguo (程三國), aged 48, was appointed as independent non-executive Director of the 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 the chief editor and executive deputy president 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. and is 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 21 years of experience in the publication industry and business administration.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

Chan Yuk Tong (陳育棠), aged 48, was appointed as independent non-executive Director of the 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 practicing 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 as the audit principal in 1994. Mr. Chan joined G2000 (Apparel) Limited in 2000 and worked as the 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
Vitop Bioengery Holdings Limited	Hong Kong Stock Exchange: 1178	Non-executive director
Thunder Sky Battery Limited (formerly known as Jia Sheng 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
Ausnutria Dairy Corporation Ltd	Hong Kong Stock Exchange: 1717	Independent non-executive director
Trauson Holdings Company Limited	Hong Kong Stock Exchange: 325	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), and Asia Cassava Resources Holdings Limited (which is listed on the Stock Exchange, stock code: 841), independent non-executive director of Luks Industrial (Group) Limited (now known as Luks Group (Vietnam Holdings) Company Limited) (which is listed on the Stock Exchange, stock code: 366), World Trade Bun Kee Limited (now known as China Pipe Group Limited) (which is listed on the Stock Exchange, stock code: 380) and Great Wall Motor Company Limited (which is listed on the Stock Exchange, stock code: 2333) and deputy head of the accounting and finance department of Dongfong Motor Group Company Limited (which is listed on the Stock Exchange, Stock Code: 489). Mr. Chan has over 20 years of experience in audit, accounting, management consulting and financial consulting services.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

SUPERVISORS

Xiao Changjiu (肖長久), aged 61, was appointed as Supervisor of the Company and 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) in 2003 majoring in law. 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 assumed the position of secretary of Disciplinary Committee of Sichuan Publication Group and supervisor of Sichuan Shangrui Education Textbooks Company Limited. Mr. Xiao has over 42 years of extensive experience in supervisory and administration management.

Xu Yuzheng (許玉鄭), aged 54, was appointed as Supervisor of the 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 possesses the professional qualification as a lawyer. Mr. Xu was the officer of deputy head 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 from August 1988 to December 2005. Mr. Xu joined Xinhua Publishing Group in January 2006 and is the secretary of disciplinary committee and still assumes 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 labor union of Xinhua Publishing Group. He once was a supervisor of Chengdu Xin Hui Industrial Co., Ltd. Mr. Xu has over 24 years of extensive experience in supervision and laws.

Ma Chuan (馬川), aged 35, was appointed as Supervisor of the Company on 18 January 2011. Mr. Ma graduated from Southwestern University of Finance and Economics majoring in business administration in 1997 and obtained a master's degree in business administration from University of La Verne, California in 2002. From September 1997 to June 2005, Mr. Ma served as the manager of marketing department of Shenzhen Juyou Group (深圳聚友集團) and financial controller of the branch company in Los Angeles. Mr. Ma has been the vice president of Chengdu Hua Sheng (Group) Industry Company Limited since February 2008. He is currently also the director and general manager of Chengdu Xin Hui Industrial Co., Ltd. Mr. Ma has over 13 years of experience in corporate management.

Li Kun (李昆), aged 39, was appointed as Supervisor of the Company on 18 January 2011. Mr. Li graduated from Southwestern University of Finance and Economics with a bachelor's degree in economics. He is also an accountant. From July 1993 to November 2010, Mr. Li successively served as the section chief of integrated management section of finance department, deputy head of career development department of Sichuan Daily Newspaper Group (also served as the deputy general manager of West China Metropolis Daily during such period); general manager and head of finance department, assistant to general manager of Sichuan Xin Wen Material Trading Company Limited (四川欣聞物資貿易有限責任公司); (also served as the deputy head of social services committee and executive deputy general manager of West China Metropolis Daily and director of Consumption Quality Publishing House (消費質量報社), and head of group office of Sichuan Daily Newspaper Group. Mr. Li has been the assistant general manger and head of finance department of Sichuan Daily Newspaper Group since November 2010. Mr. Li has over 17 years of experience in financial accounting.

Lan Hong (蘭紅), aged 44, was appointed as Supervisor of the Company on 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. She then 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 the 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 the deputy head of the Board office of the Company. Ms. Lan has over 22 years of experience in financial accounting.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT
(CONTINUED)

Liu Nan (劉南), aged 46, was appointed as Supervisor of the Company on 11 June 2005 while also being an elected employee representative Supervisor. Ms. Liu graduated from Chengdu University majoring in Book Publication Management. She obtained the certificate of completion for a master's degree in economics and business administration from Sichuan University. Ms. Liu also completed a specialized course in computer application at the University of Chengdu. Ms. Liu was the 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 the assistant to general supervisor of the procurement center of Sichuan Times Xinhua Audio and Visual Product Chainstore Company (四川時代新華音像連鎖公司). Ms. Liu worked as the head of the information center of the Company and is currently the deputy general manager of the Company's procurement center. Ms. Liu has more than 19 years of experience in audio-visuals sourcing and publication and more than 28 years of experience in information technology.

Li Qiang (李強), aged 37, was appointed as Supervisor of the Company on 11 June 2005 while also being an elected employee representative Supervisor. Mr. Li graduated from Wuhan University with a bachelor's degree in Book Publication. He worked as the deputy manager, manager of the sales department and manager of the operations center of Sichuan Xinhua Publishing Group Textbook Company from March 2003 to May 2005. Mr. Li joined the Company in June 2005 as an assistant to general manager of the textbook distribution department and manager of the operations center. He is currently the general manager of the textbook distribution department of the Company. Mr. Li was the general manager of Chengdu Yin Xing Bo Wen Book and Cultural Development Co., Ltd. (成都銀杏博文圖書文化發展有限公司), chairman of Sichuan Shu Yuan Educational Books Distribution Co., Ltd. (四川書緣教育圖書發行有限公司). He is currently also the director of Sichuan Winshare Education Technology Co., Ltd. (四川文軒教育科技有限公司). Mr. Li has over 14 years of experience in the distribution and publication industry.

INDEPENDENT SUPERVISORS

Fu Daiguo (傅代國), aged 46, was appointed independent Supervisor of the Company on 20 April 2006. Mr. Fu obtained his doctoral degree in accounting from Southwestern University of Finance and Economics and is a member of the China Accounting Association (中國會計學會). Mr. Fu is the deputy dean and an accounting professor at the College of Accounting at 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 the Sichuan Province Advanced Program for Accounting (四川省級精品課程《會計學》). Mr. Fu was 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 Zhonghui 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 is currently an independent director of Sichuan Chuanrun Co., Ltd. (四川川潤股份有限公司, listed on Shenzhen Stock Exchange, stock code: 002272). Mr. Fu has over 23 years of experience in the corporate accounting industry.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

Li Guangwei (李光煒), aged 70, was appointed as independent Supervisor of the Company on 20 April 2006. Mr. Li graduated from Kunming Polytechnic University (昆明工學院) in 1962 majoring in mechanical science. Mr. Li possesses the professional qualification as an editor. From February 1988 to March 1991, Mr. Li served as the member of social affairs committee and vice president of Sichuan Science & Technology Publishing House (四川科學技術出版社). From March 1991 to May 1993, Mr. Li served as the president of Sichuan Education Press (四川教育出版社), from May 1993 to May 2001, he served as the president of Sichuan Press Of Science & Technology (四川科學技術出版社), 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 26 years of experience in publication industry and business management.

SENIOR MANAGEMENT

Luo Yong (羅勇), aged 48, was appointed as General Manager of the Company in July 2008. Mr. Luo graduated from the Faculty of Chinese Language of Southwest University for Nationalities majoring in journalism, and completed a journalism course at the College of Arts of Southwest University for Nationalities and an advance program on business administration from Renmin University of China, respectively. He possesses the professional qualification as an editor. Mr. Luo joined Sichuan Nationalities Press in November 1987, and had worked as the office head, assistant to director, deputy director, director, party secretary and editor-in-chief of Sichuan Nationalities Press. In November 2003, he was appointed as the deputy head of management committee of Sichuan Publication Group and the president of Sichuan Nationalities Press (四川民族出版社). Mr. Luo is currently the secretary of the Communist Party of China (黨委書記) of Sichuan Publication Group. 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 23 years of experience in the publication industry and operating management.

Zhang Jing (張京), aged 56, was appointed as Chief Editor of the Company in July 2008. Mr. Zhang graduated from the Faculty of Chinese Language of Sichuan University, majoring in journalism, and completed training courses for national publisher director and chief editor organized by General Administration of Press and Publication, respectively. He possesses the professional qualification as an editor. Before 1980, Mr. Zhang had worked as the editor of Sichuan People's Press. From October 1980 to May 2004, Mr. Zhang was appointed as the editor, deputy head of general editorial office, vice president and 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. He is currently the vice president of Sichuan Publication Group. Mr. Zhang was granted special government subsidy by the State Council in 2004. Currently, he is also the director of Sichuan Periodical Media (Group) Company Limited and CP Publishing (Chengdu) Company Limited (商務印書館(成都)有限公司). Mr. Zhang has over 34 years of experience in the publication industry and operating management.

Xiao Liping (肖莉萍), aged 54, was appointed executive deputy general manager of the Company in August 2005. Ms. Xiao graduated from Sichuan Radio and Television University with a bachelor's degree in electronics and obtained a master's degree in business administration from Remin University of China in September 2002. Ms. Xiao worked at Sichuan Province Xinhua Bookstore as the deputy Party Secretary and deputy general manager from 1993 to June 2006. Ms. Xiao served as the deputy general manager of the Parent Company from 2000 to 2005 and as the executive deputy general manager of the Company from June 2005 to July 2008. She was the associate dean of the management research institute of the Company. Ms. Xiao has over 34 years of experience in the book publication and distribution industry as well as corporate administration.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

Yang Miao (楊杪), aged 40, was appointed as Deputy General Manager of the Company in July 2008. Mr. Yang graduated from the University of Chengdu with a bachelor's degree in public relationships and economy 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 had held the positions of deputy sales manager and sales manager and deputy manager of Sichuan Province Xinhua Bookstore Textbook Company from 1994 to 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 the manager at the textbook distribution company of Xinhua Publishing Group. In June 2005, Mr. Yang was 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 executive Director of the Company from September 2006 to July 2008. He was the dean of management research institute of the Company. Currently, he is also the chairman and general manager of Sichuan Winshare Education Technology Co., Ltd. (四川文軒教育科技有限公司), director of Sichuan Xin Wen Newspapers and Periodicals Distribution Company Limited (四川欣聞報刊發行有限責任公司) and director of Ming Bo Education Technology Co., Ltd. Mr. Yang has over 16 years of experience in the book publication and distribution industry.

Chen Dali (陳大利), aged 48, was appointed as Deputy General Manager of the Company in 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 the vice president at Sichuan Bashu Book Shop in 2000. From May 2001 to May 2005, Mr. Chen worked as the deputy general manager of the Parent Company and general manager of its publication department. Currently, he is also the chairman of Beijing Xinhua Li Pin Books Company Limited and Sichuan Xinhua Wenxuan Media Co., Ltd., vice-chairman of Beijing Huaxia Shengxuan Books Company Limited (北京華夏盛軒圖書有限公司), and director of Ren Min Eastern (Beijing) Book Industry Co., Ltd., Guizhou Xinhua Winshare Distribution Co., Ltd. and Hainan Publishing House Company Limited. Mr. Chen has more than 21 years of experience in the book publication and distribution industry.

Zheng Chuan (鄭川), aged 50, was appointed as Deputy General Manager of the Company in January 2010. From December 1976 to December 1986, Mr. Zheng served at a military force of the Chinese People's Liberation Army and joined the Propaganda Department of the Chengdu Municipal Committee of the Communist Party of China (中共成都市委宣傳部) in December 1986. He took up a part time job in Yaxiang International Cultural Exchange Center (亞祥國際文化交流中心) during the period from May 1994 to January 2003. Mr. Zheng joined the Parent Company in 2003, and successively assumed positions of assistant to general manager, director and chief operating officer of the Parent Company. He also assumed the positions of director and general manager of Hainan Chuangxiang Cultural Investment Company (海南創享文化投資公司) until December 2009. He is currently also the director of Chengdu Xin Hui Industrial Co., Ltd. Mr. Zheng has over 15 years of experience in corporate management and project operation.

An Qingguo (安慶國), aged 55, was appointed as Deputy General Manager of the Company in December 2010. Mr. An graduated from Sichuan University majoring in philosophy. He possesses the qualification as an editor. He completed the course on publishing management at New York University directed by General Administration of Press and Publication from May to June 2000 and the course at the School of Economics and Management of Tsinghua University directed by Sichuan Provincial Party Committee Organization Department from October to December 2000 respectively. From June 1981 to May 2004, Mr. An served as the editor of politics room of Sichuan People's Publishing House; deputy head and head of editorial room of "To the Future" of Sichuan People's Publishing House; and deputy

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(CONTINUED)

director and party leadership group member of Sichuan People's Publishing House. Mr. An has been the director of Sichuan People's Publishing House since May 2004. Mr. An has over 29 years of experience in the publishing industry.

You Zugang (游祖剛), aged 48, was appointed as Board Secretary in June 2005. Mr. You completed a master's degree in business administration from Remin 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 finance department of Sichuan Province Xinhua Bookstore, deputy manager of Guangyuan City Xinhua Bookstore, person-in-charge of Sichuan Audio-visual Products Wholesale Market Operations Office (四川圖書音像批發市場辦公室), and deputy head of the planning and finance department and head of the audit office of Sichuan Province Xinhua Bookstore from February 1989 to May 2000. From May 2000 to May 2005, Mr. You was deputy head of the financial management department, the head of the audit office, and head of the manager's office of the Parent Company. He was also the head of Guangyuan City Management Centre from April 2004 to May 2005. He was also the Chief Administrative Officer of the Company from June 2005 to July 2008. Currently, he is also the director of Chengdu Xin Hui Industrial Co., Ltd. and Bank of Chengdu Co., Ltd. Mr. You has over 28 years of experience in financial accounting.

