THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in 四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*), you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

WIN SHARE

四川新華文軒連鎖股份有限公司

SICHUAN XINHUA WINSHARE CHAINSTORE CO.,LTD.*

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

(Stock Code: 811)

(1) MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN THE TARGET GROUP COMPANIES
(2) PROPOSED CHANGE OF COMPANY NAME
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser

華高和昇財務顧問有限公司

WAG WORLDSEC CORPORATE FINANCE LIMITED

The notice convening the extraordinary general meeting ("**the EGM**") of 四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*) (the "**Company**") to be held on Friday, 20 August 2010 at Chengdu Hejiangting Hanwen Hotel, 138 Bingjiang Donglu, Chengdu, Sichuan, the People's Republic of China ("**PRC**"), is set out on pages N-1 to N-6 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. In case of holders of H Shares, the proxy forms shall be lodged with the H Shares share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and in case of holders of Domestic Shares, the proxy forms shall be lodged with the head office of the Company in the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so wish.

* *For identification purposes only*

28 June 2010

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Pages

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of the entire equity interests in the Target Group Companies by the Company in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the share transfer agreement dated 22 June 2010 entered into between the Company and SPG
"Announcement"	the announcement dated 22 June 2010 issued by the Company in relation to the Acquisition, the proposed change of Company name and the proposed amendments to the Articles of Association
"Articles" or "Articles of Association"	the articles of association of the Company
"Board"	the board of Directors
"BOCI Securities"	BOCI Securities Limited, the Company's PRC financial advisor in relation to the Acquisition
"Business Day"	means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general commercial business in Hong Kong and the PRC
"Company" or "Purchaser"	四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the Main Board of the Stock Exchange
"Completion"	the Completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Directors"	the directors of the Company
"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and credited as fully paid up in RMB by PRC nationals and/or PRC incorporated entities

"EGM"	an extraordinary general meeting of the Company to be convened on Friday, 20 August 2010 at Chengdu Hejiangting Hanwen Hotel, 138 Bingjiang Donglu, Chengdu, Sichuan, the PRC to consider and approve the Acquisition Agreement and the transactions contemplated therein, the proposed change of Company name and the proposed amendments to the Articles of Association
"Enlarged Group"	the Group as enlarged by the Acquisition
"First Instalment Payment"	the first instalment of the payment for the consideration for the Acquisition, being RMB1,130,000,000
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"Latest Practicable Date"	22 June 2010, being the latest practical date prior to the printing of this circular for ascertaining certain information contained therein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Parent"	四川新華發行集團有限公司 (Sichuan Xinhua Publishing Group Co. Ltd.*), a wholly State-owned company established in the PRC, and a promoter and controlling shareholder of the Company as at the Latest Practicable Date
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)

“RMB”	Renminbi, the lawful currency of the PRC
“SASAC of Sichuan Province”	四川省政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Sichuan Provincial Government of the PRC)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares of the Company with a nominal value of RMB1.00 each, comprising both Domestic Shares and H Shares
“Shareholder(s)”	registered holder(s) of the Share(s)
“SPG” or “Seller”	四川出版集團有限責任公司 (Sichuan Publication Group Company Limited*), a wholly Sate-owned company in the PRC, a promoter and a shareholder of the Company, which holds 2.13% equity interests in the Company as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