Zhu Zaixiang (朱在祥), aged 50, was appointed as Chief Financial Officer in June 2005. Mr. Zhu completed a master's degree in business administration from Remin University of China in August 2002. He possesses the qualification as a senior qualified accountant. Mr. Zhu was the deputy department head of the planning and audit office, department head and chief officer of the planning and finance department of Sichuan Province Xinhua Bookstore from 1982 to 2000. Mr. Zhu worked as the head of the financial management department of the Parent Company from 2000 to May 2005, and served as the general chief accountant of the Parent Company from 2004 to May 2005. Currently, he is also the director of Beijing Xinhua Li Pin Books Company Limited and Sichuan Xinhua Shang Paper Co., Ltd. (四川新華商紙業有限責任公司). Mr. Zhu has over 27 years of experience in financial accounting.

COMPANY SECRETARY

You Zugang (游祖剛), is the company secretary of the Company. His biographical details are set out in the sub-section headed "Senior Management" above.

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 2010.

PRINCIPAL ACTIVITIES

The Group's principal activities are i) the editorial and publishing of publications; ii) retailing of books and audio-visual products; and iii) distribution of textbooks and supplementary materials.

FINANCIAL POSITION AND RESULTS

The financial position of the Group as at 31 December 2010 and the profit of the Group for the year ended 31 December 2010 are set out on pages 49 to 52 of the annual report.

DIVIDEND

The Board has proposed the distribution of a final and special dividends for the year ended 31 December 2010 totaling RMB0.30 (tax inclusive) per share, (2009: RMB0.28 per share in total) totaling RMB341 million (tax inclusive). Whereas the total dividend comprised the final dividend of RMB0.10 per share (tax inclusive) (2009: final dividend of RMB0.08 per share), and the special dividend of RMB0.20 per share (tax inclusive) (2009: special dividend of RMB0.20 per share). Dividends payable to holders of the Domestic Shares will be made and paid in RMB, whereas dividends payable to holders of the Company's H Shares will be declared in RMB and payable in Hong Kong dollars.

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 income tax based on their income generated within the PRC, and the applicable tax rate is 10%, and the amount 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 dividends to such non-resident enterprise shareholders after withholding a corporate income tax of 10% from the final and special dividends.

The proposed final and special dividends are subject to the approval by Shareholders at the annual general meeting (the "AGM") to be held on 25 May 2011. Holders of H Shares and Domestic Shares whose names appear on the register of members of the Company on 25 May 2011 (the "Record Date") 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 25 April 2011 to 25 May 2011 (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 Shares 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 21 April 2011.

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 page 5 of the annual report.

USE OF PROCEEDS RAISED

The Company was listed on the Stock Exchange in May 2007, the net proceeds of its initial public offering amounted to RMB2,110 million. As at 31 December 2010, the proceeds from the initial public offering were fully used in its principal operating business and related businesses as follows:

1. approximately RMB1,664 million was used for the development of the Company's principal publishing and distribution business;
2. approximately RMB321 million was used for seeking other investment opportunities in such other areas as the culture, media and education sectors which are related to the Company's principal operating businesses; and
3. RMB125 million was used as the Company's general working capital.

REPORT OF THE DIRECTORS

(CONTINUED)

FIXED ASSETS

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

RESERVES

Details of movements of 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 2010, the sales to five largest customers of the Group accounted for approximately 25.66% of the total turnover of the Group. The largest sales to customer accounted for approximately 18.71% of the total turnover of the Group.

For the year ended 31 December 2010, the five largest suppliers of the Group accounted for approximately 30.62% of the total purchases of the Group. The largest supplier accounted for approximately 19.74% of the total purchases of the Group.

During the Year, save for the interests held by Sichuan Xinhua Publishing Group Company Limited 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 five largest suppliers. Sanzhou Xinhua Bookstores is managed and operated by Sichuan Xinhua Publishing Group Company Limited.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2010, other than a pledged deposit of RMB98.27 million, pledged assets of RMB31.18 million in respect of lease prepayments for land use rights and RMB116.62 million in respect of leasehold lands for properties under development of the Group, the Group did not have any other asset under pledge or guarantee.

SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries, jointly-controlled entities and associates are set out in notes 19, 20 and 21 to the audited financial statements for the Year.

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 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% of the issued share capital of the Company. Under the Listing Rules, the Parent Company is a connected person of the Company.

REPORT OF THE DIRECTORS

(CONTINUED)

1. Leases entered into by the Parent Company and the Company

   a. On 27 November 2009, the Company and the Parent Company renewed the leases regarding the leasing of premises to the Group by the Parent Company during the period from 1 January 2010 to 31 December 2012. The lease requires the Parent Company to lease to the Group certain buildings and units in Sichuan Province with a total leased area of approximately 116,622 square meters primarily as its offices, warehouses and retail outlets.

      For the year ended 31 December 2010, the rental payment made by the Group to the Parent Company amounted to RMB37,770,055.

   b. The Company entered into a lease with the Parent Company on 29 April 2007. The lease requires the Company to lease to the Parent Company the premises at 12/F., No. 86 Section One, People's South Road, Qingyang District, Chengdu, Sichuan, the PRC of approximately 1,555.04 square meters as offices for a leasing term commencing from 1 January 2007 and ending on 31 December 2009. The agreement also requires, upon the expiry of the lease, it will automatically be renewed for a further term of three years (i.e. commencing on 1 January 2010 and expiring on 31 December 2012) if neither party has served a written notice to terminate the agreement within 6 months prior to the expiry of the term.

      For the year ended 31 December 2010, the rental payment received by the Company from the Parent Company amounted to RMB1,343,555.

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 "Existing Sanzhou Supply Agreement") and the Sanzhou Agency Agreement (the "Existing Sanzhou Agency Agreement"). According to the Existing Sanzhou Supply Agreement, the Company will supply (i) non-government-subsidized products to Sanzhou Xinhua Bookstores (excluding the Sanzhou franchise stores); (ii) franchise products to Sanzhou franchise stores; and (iii) government-subsidized textbooks for primary and junior secondary schools in Sanzhou Area to Sanzhou Xinhua Bookstores (excluding the Sanzhou franchise stores). According to the Existing Sanzhou Agency Agreement, Sanzhou Xinhua Bookstores shall 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 Existing Sanzhou Supply Agreement and the Existing Sanzhou Agency Agreement both expired on 31 December 2010. The parties to the Existing Sanzhou Supply Agreement and the Existing Sanzhou Agency Agreement agreed to renew the terms of such transactions and entered into the Sanzhou Supply (Renewal) Agreement and the Sanzhou Agency (Renewal) Agreement on 3 December 2010 with a term of three years commencing from 1 January 2011 and ending on 31 December 2013. The terms and conditions of the Sanzhou Supply (Renewal) Agreement and the Sanzhou Agency (Renewal) Agreement were basically the same as those of the Existing Sanzhou Supply Agreement and the Existing Sanzhou Agency Agreement.

   For the year ended 31 December 2010, the sales made by the Company to Sanzhou Xinhua Bookstores amounted to RMB104,014,170 and RMB3,712,838 was paid to Sanzhou Xinhua Bookstores in respect of agency services.

3. On 27 November 2009, the Company and Chengdu Huang Peng Property Limited Liability Company ("Huang Peng Property"), a wholly-owned subsidiary of the Parent Company renewed the property management agreement for the period commencing from 1 January 2010 to 31 December 2012, pursuant to which Huang Peng Property shall provide property management services to the Group.

REPORT OF THE DIRECTORS

(CONTINUED)

For the year ended 31 December 2010, the Group paid RMB3,195,167 to Huang Peng Property in respect of the property management services to the Group.

Transaction with Shantou Guang Shang Packaging Co., Ltd. ("Shantou Guang Shang ")

Xinhua Shang Paper Co., Ltd. ("Xinhua Shang Paper") is a major subsidiary of the Company and is held as to 49% equity interests by Shantou Guang Shang, which is a substantial shareholder of Xinhua Shang Paper. According to the Listing Rules, Shantou Guang Shang is a connected person of the Company.

On 27 November 2009, a paper supply agreement was entered into between the Company's subsidiary Xinhua Shang Paper and Shantou Guang Shang. Pursuant to the agreement, Xinhua Shang Paper shall supply papers to Shantou Guang Shang for the period from 1 January 2009 to 31 December 2011.

For the year ended 31 December 2010, the amount received by Xinhua Shang Paper in respect of supply of papers to Shantou Guang Shang amounted to RMB11,024,849.

The details of the aforementioned continuing connected transactions have been described in the relevant circulars issued on 30 October 2008 and 4 December 2009, and the relevant announcements published on 30 November 2009 and 3 December 2010.

Non-Exempted Connected Transactions

Formation of joint venture companies between the Company and Chengdu Hua Sheng Group Industrial Company Limited ("Chengdu Hua Sheng Group")

Mr. Wu Qiang, a non-executive Director of the Company, is interested in 90% shares of Chengdu Hua Sheng Group, which is an associate of the connected person of the Company under the Listing Rules. The Company and Chengdu Hua Sheng Group entered into three joint venture agreements on 1 April 2010, pursuant to which:

(i) Sichuan Winshare Preschool Educational Management Co., Ltd. (四川文軒幼兒教育管理有限公司) (formerly known as Sichuan Wenxuan International Early Childhood Education Investment Company Limited), mainly engaging in early childhood education business, has a registered capital of RMB30,000,000 and is held as to 51% and 49% by the Company and Chengdu Hua Sheng Group respectively.

(ii) Sichuan Winshare Logistics Commerce Company Limited (四川文軒物流有限公司) (formerly known as Sichuan Wenxuan International Logistics Company Limited), mainly engaging in logistics business, has a registered capital of RMB50,000,000 and is held as to 51% and 49% by the Company and Chengdu Hua Sheng Group respectively.

(iii) Sichuan Winshare Properties Company Limited (四川文軒置業有限公司) (formerly known as Sichuan Wenxuan Logistics Commerce Company Limited), mainly engaging in logistics related property development, has a registered capital of RMB50,000,000 and is held as to 51% and 49% by Chengdu Hua Sheng Group respectively.

The details of the aforementioned formation of joint venture companies have been described in the relevant announcement published on 1 April 2010.

Formation of joint venture company between the Company and the Parent Company

On 18 May 2010, the Company entered into the joint venture agreement with the Parent Company and others to establish Sichuan Winshare Media Company Limited (formerly known as Winshare Book-online Company Limited), mainly engaging in the provision of online transactions related services in relation to the publications and cultural products, has a registered capital of RMB30,000,000 and is held as to 75%, 15% and 10% by the Company, the Parent Company and Chongqing Gold Abacus Software Company Limited respectively. The details of the aforementioned formation of such company have been described in the relevant announcement published on 18 May 2010.

REPORT OF THE DIRECTORS

(CONTINUED)

Provision of financial assistance from the Company to Chengdu Xin Hui Industrial Co., Ltd. ("Chengdu Xin Hui"), a non-wholly owned subsidiary of the Company

Mr. Wu Qiang, a non-executive Director of the Company, is interested in 90% shares of Chengdu Hua Sheng Group, which owns 37.5% shares of Chengdu Xin Hui. Chengdu Xin Hui is therefore an associate of the connected person of the Company under the Listing Rules. On 10 December 2010, the Company entered into the fixed-assets facility guarantee agreement with Bank of Chengdu Co., Ltd., Gao Xin Branch ("Chengdu Bank") to provide guarantee to Chengdu Bank in respect of the granting of bank loans to Chengdu Xin Hui. The details of the relevant guarantee have been described in the relevant announcement published on 10 December 2010.

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

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

(2) 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

(3) on the terms of the respective transaction agreements, for which terms of such transactions are fair and reasonable and in the interests of the Company and Shareholders as a whole.

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 continuing connected transactions of the Group. Ernst & Young, the auditor of the Company, has performed limited assurance service 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 relevant announcements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of 7,835 (2009: 6,680) staff, among which the increase of staff mainly came from the Fifteen Publishers, being subsidiaries of the Group.

The Company reviews the remuneration policy regularly and has established a performance management mechanism which is target-oriented and applying segmented appraisal methods and departmental results linked to personal performance. Such mechanism had received good incentive results.

The standard remuneration package of the Company includes basic salary, performance-based bonus and benefits. Pensions, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are available to employees.

The Company continued to provide regular training according to the human resources training objectives for staff such as business training, online classroom training sessions and made use of the limited resources to maximize the training efficiency with a view to enhancing the business qualities and working abilities.

REPORT OF THE DIRECTORS

(CONTINUED)

SHARE CAPITAL

As at 31 December 2010, 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 share capital of the Company
Domestic Shares		
State-owned shares	639,857,900	56.37%
including		
(i) State-owned Shares held by Parent Company (Note 1)	592,809,525	52.22%
(ii) State-owned Shares held by other Promoters (Note 2)	47,048,375	4.15%
Social Legal Person Shares (Note 3)	53,336,000	4.70%
H Shares	**441,937,100**	**38.93%**
Total Share Capital	**1,135,131,000**	**100%**

Notes:

(1) The company is a wholly-owned subsidiary of Sichuan Development (Holding) Co., Ltd.

(2) Other Promoters include Sichuan Publication Group Company Limited, Sichuan Daily Newspaper Group, Sichuan Youth and Children Company Limited and Liaoning Publication Group Co. Ltd., but excluding Chengdu Hua Sheng (Group) Industry Company Limited.

(3) Social Legal Person Shares are held by Chengdu Hua Sheng (Group) Industry Company Limited, a Promoter.

Details of movement in the share capital of the Company during the Year are set out in note 33 to the audited financial statements for the Year.

REPORT OF THE DIRECTORS

(CONTINUED)

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

As at 31 December 2010, so far as is known to the Directors and Supervisors, the following persons (not being a Director, Supervisor or senior management 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
Sichuan Development (Holding) Co., Ltd.	592,809,525 (Note 1)	Interests in Controlled corporation	State-owned Shares	92.65%	52.22%	Long Position
Parent Company	592,809,525 (Note 1)	Beneficial owner	State-owned Shares	92.65%	52.22%	Long Position
Chengdu Hua Sheng (Group) Industry Company Limited	53,336,000 (Note 2)	Beneficial owner	Social Legal Person Shares	100%	4.70%	Long Position
National Council for the Social Security Fund	39,728,100	Beneficial owner	H Shares	8.99%	3.50%	Long Position

Notes:

(1) The aforementioned 592,809,525 Shares refer to the same block of shares

(2) On 30 May 2008, Chengdu Hua Sheng (Group) Industry Company Limited pledged all the Shares it held.

Save as disclosed above, as at 31 December 2010, so far as is known to the Directors and Supervisors, no other person (not being a Director, Supervisor or senior management 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 Company Limited; and (iii) Mr. Zhao Junhuai (non-executive Director) who is the Vice-chairman of Chengdu Hua Sheng (Group) Industry Company Limited, as at 31 December 2010, 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.

REPORT OF THE DIRECTORS

(CONTINUED)

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 2010, the Directors, Supervisors and chief executives of the Company who 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) and 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 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 interests in Chengdu Hua Sheng (Group) Industry Company Limited, and is therefore deemed to be interested in the shares held by Chengdu Hua Sheng (Group) Industry Company Limited.

Save as disclosed above, as at 31 December 2010, 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 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 is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which would otherwise require the preferential offer of new shares of the Company to existing Shareholders.

REPORT OF THE DIRECTORS

(CONTINUED)

PUBLIC FLOAT

In accordance with publicly-available information and so far as the Directors of the Company 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.

NON-COMPETITION UNDERTAKING AND SANZHOU ACQUISITION OPTION

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

According to the decision of the People's Government of Sichuan Province, the state-owned assets of Sanzhou Xinhua Bookstores (as defined in the Prospectus) in Ganzi, Aba and Liangshan are proposed to be transferred to the local prefecture and county (municipal) government for management. Accordingly, during the Year, the Parent Company transferred the assets of Xinhua Bookstores owned by Sanzhou Xinhua Bookstores in 14 counties to the local county government at nil consideration and the rest of the assets are still in process.

The independent non-executive Directors have conducted an annual review on the businesses of the Sanzhou Xinhua Bookstores 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 achieving sound corporate governance, perfecting and optimizing the internal control system of the Company. The Company has adopted and complied with all applicable code 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 the annual report.

DIRECTORS AND SUPERVISORS

During the Year and as at the date of this report, the Directors and Supervisors of the Company are as follows:

Executive Directors

Mr. Gong Cimin
Mr. Zhang Bangkai

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

Supervisors

Mr. Xiao Changjiu
Mr. Xu Yuzheng
Mr. Peng Xianyi (resigned on 18 January 2011)
Mr. Ma Chuan (appointed on 18 January 2011)
Mr. Li Kun (appointed on 18 January 2011)
Ms. Dai Wen (resigned on 18 January 2011)
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

Independent Supervisors

Mr. Li Guangwei
Mr. Fu Daiguo

REPORT OF THE DIRECTORS

(CONTINUED)

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the extraordinary general meeting of the Company held on 18 January 2011, resignation of Mr. Peng Xianyi and Ms. Dai Wen as Supervisors of the Company due to work change, and Mr. Ma Chuan and Mr. Li Kun were appointed as Supervisors to the Supervisory Committee of the Company for the second session with a term of office until the expiry of the second session of the Supervisory Committee.

As resolved at the 2010 ninth meeting of the second session of the Board of the Company held on 1 December 2010, Mr. An Qingguo was appointed as deputy general manager to strengthen the management of the publishing business.

Save as disclosed above, during the Year and up to the date of this report, there are no other changes relating to Directors, Supervisors and senior management.

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 (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as the indirect interests in the joint venture agreement entered into between the Company and Chengdu Hua Sheng Group as Mr. Wu Qiang, a non-executive Director of the Company, is interested in 90% shares of Chengdu Hua Sheng Group, which owns 37.5% equity interests in Chengdu Xin Hui; and in the financial assistance provided by the Company to Chengdu Xin Hui, 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 which directly or indirectly compete with the business of the Group. Except for executive Director Mr. Zhang Bangkai, non-executive Directors Mr. Zhao Miao and Mr. Li Jiawei, none of the other Directors or Supervisors had any interest in any business which competes or may compete, directly or indirectly, with that of the Group. Mr. Zhang Bangkai and Mr. Zhao Miao serve as chairman and president of Sichuan Publishing Group Company Limited respectively and the business of the company that they serve may compete with that of the Group. Mr. Li Jiawei is currently the vice president and general manager of Liaoning Publication Group Company Limited and also the director of Northern United Publishing & Media (Group) 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 of the Company for the Year are set out in note 9 to the audited 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 of the annual report.

REPORT OF THE DIRECTORS

(CONTINUED)

SHARE APPRECIATION RIGHT INCENTIVE SCHEME

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

MATERIAL LITIGATION

During the year ended 31 December 2010, the Company was not involved in any litigation, arbitration or claims of material importance and there was no litigation or claim of material importance which was known to the Directors to be pending or threatened by or against the Company.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Appendix 14 to the Listing Rules with specific written terms of reference.

The Audit Committee has reviewed the audited consolidated financial statements as set out in the annual report for the Year and has discussed the financial reporting with the management. The Audit Committee considered that the consolidated financial statements have been prepared in accordance with applicable accounting standards and requirements and appropriate disclosures were made.

AUDITORS

Ernst & Young and ShineWing Certified Public Accountants have been appointed as the international and domestic auditors of the Company respectively for the year 2010. The consolidated financial statements of the Group, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, have been audited by Ernst & Young. Ernst & Young and ShineWing Certified Public Accountants will retire at the forthcoming AGM of the Company.

By order of the Board
Gong Cimin
Chairman

30 March 2011

REPORT OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee of the Company carried out its supervisory duties 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 three 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. Details of the meetings are as follows:

The first meeting of the Supervisory Committee was convened on 1 April 2010, during which the Supervisory Committee communicated and discussed with ShineWing Certified Public Accountants, the PRC auditor, in relation to the independence of auditor, scope of audit and audit procedures for 2009; and considered the reporting on the operating results and financial condition of the Company for 2009 by the finance department. The Supervisory Committee expressed its opinion regarding the problems raised during communication and reporting, strengthening of the management of investing in companies, and investment risk control. The resolutions like the Report of the Supervisory Committee for 2009, the Audited Financial Report for 2009, the Profit Distribution Proposal for 2009 and the Annual Report for 2009 were reviewed and unanimously approved.

The second meeting of the Supervisory Committee was convened on 20 August 2010, during which the resolution regarding the unaudited consolidated financial report for the six months ended 30 June 2010 was reviewed and approved.

The third meeting of the Supervisory Committee was convened on 1 December 2010, during which the resolution regarding the proposed change of supervisor of Xinhua Winshare Publishing and Media Co., Ltd. Supervisors Mr. Peng Xianyi and Ms. Dai Wen resigned as Supervisors of the Company due work change. Mr. Ma Chuan and Mr. Li Kun were nominated by the Supervisory Committee as candidates of Supervisors to the Supervisory Committee for the second session and their nomination was approved at the extraordinary general meeting held on 18 January 2011.

In addition, the Supervisory Committee of the Company also considered the operating condition, financial condition and reporting on the implementation of resolutions of general meetings and board meetings through channels other than an official meeting and made constructive advice and recommendations in respect of such matters.

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, internal control management, risk management and the performance of duties of Board members and senior management officers, members of the Company's Supervisory Committee were present at each Board meeting of the Company, communicated and discussed with the Company's auditors and met the senior management of the Company by way of seminar. The Supervisory Committee was of the view that the decision-making procedures of each Board meeting were legitimate, the Board has duly implemented the resolutions of the general meeting and faithfully carried out their fiduciary duties. We were not aware of any act that is in breach of the Company's Articles of

REPORT OF THE SUPERVISORY COMMITTEE

(CONTINUED)

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 2010

(1) Operation of the Company Pursuant to the Relevant Laws

During the year 2010, the Company operated according to relevant laws, regulated its management and its operating results was objectively true, internal control management was further improved. The Directors and senior management officers of the Company acted cautiously, carefully and diligently in its business operation and management process, and were not aware of any act that was in breach of laws and regulations and detrimental to the interests of Shareholders.

(2) Financial Position of the Company

The consolidated financial report of the Company for 2010 have been prepared by ShineWing Certified Public Accountants and Ernst & Young respectively according to domestic and international accounting standards, and audited reports with unqualified opinion were prepared. After reviewing the financial report of 2010 issued by Ernst & Young, the Supervisory Committee of the Company was of the view that the financial report has truly, objectively and accurately reflected the financial position and its operating results.

(3) Connected Transactions of the Company

The Supervisory Committee has conducted supervision and verification on the Company's connected transactions during the year 2010, and was not aware of any connected transactions that were not conducted at fair prices and were against the interests of the Company and minority Shareholders.

(4) Acquisitions and Disposals of Assets by the Company

During the Year, we were not aware of any material acquisitions made by the Company which involved any insider dealing or any act against the interests of Shareholders, and caused losses to the Company's assets.

In general, for the works performed by the Supervisory Committee in 2010, under the principle of full accountability to all the Shareholders, the Supervisory Committee endeavored to fulfill its supervisory and verification functions, strived to protect the legal interests of the Company and Shareholders and propounded positive effects to the regulated business operation and development of the Company. In the coming new year, the Supervisory Committee will further broaden its vision, strengthen daily supervision in accordance with the laws and regulations and continue to perform its duties faithfully so as to further enhance the regulated operation of the Company.

By order of the Supervisory Committee
Xiao Changjiu
Chairman

30 March 2011

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
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To the shareholders of Xinhua Winshare Publishing and Media Co., Ltd.
(Previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.)
(A joint stock limited company established in the People's Republic of China)

We have audited the consolidated financial statements of Xinhua Winshare Publishing and Media Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 49 to 136, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT *(CONTINUED)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with 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

30 March 2011

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**3,724,239**	3,208,988
Cost of sales		**(2,319,725)**	(2,008,828)
Gross profit		**1,404,514**	1,200,160
Other income and gains	5	**158,411**	80,581
Selling and distribution costs		**(798,168)**	(631,287)
Administrative expenses		**(294,189)**	(268,779)
Other expenses		**(51,742)**	(38,649)
Finance income, net	7	**23,474**	32,213
Share of profits and losses of:			
A jointly-controlled entity		**3,284**	–
Associates		**(4,042)**	(7,585)
PROFIT BEFORE TAX	6	**441,542**	366,654
Income tax expense	10	**(1,359)**	(2,922)
PROFIT FOR THE YEAR		**440,183**	363,732
Attributable to:			
Owners of the parent		**436,937**	358,658
Non-controlling interests		**3,246**	5,074
		440,183	363,732
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	13	**0.39**	0.32

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2010

	Notes	**2010 RMB'000**	2009 RMB'000
PROFIT FOR THE YEAR		**440,183**	363,732
Asset revaluation surplus arising on the acquisition of a subsidiary		**–**	11,018
Effect of income tax exemption from years 2009 to 2013	23	**–**	(6,476)
Change in fair value of an available-for-sale equity investment	22	**756,486**	–
Other comprehensive income for the year, after tax		**756,486**	4,542
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAX		**1,196,669**	368,274
Attributable to:			
Owners of the parent		**1,193,423**	363,200
Non-controlling interests		**3,246**	5,074
		1,196,669	368,274

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	**2010 RMB'000**	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**889,820**	823,169
Lease prepayments for land use rights	15	**104,615**	109,246
Investment properties	16	**27,071**	5,254
Goodwill	17	**504,301**	3,307
Other intangible assets	18	**29,398**	28,372
Investment in a jointly-controlled entity	20	**70,549**	–
Investments in associates	21	**80,121**	32,599
Available-for-sale equity investments	22	**1,449,850**	692,835
Deferred tax assets	23	**32,499**	33,638
Property under development	24	**126,783**	124,841
Long-term prepayment	25	**253,934**	62,000
Total non-current assets		**3,568,941**	1,915,261
CURRENT ASSETS			
Inventories	26	**822,993**	696,826
Trade receivables	27	**471,355**	324,335
Prepayments, deposits and other receivables	28	**423,471**	172,079
Held-to-maturity investments		**–**	260,000
Pledged deposits	29	**98,270**	82,309
Cash and short-term deposits	29	**1,878,827**	2,347,215
Total current assets		**3,694,916**	3,882,764
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**94,250**	46,125
Trade and bills payables	31	**1,292,300**	1,224,160
Deposits received, other payables and accruals	32	**921,119**	626,556
Tax payable		**3,002**	3,345
Total current liabilities		**2,310,671**	1,900,186
NET CURRENT ASSETS		**1,384,245**	1,982,578
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,953,186**	3,897,839