"Target Group Companies"	15 companies in total, all of which are wholly-owned subsidiaries of SPG prior to the Acquisition, including: • 四川人民出版社有限公司 (Sichuan People's Publishing House Company Limited*) • 四川出版印刷有限公司 (Sichuan Publishing Group Company Limited*) • 四川教育出版社有限公司 (Sichuan Education Publishing House Company Limited*) • 四川少年兒童出版社有限公司 (Sichuan Youth and Children's Publishing House Company Limited*) • 四川科學技術出版社有限公司 (Sichuan Science & Technology Publishing House Company Limited*) • 四川美術出版社有限公司 (Sichuan Fine Arts Publishing House Company Limited*) • 四川文藝出版社有限公司 (Sichuan Literature & Art Publishing House Company Limited*) • 四川辭書出版社有限公司 (Sichuan Lexicographical Publishing House Company Limited*) • 四川巴蜀書社有限公司 (Sichuan Bashu Publishing House Company Limited*) • 四川天地出版社有限公司 (Sichuan Tiandi Publishing House Company Limited*) • 四川數字出版傳媒有限公司 (Sichuan Digital Publishing & Media Company Limited*) • 四川省印刷物資有限責任公司 (Sichuan Printing Material Company Limited*) • 四川上瑞教育圖書有限責任公司 (Sichuan Shangrui Education Textbooks Company Limited*) • 四川讀者報社有限公司 (Sichuan Reader's Journal Press Company Limited*) and • 四川畫報社有限公司 (Sichuan Pictorial Company Limited*), and any subsidiaries of such companies from time to time
"WAG"	WAG Worldsec Corporate Finance Limited, a corporation licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"%"	per cent.

* *For identification purposes only*

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

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 811)

Executive Directors:
Mr. Gong Cimin *(Chairman)*
Mr. Zhang Bangkai *(Vice Chairman)*

Non-Executive Directors:
Ms. Wang Jianping
Mr. Zhang Chengxing
Mr. Li Jiawei
Mr. Luo Jun
Mr. Yu Changjiu
Mr. Wu Qiang
Mr. Zhao Miao
Mr. Zhao Junhuai

Independent Non-executive Directors:
Mr. Han Xiaoming
Mr. Cheng Sanguo
Mr. Chan Yuk Tong

Registered office in the PRC:
12th Floor, No. 86 Section One
People's South Road
Qingyang District
Chengdu, Sichuan
PRC

Head office in the PRC:
No. 6 Wenxuan Road
Shang Mao Dadao
Cheng Bei
Chengdu, Sichuan 610081
PRC

Principal place of business in Hong Kong:
8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 June 2010

To the Shareholders

Dear Sir/Madam,

(1) MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN THE TARGET GROUP COMPANIES
(2) PROPOSED CHANGE OF COMPANY NAME
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

We refer to the announcement made by the Company on 22 June 2010 in relation to the Acquisition, pursuant to which the Company has conditionally agreed to acquire, and SPG has conditionally agreed to dispose of, the entire equity interests in the Target Group Companies for an aggregate consideration of RMB1,255,000,000 (equivalent to approximately HK$1,435,270,000), subject to the terms and conditions of the Acquisition Agreement.

* *For identification purposes only*

The Acquisition contemplated under the Acquisition Agreement constitutes a major transaction (acquisition) for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratio exceeds 25% but does not exceed 100% and is subject to the notification, publication and shareholders' approval requirements. SPG and 四川少年兒童出版社有限公司 (Sichuan Youth and Children's Publishing House Company Limited*), who have material interests in the Acquisition, will abstain from voting at the EGM.

Set out on pages N-1 to N-6 of this circular is the notice convening the EGM to be held on Friday, 20 August 2010 at Chengdu Hejiangting Hanwen Hotel, 138 Bingjiang Donglu, Chengdu, Sichuan, the PRC. Ordinary resolution in respect of the Acquisition Agreement and all transactions contemplated therein and special resolutions in respect of the change of Company name and amendments to the Articles of Association are proposed to the Shareholders at the EGM for their consideration and approval.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. In case of holders of H Shares, the proxy forms shall be lodged with the H Shares share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and in case of holders of Domestic Shares, the proxy forms shall be lodged with the head office of the Company in the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so wish.

The purpose of this circular is to provide you with, among other things, (i) further information in respect of the Acquisition; (ii) information regarding the special resolution to be proposed at the EGM to the proposed change of Company name; and (iii) information regarding the special resolutions to be proposed at the EGM to the proposed amendments to the Articles of Association.