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

AS AT 31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Other borrowings	30	**151,125**	1,125
Total non-current liabilities		**151,125**	1,125
Net assets		**4,802,061**	3,896,714
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**1,135,131**	1,135,131
Treasury shares	34	**(6,900)**	–
Reserves	35(a)	**3,161,906**	2,357,111
Proposed final dividend	12	**340,539**	317,837
		4,630,676	3,810,079
Non-controlling interests		**171,385**	86,635
Total equity		**4,802,061**	3,896,714

Gong Cimin
Director

Luo Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2010

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000 (note 33)	Share premium account RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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
Total comprehensive income for the year		–	–	–	–	–	4,542	–	358,658	363,200	5,074	368,274
Final dividend for 2008		–	–	–	–	–	–	(227,026)	–	(227,026)	–	(227,026)
Dividends to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(3,353)	(3,353)
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	28,398	28,398
Appropriation to statutory surplus reserve		–	–	–	–	35,438	–	–	(35,438)	–	–	–
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	(5,009)	(5,009)
Proposed final 2009 dividend	12	–	–	–	–	–	–	317,837	(317,837)	–	–	–
Acquisition of non-controlling equity holders		–	–	–	–	–	–	–	–	–	(96)	(96)
As at 31 December 2009		1,135,131	1,708,203*	–	31,332*	162,291*	52,935*	317,837	402,350*	3,810,079	86,635	3,896,714
As at 1 January 2010		1,135,131	1,708,203*	–	31,332*	162,291*	52,935*	317,837	402,350*	3,810,079	86,635	3,896,714
Total comprehensive income for the year		–	–	–	–	–	756,486	–	436,937	1,193,423	3,246	1,196,669
Final dividend for 2009		–	–	–	–	–	–	(317,837)	–	(317,837)	–	(317,837)
Dividends to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(3,026)	(3,026)
Acquisition of subsidiaries	34	–	–	(6,900)	(17,259)	–	–	–	–	(24,159)	361	(23,798)
Establishment of a jointly-controlled entity	20	–	–	–	(30,735)	–	–	–	–	(30,735)	–	(30,735)
Appropriation to statutory surplus reserve		–	–	–	–	40,568	–	–	(40,568)	–	–	–
Investments in subsidiaries		–	–	–	–	–	–	–	–	–	73,300	73,300
Proposed final 2010 dividend	12	–	–	–	–	–	–	340,539	(340,539)	–	–	–
Equity transactions with non-controlling equity holders		–	–	–	(1,275)	–	–	–	–	(1,275)	1,275	–
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	–	4	4
Capital injection in a subsidiary from a non-controlling equity holder		–	–	–	1,180	–	–	–	–	1,180	9,590	10,770
As at 31 December 2010		1,135,131	1,708,203*	(6,900)	(16,757)*	202,859*	809,421*	340,539	458,180*	4,630,676	171,385	4,802,061

* These reserve accounts comprise the consolidated reserves of RMB3,161,906,000 (2009: RMB2,357,111,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**441,542**	366,654
Adjustments for:			
Finance income, net	7	**(23,474)**	(32,213)
Gains on held-to-maturity investments	5	**(571)**	(8,691)
Amortisation of intangible assets	6	**4,528**	4,098
Recognition of lease prepayments for land use rights	6	**4,682**	4,278
Share of profits and losses of associates		**4,042**	7,585
Share of profit of jointly-controlled entities		**(3,284)**	–
(Gain)/loss on disposal of items of property, plant and equipment	6	**(89)**	265
Depreciation	6	**73,400**	56,146
Dividends from available-for-sale equity investments	5	**(37,362)**	(15,520)
Excess over the cost of acquisition of an associate or subsidiaries	5	**(10,932)**	(3,590)
Gain on disposal of a subsidiary		**–**	(31)
Gain on disposal of an associate		**(191)**	–
Impairment/(reversal of impairment) of trade and other receivables	6	**13,635**	(4,046)
Write-down of inventories to net realisable value	6	**2,576**	25,356
		468,502	400,291
(Increase)/decrease in inventories		**(46,049)**	118,972
Increase in trade receivables		**(22,504)**	(45,886)
Increase in prepayments, deposits and other receivables		**(53,327)**	(17,289)
Increase in trade and bills payables		**274,688**	87,620
Increase in deposits received, other payables and accruals		**76,732**	100,704
(Increase)/decrease in a property under development		**(1,942)**	1,362
Cash generated from operations		**696,100**	645,774
Interest paid		**(6,008)**	(3,602)
PRC corporate income tax paid		**(2,859)**	(1,889)
Net cash flows from operating activities		**687,233**	640,283

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

YEAR ENDED 31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**34,128**	36,159
Interest income from held-to-maturity investments	5	**571**	8,691
Dividends received	5	**37,362**	15,520
Proceeds from disposal of items of property, plant and equipment		**3,347**	1,774
Purchases of items of property, plant and equipment	14	**(105,849)**	(236,410)
Purchase of a lease prepayment for land use rights	15	**–**	(14,126)
Purchases of intangible assets	18	**(5,337)**	(1,782)
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months when acquired		**(29,284)**	20,040
Increase in investments in associates		**(42,267)**	(20,400)
Acquisition of subsidiaries	36	**(999,590)**	(4,242)
Disposal of subsidiaries		**–**	(18,463)
Disposal of an associate		**1,826**	–
Increase in available-for-sale equity investments		**–**	(264,000)
Increase in a long-term prepayment		**(191,934)**	(62,000)
Increase in pledged time deposits		**(15,961)**	(68,029)
(Purchase)/disposal of held-to-maturity investments		**260,000**	(80,000)
Increase in an investment in a jointly-controlled entity		**(98,000)**	–
Net cash flows used in investing activities		**(1,150,988)**	(687,268)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank and other borrowings		**244,250**	34,125
Repayment of other borrowings		**(46,125)**	–
Dividends paid		**(317,837)**	(227,026)
Dividends paid to non-controlling shareholders		**(3,026)**	(3,560)
Cash contribution from a non-controlling equity holder		**73,300**	–
Capital injection in a subsidiary from a non-controlling equity holder		**10,770**	–
Net cash flows used in financing activities		**(38,668)**	(196,461)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(502,423)**	(243,446)
Cash and cash equivalents at beginning of year		**2,291,499**	2,534,945
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,789,076**	2,291,499
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**1,789,076**	1,105,544
Non-pledged time deposits with original maturity of less than three months when acquired	29	**–**	1,185,955
		1,789,076	2,291,499

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**745,117**	717,999
Lease prepayments for land use rights	15	**74,112**	78,065
Investment properties	16	**4,848**	5,254
Other intangible assets	18	**23,047**	24,777
Investments in subsidiaries	19	**1,554,664**	200,446
Investment in a jointly-controlled entity	20	**98,000**	–
Investments in associates	21	**46,240**	43,460
Available-for-sale equity investments	22	**1,449,321**	692,835
Deferred tax assets	23	**40,614**	40,614
Long-term prepayment	25	**41,908**	62,000
Due from a subsidiary	28	**1,875**	7,750
Total non-current assets		**4,079,746**	1,873,200
CURRENT ASSETS			
Inventories	26	**709,903**	650,772
Trade receivables	27	**260,083**	209,770
Prepayments, deposits and other receivables	28	**279,610**	179,251
Held-to-maturity investments		**–**	260,000
Pledged deposits	29	**30,896**	30,000
Cash and short-term deposits	29	**1,315,096**	2,273,375
Total current assets		**2,595,588**	3,603,168
CURRENT LIABILITIES			
Trade and bills payables	31	**1,319,912**	1,057,445
Deposits received, other payables and accruals	32	**648,764**	563,398
Total current liabilities		**1,968,676**	1,620,843
NET CURRENT ASSETS		**626,912**	1,982,325
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,706,658**	3,855,525

STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

31 DECEMBER 2010

	Notes	2010 RMB'000	2009 RMB'000
Net assets		**4,706,658**	3,855,525
EQUITY			
Issued capital	33	**1,135,131**	1,135,131
Reserves	35(b)	**3,230,988**	2,402,557
Proposed final dividend	12	**340,539**	317,837
Total equity		**4,706,658**	3,855,525

Gong Cimin
Director

Luo Jun
Director

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2010

1. CORPORATE INFORMATION

Xinhua Winshare Publishing and Media Co., Ltd. (previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.) (the "Company") was established 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 ("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.

On 22 June 2010, the Company entered into an equity transfer agreement with Sichuan Publication Group Company Limited ("SPG") to acquire the entire equity interests in 15 wholly-owned subsidiaries (hereinafter referred to the "Fifteen Publishers") of SPG (the "Acquisition"). The Acquisition was approved by shareholders at the extraordinary general meeting of the Company on 20 August 2010. For details of the Acquisition, please refer to the Company's announcement dated 22 June 2010 and the circular dated 28 June 2010. Upon completion of the Acquisition, the Company changed its name from "Sichuan Xinhua Winshare Chainstore Co., Ltd." to "Xinhua Winshare Publishing and Media Co., Ltd.".

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.

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 of the Company (the "Directors"), the parent of the Company is Xinhua, a state-owned enterprise established in the PRC. Xinhua has become a wholly-owned subsidiary of Sichuan Development (Holding) Co., Ltd. (四川發展 (控股) 有限責任公司) ("Sichuan Development") as a result of a reorganisation conducted by the State-owned Assets Supervision and Administration Commission of the Sichuan Provincial Government (the "SASAC of Sichuan") as directed by the Sichuan Provincial Government in 2009. Accordingly, Sichuan Development, which is wholly owned and controlled by the SASAC of Sichuan, has become the ultimate holding company of the Company.

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 (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis, except for available-for-sale equity investments 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

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

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs

There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 12 Amendment	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) IAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) IAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 end of the reporting period. 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.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impairment at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RMB504,301,000 (2009: RMB3,307,000). Further details are given in note 17.

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 allowance 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 statement, 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 to be 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. Further details are given in note 16.

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.

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 the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Joint ventures *(Continued)*

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(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 IAS39, 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.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position 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 jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group' investments in jointly-controlled entities.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

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 investments in associates are stated in the consolidated statement of financial position 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 investments 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 investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Business combinations and goodwill *(Continued)*

Business combinations from 1 January 2010 *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of 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 the 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 (group of cash-generating units) 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 disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Impairment of non-financial assets

Where an indication of impairment exists, or where annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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 cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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 of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Operating 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 operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Property, plant and equipment and depreciation

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

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

An item of property, plant and equipment and any significant part initially recognised 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.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. 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 subsequently 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 financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

Investment properties

Investment properties are interests in buildings 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 lives 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 buildings as a finance lease in property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Property under development

Property under development is stated at the lower of cost and net realisable value and comprises 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 property. On completion, the property is transferred to completed property 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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 investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any interest earned on these financial assets, which is recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gains or losses is recognised in the income statement and removed from the available-for sale investment valuation reserve. 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.

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.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

Subsequent measurement (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial assets and liabilities

Financial assets

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

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

(b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Derecognition of financial assets and liabilities *(Continued)*

Financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 option pricing models.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 end of the reporting period 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.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

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 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 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Income tax *(Continued)*

Deferred tax

Deferred tax is provided using the liability method on all temporary differences at the end of the reporting period 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 goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and 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 joint ventures, deferred tax assets are only recognised 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 end of the reporting period 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

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 statement 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.

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 bases:

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

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

(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 directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.88% has been applied to the expenditure on the individual assets.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 non-monetary 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 statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the entities of the Group is required to participate in a retirement benefit 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 benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefit scheme are charged to the consolidated income statement as incurred.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates ruling at the end of the reporting period. 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- Product: Editorial and Publishing of Publications
- Zhongpan: Bulk purchase of publications from publishers and the Product segment for onward sale to book wholesalers, the Subscription segment and the Retailing segment
- Subscription: Distribution of textbooks and supplementary materials to schools and students
- Retailing: Retailing of books and audio-visual products
- Others: Others

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, gains on held-to-maturity investments, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude tax recoverable, pledged deposits, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, the amount due to the ultimate holding company, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

The Group has not placed reliance on any single external customers, amounting to 10% or more of its revenues.

No geographical 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

4. OPERATING SEGMENT INFORMATION *(Continued)*

The following tables present revenue and operations results by segment of the Group for the year ended 31 December 2010 and the year ended 31 December 2009:

Year ended 31 December 2010

	Product RMB'000	Zhongpan RMB'000	Subscription RMB'000	Retailing RMB'000	Others RMB'000	Consolidated RMB'000
Revenue and other income						
Sales to external customers	544,641	135,303	2,450,503	549,557	44,235	3,724,239
Intersegment sales	392,015	1,981,551	–	–	–	2,373,566
Other income	65,049	23,305	151	16,954	12,798	118,257
	1,001,705	2,140,159	2,450,654	566,511	57,033	6,216,062
Elimination of intersegment sales						(2,373,566)
						3,842,496
Results						
Segment results	104,555	107,875	297,832	(24,222)	(7,089)	478,951
Elimination of intersegment results						(53,682)
Unallocated expenses						(47,355)
Unallocated income and gains						2,221
Finance income, net						23,474
Gains on held-to-maturity investments						571
Dividends from available-for-sale equity investments						37,362
Profit before tax						441,542
Assets and liabilities						
Segment assets	2,407,746	1,689,107	904,168	732,173	650,748	6,383,942
Elimination of intersegment assets						(647,444)
Unallocated assets						1,527,359
Total assets						7,263,857
Segment liabilities	886,093	1,282,054	258,035	230,395	310,094	2,966,671
Elimination of intersegment liabilities						(513,898)
Unallocated liabilities						9,023
Total liabilities						2,461,796
Other segment information:						
Share of profits and losses of:						
A jointly-controlled entity	3,284	–	–	–	–	3,284
Associates	–	–	–	–	(4,042)	(4,042)
Capital expenditure:						
Property, plant and equipment	7,363	58,077	17,748	17,109	5,552	105,849
Intangible assets	–	2,340	2,909	–	88	5,337
Depreciation	18,771	22,691	10,458	20,870	610	73,400
Amortisation of intangible assets	524	3,770	219	–	15	4,528
Write-down of inventories to net realisable value	10,895	(2,705)	(4,890)	(724)	–	2,576
Impairment/(reversal of impairment) of trade and other receivables	(1,025)	20,087	(4,799)	(665)	37	13,635
Investments in associates	–	–	–	–	80,121	80,121
Investment in a jointly-controlled entity	70,549	–	–	–	–	70,549
Available-for-sale equity investments	–	–	–	–	–	1,449,850

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Product RMB'000	Zhongpan RMB'000	Subscription RMB'000	Retailing RMB'000	Others RMB'000	Consolidated RMB'000
Revenue and other income						
Sales to external customers	285,210	115,586	2,288,013	503,922	16,257	3,208,988
Intersegment sales	160,017	1,668,185	–	–	215	1,828,417
Other income	9,039	16,769	1,726	26,787	1,457	55,778
	454,266	1,800,540	2,289,739	530,709	17,929	5,093,183
Elimination of intersegment sales						(1,828,417)
						3,264,766
Results						
Segment results	52,978	18,293	304,672	(33,704)	(14,998)	327,241
Elimination of intersegment results						21,067
Unallocated expenses						(38,670)
Unallocated income and gains						592
Finance income, net						32,213
Gains on held-to-maturity investments						8,691
Dividends from available-for-sale equity investments						15,520
Profit before tax						366,654
Assets and liabilities						
Segment assets	656,808	2,368,767	915,545	666,688	195,831	4,803,639
Elimination of intersegment assets						(23,034)
Unallocated assets						1,017,420
Total assets						5,798,025
Segment liabilities	354,555	993,820	113,570	322,565	52,146	1,836,656
Elimination of intersegment liabilities						60,565
Unallocated liabilities						4,090
Total liabilities						1,901,311
Other segment information:						
Share of profits and losses of:						
Associates	–	–	–	–	(7,585)	(7,585)
Capital expenditure:						
– Property, plant and equipment	2,440	164,995	45,141	23,734	100	236,410
– Intangible assets	–	–	818	964	–	1,782
Depreciation	10,228	21,787	15,122	8,724	285	56,146
Amortisation of intangible assets	234	2,076	1,109	668	11	4,098
Write-down of inventories to net realisable value	6,984	(2,645)	6,226	14,791	–	25,356
Impairment/(reversal of impairment) of trade and other receivables	(350)	15,197	(4,466)	(14,450)	23	(4,046)
Investments in associates	–	–	–	–	32,599	32,599
Available-for-sale equity investments	–	–	–	–	–	692,835

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2010 RMB'000	2009 RMB'000
Revenue			
Sale of goods		**3,724,239**	3,208,988
Other income and gains			
Government grants	(i)	**42,024**	822
Gross rental income	(ii)	**9,187**	7,479
Commission income	(iii)	**31,036**	26,776
Gains on held-to-maturity investments		**571**	8,691
Dividends from available-for-sale equity investments		**37,362**	15,520
Excess over the cost of acquisition of an associate or subsidiaries		**10,932**	3,590
Others		**27,299**	17,703
Total other income and gains		**158,411**	80,581

Notes:

(i) The details of the government grants are set out below:

	Note	2010 RMB'000	2009 RMB'000
Government grants for compilation of publications	(a)	**32,574**	–
Value-added tax refund		**3,690**	822
Others		**5,760**	–
		42,024	822

(a) Various government grants have been received for compilation of publications in certain fields. The government grants are recorded as other income when compilation costs incur to which they relate. Government grants received for which related complication has not yet been undertaken are included in deferred income in the consolidated statement of financial position.

There are no unfulfilled conditions or contingencies relating to the government grants.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Notes: *(Continued)*

(ii) Rental income is analysed as follows:

	2010 RMB'000	2009 RMB'000
Gross rental income in respect of:		
Investment properties	**4,206**	3,760
Sub-letting of properties	**4,981**	3,719
	9,187	7,479
Less: Direct operating expenses	**(346)**	(381)
Net rental income	**8,841**	7,098

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

	2010 RMB'000	2009 RMB'000
Commission from concessionaire sales	**24,458**	21,273
Commission from agency services for printing	**6,578**	5,503
	31,036	26,776

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

6. PROFIT BEFORE TAX

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

	Notes	**2010 RMB'000**	2009 RMB'000
Cost of inventories sold		**2,319,725**	2,008,828
Depreciation:			
Property, plant and equipment	14	**72,266**	55,740
Investment properties	16	**1,134**	406
		73,400	56,146
Recognition of lease prepayments for land use rights	15	**4,682**	4,278
Amortisation of intangible assets*	18	**4,528**	4,098
Minimum lease payments under operating leases on properties		**67,771**	51,204
(Gain) /loss on disposal of items of property, plant and equipment, net		**(89)**	265
Impairment/(reversal of impairment) of trade and other receivables		**13,635**	(4,046)
Write-down of inventories to net realisable value		**2,576**	25,356
Auditors' remuneration		**3,865**	3,520
Staff costs:			
Directors' and supervisors' emoluments	9	**2,118**	2,056
Other staff costs			
Wages, salaries and other employee benefits		**381,522**	287,354
Post-employment pension scheme contributions		**24,177**	24,705
		405,699	312,059
		407,817	314,115
Foreign exchange differences		**(296)**	141

* 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 2010

7. FINANCE INCOME, NET

	Group	
	2010	2009
	RMB'000	RMB'000
Bank interest income	**29,482**	35,815
Interest expense on bank and other borrowings, wholly repayable within five years	**(6,008)**	(3,602)
	23,474	32,213

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 2010 were approximately RMB24,288,000 (2009: RMB24,747,000).

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 (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group			
	Directors		Supervisors	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**1,450**	1,450	**293**	300
Other emoluments:				
Salaries, allowances and benefits in kind	**–**	–	**204**	204
Performance related bonuses*	**–**	–	**60**	60
Retirement benefit contributions	**–**	–	**111**	42
	–	–	**375**	306
Total	**1,450**	1,450	**668**	606

* 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 2010

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

(a) Independent non-executive directors

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

	2010 RMB'000	2009 RMB'000
Mr. Chan Yuk Tong	190	190
Mr. Han Xiaoming	140	140
Mr. Cheng Sanguo	110	110
Total	440	440

There were no other emoluments payable to the independent non-executive directors during the year (2009: 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 benefit contributions RMB'000	Total remuneration RMB'000
2010					
Executive directors:					
Mr. Gong Cimin*	310	–	–	–	310
Mr. Zhang Bangkai**	300	–	–	–	300
	610	–	–	–	610
Non-executive directors:					
Ms. Wang Jianping	60	–	–	–	60
Mr. Yu Changjiu	60	–	–	–	60
Mr. Li Jiawei	40	–	–	–	40
Mr. Wu Qiang	40	–	–	–	40
Mr. Luo Jun*	50	–	–	–	50
Mr. Zhao Junhuai	50	–	–	–	50
Mr. Zhang Chengxing	50	–	–	–	50
Mr. Zhao Miao**	50	–	–	–	50
	400	–	–	–	400
Total	1,010	–	–	–	1,010

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 benefit contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors:					
Mr. Gong Cimin***	310	–	–	–	310
Mr. Zhang Bangkai****	300	–	–	–	300
	610	–	–	–	610
Non-executive directors:					
Ms. Wang Jianping	60	–	–	–	60
Mr. Yu Changjiu	60	–	–	–	60
Mr. Li Jiawei	40	–	–	–	40
Mr. Wu Qiang	40	–	–	–	40
Mr. Luo Jun***	50	–	–	–	50
Mr. Zhao Junhuai	50	–	–	–	50
Mr. Zhang Chengxing***	50	–	–	–	50
Mr. Mo Shixing**&****	4	–	–	–	4
Mr. Zhao Miao*&****	46	–	–	–	46
	400	–	–	–	400
Total	1,010	–	–	–	1,010

* Role as director from February 2009.

** Role as director from 1 January 2009 to 31 January 2009.

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 benefit contributions RMB'000	Total remuneration RMB'000
2010					
Mr. Xiao Changjiu**	**90**	**–**	**–**	**–**	**90**
Mr. Xu Yuzheng*	**30**	**–**	**–**	**–**	**30**
Mr. Peng Xianyi	**23**	**–**	**–**	**–**	**23**
Ms. Dai Wen	**30**	**–**	**–**	**–**	**30**
Ms. Lan Hong	**–**	**66**	**18**	**37**	**121**
Ms. Liu Nan	**–**	**66**	**18**	**37**	**121**
Mr. Li Qiang	**–**	**72**	**24**	**37**	**133**
Mr. Fu Daiguo	**60**	**–**	**–**	**–**	**60**
Mr. Li Guangwei	**60**	**–**	**–**	**–**	**60**
Total	**293**	**204**	**60**	**111**	**668**

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2009					
Mr. Xiao Changjiu**	90	–	–	–	90
Mr. Xu Yuzheng*	30	–	–	–	30
Mr. Peng Xianyi	30	–	–	–	30
Ms. Dai Wen	30	–	–	–	30
Ms. Lan Hong	–	66	18	14	98
Ms. Liu Nan	–	66	18	14	98
Mr. Li Qiang	–	72	24	14	110
Mr. Fu Daiguo	60	–	–	–	60
Mr. Li Guangwei	60	–	–	–	60
Total	300	204	60	42	606

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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

(c) Supervisors *(Continued)*

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 RMB849,979).

(d) Five highest paid employees

The five highest paid employees during the year included nil (2009: nil) directors, details of whose remuneration are set out above.

Details of the remuneration of the five non-director and non-supervisor highest paid employees are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,138**	1,138
Performance related bonuses	**1,180**	1,102
Retirement benefit contributions	**151**	48
	2,469	2,288

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 RMB849,979).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 arising in Hong Kong during the year. Under the prevailing PRC income tax law, except for certain preferential treatment available to the Company and certain subsidiaries, the Group and its associates and jointly-controlled entity 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:

	2010 RMB'000	2009 RMB'000
Current PRC income tax charge for the year	**2,025**	2,826
Deferred income tax (note 23)	**(666)**	96
	1,359	2,922

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

	Group			
	2010		2009	
	RMB'000	**%**	RMB'000	%
Profit before tax	**441,542**		366,654	
Income tax at the PRC statutory income tax rate of 25%	**110,386**	**25.0**	91,663	25.0
Income not subject to tax	**(9,341)**	**(2.1)**	(3,880)	(1.1)
Expenses not deductible for tax purposes	**24,720**	**5.6**	18,600	5.1
Tax losses not recognised	**11,126**	**2.5**	1,430	0.4
Tax concessions*	**(135,532)**	**(30.7)**	(104,891)	(28.6)
Tax charge at the Group's effective rate	**1,359**	**0.3**	2,922	0.8

* Pursuant to the approval from the relevant PRC tax authorities, the Company and two subsidiaries of the Group were granted an income tax exemption from 2009 to 2013, thirteen companies of the Fifteen Publishers that were acquired by the Company on 31 August 2010 were granted an income tax exemption from 2010 to 2013.

The share of tax attributable to associates and the jointly-controlled entity amounting to RMB471,000 (2009: RMB594,000) and RMB7,000 (2009: nil) respectively, is included in "Share of profits and losses of associates" and "Share of profit and loss of a jointly-controlled entity" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 is RMB412,484,000 (2009: RMB365,836,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final and special dividends – RMB0.30 (2009: RMB0.28) per ordinary share	**340,539**	317,837

The proposed final and special dividends for the year are 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.

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

The calculation of the basic earnings per share amount is 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, which is derived from the total weighted average number of ordinary shares in issue during the year of 1,135,131,000 deducting the weighted average number of treasury shares of 2,306,444 held by Sichuan Youth and Children's Publishing House Co., Ltd., a subsidiary acquired on 31 August 2010, which held 6,900,428 ordinary shares of the Company. For further details, please refer to notes 34 and 36.