THE ACQUISITION AGREEMENT

Date

22 June 2010

Parties

(1) SPG as Seller

(2) the Company as Purchaser

SPG is a promoter of the Company and as at the Latest Practicable Date, holds 2.13% equity interests in the Company (being 24,151,499 Domestic Shares). Other than the aforesaid, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Seller and its ultimate beneficial owner are third parties independent of the Company and/or connected persons of the Company (as defined in the Listing Rules).

Assets Acquired under the Acquisition Agreement

The entire equity interests in the Target Group Companies (comprising all of the 15 companies) held by SPG.

Consideration

The consideration for the Acquisition is RMB1,255,000,000 (equivalent to approximately HK$1,435,270,000).

The consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement, taking into account a number of factors including, among other things, the financial position and performance of the Target Group Companies, the prevailing price-earning indicators in the relevant industries, the business prospects and the reasons for, and benefits to be derived from, the Acquisition as described below.

Payment Terms

The consideration for the Acquisition Agreement will be settled by cash in two instalments in accordance with the relevant requirements of State-owned assets supervision authorities, and in the manner set out below:

(1) RMB1,130,000,000 (approximately HK$1,292,315,000), being the First Instalment Payment, shall be paid by the Company to SPG within 5 Business Days from the date on which all conditions precedent set out in the Acquisition Agreement have been fulfilled or waived (as the case may be); and

(2) the balance of RMB125,000,000 (approximately HK$142,955,000) shall be paid by the Company to SPG within one year from Completion, by which time all registration and filing procedures in relation to the transfer of the entire equity interests in the Target Group Companies shall have been completed, or, where appropriate, waived by the Company.

Conditions Precedent

Payment Conditions Precedent

The Company's payment obligation shall be conditional on, among other things, the following conditions having been fulfilled or waived on or before the Long Stop Date:

(1) The results of the financial, business and legal due diligence and any further due diligence conducted by the Company or its representatives do not reveal issues that in the reasonable opinion of the Company will have, or are likely to have, a material adverse impact on the financial pattern or prospect of the Target Group Companies;

(2) The parties to the Acquisition Agreement have filed or obtained the following approvals or consents to facilitate the progress of the Acquisition:

   (a) consents from financial creditors (if necessary) in relation to the transfer of the State-owned equity interests in the Target Group Companies have been obtained;

   (b) the employee settlement plan has been passed by the meetings of the employee representatives or meetings of the employees of the Target Group Companies, and approved by the relevant labor bureaus (if necessary);

   (c) all necessary approvals and consents from the authorities-in-charge of SPG in respect of the Acquisition and transactions contemplated by the Acquisition have been obtained;

   (d) the passing by the Shareholders of the necessary resolution at the Company's EGM to approve the Acquisition and transactions contemplated therein;

   (e) all necessary approvals and consents from SASAC of Sichuan Province in respect of the Acquisition and transactions contemplated by the Acquisition have been obtained; and

   (f) the Acquisition has been approved by the relevant authorities-in-charge.

(3) There has been no material adverse change to the business operation and financial conditions of the Target Group Companies since the execution of the Acquisition Agreement; and

(4) The representations and warranties made by SPG remain true, accurate, complete and not misleading as at the date when the above conditions have been fulfilled, except for those representations and warranties which are only required to be true, accurate, complete and not misleading as at or up to a specific date.

Registration and Filing Conditions Precedent

The obligations of SPG and the Target Group Companies to complete the registration and filing procedures in relation to the Acquisition shall be conditional on, among other things, the following conditions having been fulfilled or waived on or before the Long Stop Date:

(1) The passing by the Shareholders of the necessary resolution at the Company's EGM to approve the Acquisition and transactions contemplated therein;

(2) There has been no material adverse change to the business operation and financial conditions of the Company since the execution of the Acquisition Agreement;

(3) The First Instalment Payment has been duly paid by the Company; and

(4) The representations and warranties made by the Company remain true, accurate, complete and not misleading as at the date when the above conditions have been fulfilled, except for those representations and warranties which are only required to be true, accurate, complete and not misleading as at or up to a specific date.