	2010 RMB'000	2009 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**436,937**	358,658

	Number of shares 2010	2009
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,135,131,000**	1,135,131,000
Less: weighted average number of treasury shares arising from acquisition of a subsidiary	**(2,306,444)**	–
	1,132,824,556	1,135,131,000

The Group had no potentially dilutive ordinary shares in issue during those years.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 2010						
At 1 January 2010:						
Cost or valuation	675,285	44,616	77,028	345,199	845	1,142,973
Accumulated depreciation	(62,835)	(25,184)	(43,724)	(188,061)	–	(319,804)
Net carrying amount	612,450	19,432	33,304	157,138	845	823,169
At 1 January 2010, net of accumulated depreciation	612,450	19,432	33,304	157,138	845	823,169
Additions	6,788	12,193	24,299	55,916	6,653	105,849
Transfers from construction in progress	561	–	–	–	(561)	–
Acquisition of subsidiaries (note 36)	23,134	–	8,868	4,324	–	36,326
Disposals	–	–	(1,935)	(1,323)	–	(3,258)
Depreciation provided during the year	(19,117)	(6,837)	(10,098)	(36,214)	–	(72,266)
At 31 December 2010, net of accumulated depreciation	623,816	24,788	54,438	179,841	6,937	889,820
At 31 December 2010:						
Cost or valuation	711,651	59,818	97,774	386,125	6,937	1,262,305
Accumulated depreciation	(87,835)	(35,030)	(43,336)	(206,284)	–	(372,485)
Net carrying amount	623,816	24,788	54,438	179,841	6,937	889,820

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 2009						
At 1 January 2009:						
Cost or valuation	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
At 1 January 2009, net of accumulated depreciation	409,350	23,167	29,875	69,946	1,135	533,473
Additions	164,192	1,912	12,098	51,530	6,678	236,410
Transfers from construction in progress	6,968	–	–	–	(6,968)	–
Acquisition of subsidiaries	45,625	–	483	65,465	–	111,573
Disposal of subsidiaries	–	–	(333)	(175)	–	(508)
Disposals	(33)	–	(1,274)	(732)	–	(2,039)
Depreciation provided during the year	(13,652)	(5,647)	(7,545)	(28,896)	–	(55,740)
At 31 December 2009, net of accumulated depreciation	612,450	19,432	33,304	157,138	845	823,169
At 31 December 2009:						
Cost or valuation	675,285	44,616	77,028	345,199	845	1,142,973
Accumulated depreciation	(62,835)	(25,184)	(43,724)	(188,061)	–	(319,804)
Net carrying amount	612,450	19,432	33,304	157,138	845	823,169

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 2010						
At 1 January 2010:						
Cost	625,094	44,240	74,034	180,041	845	924,254
Accumulated depreciation	(56,727)	(24,897)	(42,235)	(82,396)	–	(206,255)
Net carrying amount	568,367	19,343	31,799	97,645	845	717,999
At 1 January 2010, net of accumulated depreciation	568,367	19,343	31,799	97,645	845	717,999
Additions	6,788	3,260	19,098	48,334	6,653	84,133
Transfers from construction in progress	561	–	–	–	(561)	–
Disposals	–	–	(2,181)	(367)	–	(2,548)
Depreciation provided during the year	(15,563)	(6,638)	(8,669)	(23,597)	–	(54,467)
At 31 December 2010, net of accumulated depreciation	560,153	15,965	40,047	122,015	6,937	745,117
At 31 December 2010:						
Cost	637,552	50,507	72,905	207,885	6,937	975,786
Accumulated depreciation	(77,399)	(34,542)	(32,858)	(85,870)	–	(230,669)
Net carrying amount	560,153	15,965	40,047	122,015	6,937	745,117

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

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 2009						
At 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation	409,350	22,966	28,259	68,785	1,135	530,495
Additions	164,168	1,912	11,496	48,631	6,678	232,885
Transfers from construction in progress	6,968	–	–	–	(6,968)	–
Disposals	(33)	–	(888)	(124)	–	(1,045)
Depreciation provided during the year	(12,086)	(5,535)	(7,068)	(19,647)	–	(44,336)
At 31 December 2009, net of accumulated depreciation	568,367	19,343	31,799	97,645	845	717,999
At 31 December 2009:						
Cost	625,094	44,240	74,034	180,041	845	924,254
Accumulated depreciation	(56,727)	(24,897)	(42,235)	(82,396)	–	(206,255)
Net carrying amount	568,367	19,343	31,799	97,645	845	717,999

All of the Group's buildings are located in Mainland China.

As at 31 December 2010, except for four (2009: eight) properties with an aggregate net book value of approximately RMB140,675,000 (2009: RMB137,058,000), the Group has obtained the relevant building ownership certificates.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

15. LEASE PREPAYMENTS FOR LAND USE RIGHTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**113,990**	72,137	**82,131**	72,137
Addition	**–**	14,126	**–**	13,820
Acquisition of a subsidiary	**–**	32,005	**–**	–
Recognised during the year	**(4,682)**	(4,278)	**(4,004)**	(3,826)
Carrying amount at 31 December	**109,308**	113,990	**78,127**	82,131
Less: Current portion, included in prepayments, deposits and other receivables	**(4,693)**	(4,744)	**(4,015)**	(4,066)
Non-current portion	**104,615**	109,246	**74,112**	78,065

The leasehold lands are held under long-term leases and are situated in Mainland China.

At 31 December 2010, the Group's leasehold lands with a carrying amount of RMB31,181,000 (2009: RMB31,859,000) were pledged as security for the Group's interest-bearing bank loans of a subsidiary named Sichuan Xinhua Colour Printing Co., Ltd. ("Xinhua Colour Printing") amounting to RMB23,000,000 (2009: RMB23,000,000). Further details are given in note 30 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

16. INVESTMENT PROPERTIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**5,254**	5,660	**5,254**	5,660
Acquisition of subsidiaries (note 36)	**22,951**	–	**–**	–
Depreciation provided during the year	**(1,134)**	(406)	**(406)**	(406)
Carrying amount at 31 December	**27,071**	5,254	**4,848**	5,254
Fair value	**59,122**	36,471	**36,171**	36,471

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

The investment properties with a net carrying amount of RMB325,000 (2009: RMB348,000) are leased to Xinhua and the remaining to third parties, all of which are under operating leases, further summary details are included in note 39(a) and note 41(a).

The fair values of the investment properties as at 31 December 2010 have been determined by the directors of the Company. The valuation performed by the directors of the Company was on an income capitalization basis. 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

17. GOODWILL

	RMB'000
At 1 January 2009 and 31 December 2009:	
Cost	3,307
Accumulated impairment	–
Net carrying amount	3,307
Cost at 1 January 2010, net of accumulated impairment	**3,307**
Acquisition of subsidiaries (note 36)	**500,994**
Impairment during the year	**–**
Cost and net carrying amount at 31 December 2010	**504,301**
At 31 December 2010:	
Cost	**504,301**
Accumulated impairment	**–**
Net carrying amount	**504,301**

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the product cash-generating unit for impairment testing, which includes three companies of the Fifteen Publishers, namely Sichuan Publication Printing Co., Ltd., Sichuan Education Publishing House Co., Ltd. and Youth and Sichuan Children's Publishing House Co., Ltd..

Product cash-generating unit

The recoverable amount of the product cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14%. The growth rate used to extrapolate the cash flows of the product unit beyond the five-year period is nil.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Product cash-generating unit *(Continued)*

The carrying amount of goodwill allocated to the product of the Group cash-generating unit is as follows:

	Product	
	2010	2009
	RMB'000	RMB'000
Net carrying amount of goodwill	**504,301**	–

Key assumptions were used in the value in use calculation of the product cash-generating unit for 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for Mainland China from where the raw materials are sourced.

The values assigned to key assumptions are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

18. OTHER INTANGIBLE ASSETS

Group

	Computer software RMB'000	Others RMB'000	Total RMB'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation	**25,906**	**2,466**	**28,372**
Additions	**5,337**	**–**	**5,337**
Acquisition of subsidiaries (note 36)	**213**	**4**	**217**
Amortisation provided during the year	**(4,126)**	**(402)**	**(4,528)**
At 31 December 2010, net of accumulated amortisation	**27,330**	**2,068**	**29,398**
At 31 December 2010:			
Cost	**45,771**	**4,058**	**49,829**
Accumulated amortisation	**(18,441)**	**(1,990)**	**(20,431)**
Net carrying amount	**27,330**	**2,068**	**29,398**
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	27,630	1,136	28,766
Additions	1,722	60	1,782
Acquisition of subsidiaries	326	1,601	1,927
Disposal of subsidiaries	(5)	–	(5)
Amortisation provided during the year	(3,767)	(331)	(4,098)
At 31 December 2009, net of accumulated amortisation	25,906	2,466	28,372
At 31 December 2009:			
Cost	38,417	4,032	42,449
Accumulated amortisation	(12,511)	(1,566)	(14,077)
Net carrying amount	25,906	2,466	28,372

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

18. OTHER INTANGIBLE ASSETS *(Continued)*

Company

	Computer software	
	2010	2009
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**24,777**	27,565
Additions	**2,041**	817
Amortisation provided during the year	**(3,771)**	(3,605)
At 31 December, net of accumulated amortisation	**23,047**	24,777
At 31 December:		
Cost	**38,559**	36,518
Accumulated amortisation	**(15,512)**	(11,741)
Net carrying amount	**23,047**	24,777

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investments, at cost	**1,554,664**	200,446

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

Name	Place of registration and operations	Nominal value of 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
Beijing Xinhua Wenxuan Advertising Co., Ltd.	PRC	RMB13,000,000	–	81.54	Provision of advertising services and sale of publications and newspapers

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of registration and operations	Nominal value of paid-up capital	Percentage of equity attributable to the Company (%) Indirect	Direct	Principal activities
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
Xinhua Colour Printing	PRC	RMB100,000,000	–	65	Provision of publication printing service
Sichuan Winshare Education Technology Co., Ltd. (Previously known as Chengdu Yin Xing Bo Wen Book and Cultural Development Co., Ltd.)	PRC	RMB20,000,000	–	100	Sale of textbook related products
Beijing Huaying Winshare Movie & Culture Co., Ltd.	PRC	RMB30,770,000	–	65	Movie and related shooting service
Sichuan Winshare Art Investing & Managing Co., Ltd.	PRC	RMB20,000,000	–	60	Art exhibition service and art related products investment
Sichuan Winshare Media Co., Ltd.	PRC	RMB30,000,000	–	75	Internet publication and computer service
Sichuan Winshare Educational Investment Co., Ltd. ("Winshare Education")	PRC	RMB50,000,000	–	51	Commercial service and development of real property and property management
Sichuan Winshare Preschool Educational Management Co., Ltd.	PRC	RMB7,500,000	–	51	Commercial service and development of real property and property management

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of registration and operations	Nominal value of paid-up capital	Percentage of equity attributable to the Company (%) Indirect	Direct	Principal activities
Sichuan People's Publishing House Co., Ltd.*	PRC	RMB10,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Publication Printing Co., Ltd. ("Publication Printing")*	PRC	RMB50,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Education Publishing House Co., Ltd. ("Education Publishing House")*	PRC	RMB10,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Youth and Children's Publishing House Co., Ltd. ("Youth and Children's Publishing House")*	PRC	RMB10,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Science & Technology Publishing House Co., Ltd.*	PRC	RMB4,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Literature & Art Publishing House Co., Ltd.*	PRC	RMB5,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Fine Arts Publishing House Co., Ltd.*	PRC	RMB4,250,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Lexicographical Publishing House Co., Ltd.*	PRC	RMB2,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Bashu Publishing House Co., Ltd.*	PRC	RMB2,000,000	–	100	Publishing and wholesaling of publications and related products

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of registration and operations	Nominal value of paid-up capital	Percentage of equity attributable to the Company (%) Indirect	Direct	Principal activities
Sichuan Tiandi Publishing House Co., Ltd.*	PRC	RMB2,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Digital Publishing & Media Co., Ltd.*	PRC	RMB10,000,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Pictorial Co., Ltd.*	PRC	RMB1,500,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Readers' Journal Press Co., Ltd.*	PRC	RMB1,500,000	–	100	Publishing and wholesaling of publications and related products
Sichuan Printing Material Co., Ltd.*	PRC	RMB30,000,000	–	100	Provision of printing related materials
Sichuan Shangrui Education Textbook Co., Ltd.*	PRC	RMB20,000,000	–	100	Wholesaling of publications and related products
Sichuan Winshare Logistics Co., Ltd.	PRC	RMB50,000,000	–	51	Warehousing and logistics services
Sichuan Winshare Properties Co., Ltd.	PRC	RMB12,500,000	–	51	Development of real property and property management
Xinhua Winshare Sichuan Information Technology, Co., Ltd.	PRC	RMB10,000,000	–	80	Development of electronic products, computer software and hardware

* These 15 companies were acquired by the Company on 31 August 2010. Further details of the acquisition are included in note 36 to the financial statements.

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

All subsidiaries are limited liability companies registered under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**–**	–	**98,000**	–
Share of net assets	**70,549**	–	**–**	–
	70,549	–	**98,000**	–

The Company entered into an agreement with the Hainan Provincial Finance Bureau to establish Hainan Publishing House Co., Ltd.. Pursuant to the agreement, the Company made a capital contribution in cash of RMB98,000,000, among which RMB38,000,000 was recorded as capital representing 50% of the total registered capital and the rest as capital reserve. Upon completion of the establishment, the Company's share of net assets of Hainan Publishing House Co., Ltd. was RMB67,265,000, the difference of RMB30,735,000 between which and the capital contribution was dealt with in the capital reserve in the consolidated financial statements.

The Group's trade payables balances due to the jointly-controlled entity are disclosed in note 31 to the financial statements.

Particulars of the jointly-controlled entity of the Group are as follows:

		Percentage of		
Name	Place of registration	ownership interest of the Group (%)	profit sharing of the Group (%)	Principal activities
Hainan Publishing House Co., Ltd.	PRC	50	50	Publishing and wholesaling of publications and related products

The above investment of the Group in the jointly-controlled entity is directly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity.

	2010
	RMB'000
Share of the jointly-controlled entity's assets and liabilities:	
Current assets	**99,230**
Non-current assets	**8,832**
Current liabilities	**(37,513)**
Net assets	**70,549**

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

	2010 RMB'000
Share of the jointly-controlled entity's results:	
Revenues	**63,459**
Other income	**1,394**
	64,853
Total expenses	**(61,562)**
Tax	**(7)**
Profit after tax	**3,284**

21. INVESTMENTS IN ASSOCIATES

	Group	
	2010 RMB'000	2009 RMB'000
Share of net assets	**78,561**	31,039
Goodwill	**1,560**	1,560
	80,121	32,599

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted equity investments, at cost	**46,240**	43,460

The Group's receivable and payable balances with the associates are disclosed in notes 27, 28, 31, 32 and 41(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

21. INVESTMENTS IN ASSOCIATES *(Continued)*

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

Name	Place of registration and operations	Nominal value of paid-up capital	Percentage of ownership interest attributable to the Group (%)	Principal activities
Ren Min Eastern (Beijing) Book Industry Co., Ltd.	PRC	RMB30,000,000	20	Sale of publications
Sichuan Xin Wen Newspapers and Periodicals Distribution Co., Ltd.	PRC	RMB10,000,000	39	Sale of publications
Guizhou Xinhua Winshare Co., Ltd.	PRC	RMB12,000,000	45	Sale of publications
Ming Bo Education & Technology Co., Ltd.	PRC	RMB60,000,000	34	Technology development
Bazhong Shudong Real Estate Development Co., Ltd. ("Bazhong Shudong")	PRC	RMB8,000,000	51	Development of real property and property management
Hainan Chuang Xiang Culture Development Co., Ltd.	PRC	RMB10,000,000	33.8	Industrial investment and development of real properties and property management

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

21. INVESTMENTS IN ASSOCIATES *(Continued)*

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

The Group's equity holdings in the associates all comprise equity interests held by the Company, except for Bazhong Shudong, the equity holding in which was held through a 51% owned subsidiary of the Company.

The Group's voting power held in relation to Bazhong Sudong is 60% and all decisions require two thirds of the vote to pass.

Bazhong Shudong was acquired by Winshare Education, a 51% owned subsidiary of the Group, as an associate on 30 November 2010. A piece of land held by Bazhong Shudong had been identified as idle land by the Bureau of Land and Resources of Bazhong in April 2010 according to Guo Fa [2008] No. 3, Circular of the State Council on Promoting the Economical and Intensive Utilization of Land. The fair value of the land use right of this piece of land was RMB143,941,000 on 30 November 2010. Pursuant to the resolution issued by the Bureau of Land and Resources of Bazhong dated 20 January 2011, a duty shall be imposed on value increment of this idle land. However, the resolution did not specify the amount of this duty, nor was there any guidance available on the calculation method or the basis on the value increment to be used till the date of approval of these financial statements. The directors of the Company are of the view that this contingent liability arising from the idle land shall not be recognised as its fair value could not be reliably measured.

All the above associates have been accounted for using the equity method in these financial statements.

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

	2010 RMB'000	2009 RMB'000
Current assets	**399,407**	124,609
Non-current assets	**164,817**	15,193
Current liabilities	**(343,749)**	(58,604)
Non-current liabilities	**(31,347)**	–
Revenues	**108,588**	113,590
Losses	**(18,118)**	(14,996)

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at fair value:				
Mainland China	**942,901**	–	**942,901**	–
Unlisted equity investments, at cost	**506,949**	692,835	**506,420**	692,835
	1,449,850	692,835	**1,449,321**	692,835

The details of the available-for-sale equity investments held by the Group are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at fair value:				
Anhui Xinhua Media Co., Ltd. ("Wan Xin Media")	**942,901**	–	**942,901**	–
Unlisted equity investments, at cost:				
Wan Xin Media	**–**	186,415	**–**	186,415
Bank of Chengdu Co., Ltd.	**240,000**	240,000	**240,000**	240,000
Chengdu Institute Sichuan International Studies University	**260,000**	260,000	**260,000**	260,000
Others	**6,949**	6,420	**6,420**	6,420
	1,449,850	692,835	**1,449,321**	692,835

As at 31 December 2009, the available-for-sale equity investment in Wan Xin Media was stated at an investment cost of RMB186,415,000. Wan Xin Media was listed on the Shanghai Stock Exchange on 18 January 2010. As at 31 December 2010, the equity investment in Wan Xin Media was stated at market price at RMB942,901,000. During the year, the gross gain in respect of the Group's available-for-sale equity investments in Wan Xin Media recognised in other comprehensive income amounted to RMB756,486,000 (2009: nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon date.

As at 31 December 2010, certain unlisted equity investments with a carrying amount of RMB506,949,000 (2009: RMB692,835,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors 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)*

31 DECEMBER 2010

23. DEFERRED TAX ASSETS

Deferred tax assets

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**41,241**	48,372	**40,614**	47,090
Acquisition of subsidiaries (note 36)	**5,541**	–	**–**	–
Credited/(charged) to the income statement (note 10)	**132**	(655)	**–**	–
Charged to other comprehensive income	**–**	(6,476)	**–**	(6,476)
At end of year	**46,914**	41,241	**40,614**	40,614
Provision in respect of:				
Revaluation of items of property, plant and equipment and lease prepayments for land use rights for tax purposes	**40,614**	40,614	**40,614**	40,614
Temporary difference arising from impairment of trade and other receivables	**3,845**	–	**–**	–
Temporary difference arising from write-down of inventories to net realisable value	**1,944**	627	**–**	–
Other	**511**	–	**–**	–
	46,914	41,241	**40,614**	40,614

Deferred tax liabilities

	Group	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**(7,603)**	–
Fair value adjustments arising from acquisition of a subsidiary (note 36)	**(7,346)**	(8,162)
Deferred tax charged to the income statement during the year (note 10)	**534**	559
Gross deferred tax liabilities at end of year	**(14,415)**	(7,603)
Net deferred tax assets recognised in the consolidated statement of financial position at end of year	**32,499**	33,638

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

24. PROPERTY UNDER DEVELOPMENT

	Group	
	2010	2009
	RMB'000	RMB'000
Development costs	**126,783**	124,841

The balance represented lease prepayments for land use rights and other development costs of RMB126,783,000 incurred by Chengdu Xin Hui, a subsidiary of the Company, on the development of a property located in Chengdu. The development of the property held by Chengdu Xin Hui has been put on hold since 2008 due to changes of the development plan as required by the government. Pursuant to the changes of the development plan, Chengdu Xin Hui was required to acquire the land use right of a smaller piece of land nearby and include it in the development of the property by the government. The directors of the Company believe that the development of the property will resume once the aforesaid acquisition is finalised and thus no impairment provision is needed.

At 31 December 2010, the leasehold land in the property under development above in Xin Hui with a carrying amount of RMB116,615,000 (2009: nil) were pledged as security for the Group's interest-bearing bank loan of Xin Hui amounting to RMB150,000,000 (2009: nil). Further details are given in note 30 to the financial statements.

25. LONG TERM PREPAYMENT

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long term prepayment	**253,934**	62,000	**41,908**	62,000

The balance as at 31 December 2010 mainly represented the prepayments made for purchasing land use rights by the Group.

26. INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Merchandise and products for resale	**822,993**	696,826	**709,903**	650,772

At 31 December 2010, there was no inventory pledged as security (2009: nil).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

27. TRADE RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**616,385**	387,435	**322,935**	259,801
Impairment of trade receivables	**(139,546)**	(60,530)	**(60,545)**	(47,461)
Allowance for sales returns	**(5,484)**	(2,570)	**(2,307)**	(2,570)
	471,355	324,335	**260,083**	209,770

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 number of diversified customers with individual balances ranging from RMB1,000 to RMB42,466,000. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**346,396**	197,146	**189,713**	84,451
3 to 6 months	**67,662**	60,983	**40,676**	59,727
6 months to 1 year	**31,277**	65,285	**16,043**	64,804
1 to 2 years	**19,327**	921	**13,263**	788
Over 2 years	**6,693**	–	**388**	–
	471,355	324,335	**260,083**	209,770

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

27. TRADE RECEIVABLES *(Continued)*

Included in the balance as at 31 December 2010 are trade receivables from Xinhua and the fellow subsidiaries (collectively the "Xinhua Group") and associates of RMB13,325,000 (2009: RMB8,144,000) and RMB26,384,000 (2009: RMB43,565,000), respectively (note 41(b)), 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**60,530**	65,950	**47,461**	55,474
Charged for the year (note 6)	**29,720**	16,926	**24,752**	16,052
Acquisition of subsidiaries	**64,523**	2,161	**–**	–
Amount written off	**(1,331)**	(3,540)	**(1,286)**	(3,524)
Amount reversed (note 6)	**(13,896)**	(20,967)	**(10,382)**	(20,541)
	139,546	60,530	**60,545**	47,461

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

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**431,455**	305,479	**238,215**	191,270
Less than three months past due	**13,880**	17,935	**8,217**	17,712
Over three months past due	**26,020**	921	**13,651**	788
	471,355	324,335	**260,083**	209,770

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 relate 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	**6,013**	4,690	**2,648**	4,191
Prepayments to suppliers	**57,264**	35,204	**10,813**	12,257
Prepayments for construction fees	**–**	11,847	**–**	11,279
Input value-added tax receivables	**81,157**	37,745	**80,664**	34,999
Due from the Xinhua Group (note 41(b))	**211**	442	**34**	437
Due from subsidiaries	**–**	–	**72,791**	41,195
Due from associates (note 41(b))	**97,146**	–	**85,624**	–
Prepaid expenses	**1,906**	9,974	**5,318**	5,267
Other receivables	**179,774**	72,177	**21,718**	69,626
	423,471	172,079	**279,610**	179,251

Other Receivables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**201,079**	73,454	**22,969**	70,876
Less: Provision for impairment	**(21,305)**	(1,277)	**(1,251)**	(1,250)
	179,774	72,177	**21,718**	69,626

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Other Receivables *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,277**	1,298	**1,250**	1,266
Acquisition of subsidiaries	**22,248**	–	**–**	–
Charged for the year (note 6)	**6,976**	64	**109**	53
Amount written off	**(31)**	(16)	**(3)**	–
Amount reversed (note 6)	**(9,165)**	(69)	**(105)**	(69)
	21,305	1,277	**1,251**	1,250

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**179,774**	72,177	**21,718**	69,626

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

The balances with the Xinhua Group and the associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the amounts of the Company due from subsidiaries as at 31 December 2010 were three entrusted loans amounting to RMB1,875,000 and RMB18,750,000 and RMB5,875,000, respectively. All these entrusted loans were granted by the Company (the "Lender") to Chengdu Xin Hui (the "Borrower"). The entrusted loan of RMB1,875,000 was granted in 2009 and will mature in December 2012. The entrusted loan of RMB18,750,000 was granted in July 2010 and will mature in July 2011. The entrusted loan of RMB5,875,000 was granted in 2008 and will mature in December 2011. Therefore, the Company classified the entrusted loan of RMB1,875,000 as a non-current asset as at 31 December 2010 (2009: RMB7,750,000). 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 4.84% to 5.40% (2009: from 4.78% to 6.72%).

Except for these 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

29. CASH AND SHORT-TERM DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**1,789,076**	1,105,544	**1,315,096**	1,031,704
Restricted cash		**4,751**	–	**–**	–
Pledged time deposits for bills payable	31	**98,270**	82,309	**30,896**	30,000
Non-pledged time deposits with original maturity of:					
More than three months when acquired		**85,000**	55,716	**–**	55,716
Less than three months when acquired		**–**	1,185,955	**–**	1,185,955
		1,977,097	2,429,524	**1,345,992**	2,303,375
Less: Pledged time deposits for bills payable		**(98,270)**	(82,309)	**(30,896)**	(30,000)
Cash and short-term deposits		**1,878,827**	2,347,215	**1,315,096**	2,273,375

At the end of the reporting period, the Group's cash and short-term deposits, including pledged bank deposits, were denominated in RMB amounting to RMB1,976,922,000 (2009: RMB2,411,844,000), 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 deposit rates. Short-term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term deposits and the pledged deposits approximate to their fair values.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December 2010 and 2009:

	Group	
	2010	2009
	RMB'000	RMB'000
Cash and short-term deposits	**1,878,827**	2,347,215
Less: Restricted cash	**(4,751)**	–
Non-pledged time deposits with original maturity of more than three months when acquired	**(85,000)**	(55,716)
	1,789,076	2,291,499

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Note	Group 2010 RMB'000	Group 2009 RMB'000
Bank loans – secured	(a)	**173,000**	23,000
Bank loans – unsecured	(a)	**10,000**	10,000
Other borrowings – unsecured	(b)	**62,375**	14,250
Total interest-bearing bank and other borrowings		**245,375**	47,250
Analysed into:			
Interest-bearing bank and other borrowings repayable:			
Within one year or on demand		**94,250**	46,125
In the second year		**151,125**	–
In the third to fifth years, inclusive		**–**	1,125
		245,375	47,250
Total interest-bearing bank and other borrowings		**245,375**	47,250
Less: Portion classified as current liabilities		**(94,250)**	(46,125)
Long-term portion		**151,125**	1,125

Note:

(a) Bank loans

		2010 Effective contractual interest rate %	2010 Maturity	2010 RMB'000	2009 Effective contractual interest rate %	2009 Maturity	2009 RMB'000
Bank loans-secured	(i)	**5.31/and 5 plus primary rate of People's Bank of China**	**2011-2012**	**173,000**	5.31	2010	23,000
Bank loans-unsecured	(ii)	**primary rate of People's Bank of China**	**2011**	**10,000**	4.86	2010	10,000

Certain of the Group's bank loans are secured by:

(i) leasehold lands and leaseholds land in the property under development of the Group amounting to RMB31,181,000 (2009: RMB31,859,000) (note 15) and RMB116,615,000 (2009: nil) (note 24), respectively.

(ii) a guarantee granted by the Company up to an amount of RMB40,000,000 (2009: RMB40,000,000) (note 37).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

30. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Note: *(Continued)*

(b) Other borrowings

The balance of the unsecured other borrowings as at 31 December 2010 represented three entrusted loans granted by Xinhua to Chengdu Xin Hui and Winshare Education, two subsidiaries of the Company.

On 30 December 2009 and 30 June 2010, two entrusted loan agreements were entered into among Chengdu Xin Hui, Xinhua and China Construction Bank Co., Ltd. ("CCB"), pursuant to which Xinhua entrusted CCB to grant two loans amounting to RMB1,125,000 and RMB11,250,000, respectively, to Chengdu Xin Hui, which bear interest at rates of 5.40% and 5.31% per annum and will mature on 29 December 2012 and 30 June 2011, respectively. On 12 November 2010, an entrusted loan agreement was entered into among Winshare Education, Xinhua Group and Hua Xia Bank, pursuant to which Xinhua entrusted Hua Xia Bank to grant a loan of RMB50,000,000 to Winshare Education, which bears interest at an interest rate of 5.1% per annum and will mature on 12 April 2011.

The interest expense incurred for the aforesaid entrusted loans was RMB1,124,000 during the year (2009: RMB734,000) (note 41(a)).

31. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**536,098**	403,703	**451,123**	324,358
3 to 6 months	**387,617**	353,924	**499,975**	260,809
6 months to 1 year	**180,641**	247,447	**174,072**	248,954
1 to 2 years	**34,356**	85,134	**43,337**	86,012
Over 2 years	**153,588**	133,952	**151,405**	137,312
	1,292,300	1,224,160	**1,319,912**	1,057,445

Included in the balance as at 31 December 2010 were trade payables to the Xinhua Group, a jointly-controlled entity and associates of RMB435,000 (2009: RMB197,000), RMB1,368,000 (2009: nil) and RMB4,160,000 (2009: RMB9,814,000), respectively (note 41(b)).

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

As at 31 December 2010, the Group's bills payable of RMB239,737,000 (2009: RMB154,050,000) were secured by the Group's pledged time deposits amounting to RMB98,270,000 (2009: RMB82,309,000) (note 29) and guarantees granted by the Company up to an amount of RMB149,000,000 (note 37) (2009: RMB64,000,000).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

32. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued salaries, wages and benefits	**160,074**	101,051	**129,132**	96,407
Deposits from suppliers and lessees	**492,807**	420,900	**457,898**	418,586
Accrued operating expenses	**85,204**	39,811	**25,763**	3,067
Due to the Xinhua Group (note 41(b))	**38,758**	39,400	**53**	772
Due to associates (note 41(b))	**507**	3,624	**507**	401
Due to subsidiary	**–**	–	**1,410**	–
Deferred income	**37,689**	–	**–**	–
Others	**106,080**	21,770	**34,001**	44,165
Total deposits received, other payables and accruals	**921,119**	626,556	**648,764**	563,398

The balances with the Xinhua Group and associates are unsecured, interest-free and have no fixed terms of repayment.

33. ISSUED CAPITAL

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Issued and fully paid:		
693,194,000 (2009: 693,194,000) domestic shares of RMB1.00 each	**693,194**	693,194
441,937,000 (2009: 441,937,000) H shares of RMB1.00 each	**441,937**	441,937
	1,135,131	1,135,131

There was no movement in the Group's and Company's share capital during the year ended 31 December 2010.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

34. TREASURY SHARES

	Group	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**–**	–
Acquisition of a subsidiary	**6,900**	–
At end of year	**6,900**	–

Sichuan Youth and Children's Publishing House Co., Ltd., one of the Fifteen Publishers, was acquired by the Company as a wholly-owned subsidiary on 31 August 2010. Please refer to note 36 for further details about the acquisition of the Fifteen Publishers. On the acquisition date, Sichuan Youth and Children's Publishing House Co., Ltd., as one of the founding shareholders of the Company, held 6,900,428 shares, representing 0.61% of the share capital of the Company, which were accounted for as treasury shares and recorded at par value by the Company, and the excess over par value of RMB17,259,000 was dealt with in the capital reserve.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

35. RESERVES *(Continued)*

(b) Company

	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000 (note i)	Other reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
As at 1 January 2009	1,708,203	33,514	125,127	48,393	445,797	227,026	2,588,060
Total comprehensive income for the year	–	–	–	(6,476)	365,836	–	359,360
Final dividend for 2008	–	–	–	–	–	(227,026)	(227,026)
Appropriation to statutory surplus reserve	–	–	35,438	–	(35,438)	–	–
Proposed final 2009 dividend	–	–	–	–	(317,837)	317,837	–
As at 31 December 2009 and 1 January 2010	1,708,203*	33,514*	160,565*	41,917*	458,358*	317,837	2,720,394
Total comprehensive income for the year	–	–	–	756,486	412,484	–	1,168,970
Final dividend for 2009	–	–	–	–	–	(317,837)	(317,837)
Appropriation to statutory surplus reserve	–	–	40,568	–	(40,568)	–	–
Proposed final 2010 dividend	–	–	–	–	(340,539)	340,539	–
As at 31 December 2010	1,708,203*	33,514*	201,133*	798,403*	489,735*	340,539	3,571,527

* These reserve accounts comprise the reserves of RMB3,230,988,000 (2009: RMB2,402,557,000) in the Company's statement of financial position.

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 the registered capital after such uses.

(ii) **Distributable reserve**

As at 31 December 2010, the Company had retained profits of approximately RMB299,138,000 (2009: RMB274,567,000) after the appropriation of the proposed final dividend, as determined in accordance with the lower of the amount determined under PRC GAAP and the amount determined under IFRSs, available for distribution by way of cash or in kind.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

36. BUSINESS COMBINATIONS

Acquisition of the Fifteen Publishers

On 22 June 2010, the Company and SPG entered into an equity transfer agreement by which the Company would acquire the entire equity interests of the Fifteen Publishers from SPG at an aggregate consideration of RMB1,255 million. The Fifteen Publishers comprised 15 companies as stated in note 19. Upon the completion of the acquisition, the Fifteen Publishers have become wholly-owned subsidiaries of the Group. The Fifteen Publishers are principally engaged in the business of publishing and wholesaling of publications and related products. The acquisition was made as part of the Group's strategy to become an integrated operator in the press and publishing industry. The purchase consideration for the acquisition was in the form of cash, with RMB1,255 million paid by 31 August 2010, the acquisition date.

The fair values of the identifiable assets and liabilities of the Fifteen Publishers as at the acquisition date were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	36,326
Investment properties	16	22,951
Other intangible assets	18	217
Available-for-sale equity investments:		
Shares of the Company	34	24,159
Others		529
Deferred tax assets	23	5,541
Cash and short-term deposits		255,410
Inventories		82,694
Trade receivables		697,373
Prepayments and other receivables		205,320
Trade payables		(350,485)
Accruals and other payables		(217,831)
Tax payable		(491)
Deferred tax liabilities	23	(7,346)
Non-controlling interests		(361)
Total identifiable net assets at fair value		754,006
Goodwill on acquisition	17	500,994
Satisfied by cash		1,255,000

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

36. BUSINESS COMBINATIONS *(Continued)*

Acquisition of the Fifteen Publishers *(Continued)*

The fair value of the trade receivables and other receivables as at the date of acquisition amounted to RMB697,373,000 and RMB205,320,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB765,336,000 and RMB227,568,000, respectively, of which trade receivables of RMB67,963,000 and other receivables of RMB22,248,000 are expected to be uncollectible.

The Group incurred transaction costs of RMB11,828,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of the Fifteen Publishers is as follows:

	RMB'000
Cash and short-term deposits acquired	255,410
Cash consideration	(1,255,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(999,590)
Transaction costs of the acquisition included in cash flows from operating activities	(11,828)
	(1,011,418)

Since their acquisition, the Fifteen Publishers contributed RMB70,751,000 to the Group's turnover and RMB22,654,000 to the consolidated profit for the year ended 31 December 2010.

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 RMB4,044,078,000 and RMB387,370,000, respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to a subsidiary	**–**	–	**189,000**	104,000
	–	–	**189,000**	104,000

As at 31 December 2010, the banking facilities granted to a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB151,467,000 (2009: RMB74,000,000).

38. PLEDGE OF ASSETS

Details of the Group's bank loans and other banking facilities, which are secured by the assets of the Group, are included in notes 15 and 29, respectively, to the financial statements.

39. 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 ten years. The terms of the leases generally also require the tenants to pay security deposits.

As at 31 December 2010, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**6,365**	7,674	**5,877**	7,674
In the second to fifth years, inclusive	**15,394**	16,127	**15,201**	16,127
After five years	**11,814**	15,623	**11,814**	15,623
	33,573	39,424	**32,892**	39,424

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

39. 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 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**51,064**	55,315	**46,570**	54,129
In the second to fifth years, inclusive	**67,998**	89,941	**52,283**	89,102
After five years	**33,773**	7,389	**8,448**	7,389
	152,835	152,645	**107,301**	150,620

40. 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 end of the reporting period:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment:				
Contracted, but not provided for	**287,464**	19,486	**284,094**	19,486
Authorised, but not contracted for	**120,000**	–	**120,000**	–
	407,464	19,486	**404,094**	19,486

Investment commitments

The Group and the Company had the following investment commitments, principally for an investment in an associate and an investment to establish a subsidiary at the end of the reporting period:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Investment in an associate:		
Contracted, but not provided for	**–**	16,000
Investment to establish a subsidiary:		
Contracted, but not provided for	**11,475**	48,000

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

41. 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	
		2010	2009
	Notes	**RMB'000**	RMB'000
The Xinhua Group:			
Sales of merchandise	(i)	**104,071**	101,667
Rental income	(iii)	**1,344**	1,344
Rental expenses	(iv)	**37,770**	22,824
Interest expense	(v)	**1,124**	734
Purchase of services	(ii)	**10,911**	9,522
Purchase of property, plant and equipment	(ii)	**–**	50
Grants of entrusted loans	(v)	**61,250**	10,725
Purchase of a land use right		**–**	12,400
Associates*:			
Sales of merchandise	(i)	**49,824**	32,973
Purchase of printing services	(ii)	**–**	877

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 prices of merchandise and services were based on mutually agreed terms.

(iii) Pursuant to a property lease agreement entered into 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 RMB37,770,000 during the year.

(v) Please refer to note 30 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 2010

41. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties:

		Group	
		2010	2009
	Notes	**RMB'000**	RMB'000
Trade and other receivables:			
Trade receivables due from the Xinhua Group	27	**13,325**	8,144
Trade receivables due from associates of the Group	27	**26,384**	43,565
Other receivables due from the Xinhua Group	28	**211**	442
Other receivables due from associates of the Group	28	**97,146**	–
Trade and other payables:			
Trade payables due to the Xinhua Group	31	**435**	197
Trade payables due to a jointly-controlled entity	31	**1,368**	–
Trade payables due to associates of the Group	31	**4,160**	9,814
Other payables due to the Xinhua Group	32	**38,758**	39,400
Other payables due to associates of the Group	32	**507**	3,624
Other borrowings due to Xinhua	30	**62,375**	14,250

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

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

	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**1,450**	1,450
Total compensation paid to key management personnel	**1,450**	1,450

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

42. 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, available-for-sale equity investments, interest-bearing bank and other borrowings, trade and bills payables and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as prepayments, deposits and other receivables, trade receivables, deposits received, other payables and accruals and trade and bills payables which arise directly from its operations.

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

Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of changes in interest income from bank 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 2010, 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 end of the reporting period, all the Group's assets and liabilities were denominated in RMB, except for the cash and bank balances of RMB175,000 (2009: RMB17,680,000) 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 the Hong Kong dollar or United States dollar and the 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 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, and therefore, the Group's exposure to bad debts is not significant. The credit risk on the balances of cash and short-term deposits and pledged deposits is low as these balances are placed with reputable financial institutions.

As at the end of the reporting period, 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 25, 27 and 28 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010					
	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
Interest-bearing bank and other borrowings	–	–	105,330	159,271	–	264,601
Trade and bills payables	427,682	8,283	856,335	–	–	1,292,300
Other payables	48,863	7,945	39,414	–	–	96,222
	476,545	16,228	1,001,079	159,271	–	1,653,123

	2009					
	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
Interest-bearing bank and other borrowings	–	10,000	36,125	–	1,125	47,250
Trade and bills payables	373,136	73,853	777,171	–	–	1,224,160
Other payables	105,382	44,460	16,003	–	–	165,845
	478,518	128,313	829,299	–	1,125	1,437,255

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

	2010					
	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	193,004	175,808	951,100	–	–	1,319,912
Other payables	15,727	3,744	16,501	–	–	35,972
Guarantees given to banks in connection with facilities granted to a subsidiary	141,467	–	10,000	–	–	151,467
	350,198	179,552	977,601	–	–	1,507,351

	2009					
	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	223,324	75,247	758,874	–	–	1,057,445
Other payables	99,479	2,589	39,677	–	–	141,745
Guarantees given to banks in connection with facilities granted to a subsidiary	64,000	10,000	–	–	–	74,000
	386,803	87,836	798,551	–	–	1,273,190

Capital management

The primary objectives of the Group's capital management are 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 shareholders' 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 2010 and 2009.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 DECEMBER 2010

42. 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 interest-bearing bank and other borrowings, trade and bills payables, deposits received and other payables and accruals, less cash and short-term deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2010 **RMB'000**	2009 RMB'000
Interest-bearing bank and other borrowings	**245,375**	47,250
Trade and bills payables	**1,292,300**	1,224,160
Deposits received, other payables and accruals	**921,119**	626,556
Less: Cash and short-term deposits	**(1,878,827)**	(2,347,215)
Net debt	**579,967**	(449,249)
Equity attributable to owners of the parent	**4,630,676**	3,812,401
Adjusted capital	**4,630,676**	3,812,401
Capital and net debt	**5,210,643**	3,363,152
Gearing ratio	**11.1%**	(13.4%)

43. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group had the following significant event:

The meeting of the board of directors of the Company was held on 30 March 2011, in which a final dividend of approximately RMB113,513,000, equivalent to RMB0.10 per share (tax inclusive) and a special dividend of approximately RMB227,026,000, equivalent to RMB0.20 per share (tax inclusive), were proposed in respect of the year.

Except for the event disclosed above, the Group did not have any significant event after the reporting period.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

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