Completion

Within 20 Business Days from the date on which the First Instalment Payment has been duly paid, SPG and the Target Group Companies shall complete all registration and filing procedures in relation to the transfer of the entire equity interests in the Target Group Companies (if the relevant registration and filing procedures cannot be completed on time due to any specific reason, SPG shall notify the Company in advance and obtain the Company's written waiver confirmation, if applicable).

Completion shall take place on the day when all registration and filing procedures in relation to the transfer of the entire equity interests in the Target Group Companies have been completed.

As far as the parties to the Acquisition Agreement are concerned, the transfer of ownership and control of the Target Group Companies shall be regarded as effective from the date when the First Instalment Payment has been made by the Company after all payment conditions precedents have been fulfilled or waived.

Consideration Adjustment

SPG undertakes to the Company that the arithmetic annual average net profit of the Target Group Companies (including all applicable preferential tax treatment and fiscal subsidies) for the three years ending 31 December 2010, 2011 and 2012 shall be no less than RMB112,000,000 (approximately HK$128,088,000); failing which SPG shall pay the Company a sum (in RMB) equivalent to the shortfall unless such shortfall is attributable to any fault caused by the Company.

INFORMATION ON THE COMPANY

The Company is principally engaged in (i) the operation of retail outlets for books and audio-visual products; (ii) distribution of textbooks and supplementary materials; and (iii) provision of ancillary support and services to publishers of books in the PRC.

INFORMATION ON THE SELLER AND THE TARGET GROUP COMPANIES

SPG was reorganised from its predecessor, Sichuan Publication Group, a public interest entity, into a wholly State-owned company incorporated in the PRC with limited liability on 6 November 2009, with registered capital and paid-up capital of RMB500,000,000 (approximately HK$571,821,000). SPG is primarily engaged in the publication and supply of textbooks, investment and asset management in the publishing industry, warehousing service, real estate development and property management.

The Target Group Companies comprise 15 companies, all of which are wholly-owned subsidiaries of SPG:

(1) 四川人民出版社有限公司 (Sichuan People's Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川人民出版社 (Sichuan People's Publishing House*), which was approved to be established on 11 October 1952 and obtained its business licence on 1 November 1980, with registered capital and paid-up capital of RMB10,000,000 (approximately HK$11,436,000). This company is principally engaged in the business of publication and distribution of books, wholesale and retail, advertising, and imports and exports of related products.

(2) 四川出版印刷有限公司 (Sichuan Publishing Group Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川出版集團公司 (Sichuan Publishing Group Company*), which was approved to be established on 17 October 1992 and obtained its business licence on 12 February 1993, with registered capital and paid-up capital of RMB50,000,000 (approximately HK$57,182,000). This company is principally engaged in the business of publication and supply of textbooks, and wholesale and retail of related products.

(3) 四川教育出版社有限公司 (Sichuan Education Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川教育出版社 (Sichuan Education Publishing House*), which was approved to be established on 27 August 1983 and obtained its business licence on 29 July 1985, with registered capital and paid-up capital of RMB10,000,000 (approximately HK$11,436,000). This company is principally engaged in the business of publication and distribution of books.

(4) 四川少年兒童出版社有限公司 (Sichuan Youth and Children's Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川少年兒童出版社 (Sichuan Youth and Children's Publishing House*), which was approved to be established on 24 September 1980 and obtained its business licence on 27 June 1985, with registered capital and paid-up capital of RMB10,000,000 (approximately HK$11,436,000). This company is principally engaged in the business of publication of books and periodicals, distribution, development of electronic and audio-visual products, publication of internet products, wholesale and retail, advertising, and imports and exports of related products. Sichuan Youth and Children's Publishing House Company Limited owns 0.61% equity interests in the Company and, upon Completion, will continue to maintain such shareholding. As confirmed by the Company's PRC legal adviser, the continuous holding of the Company's Domestic Shares by Sichuan Youth and Children's Publishing House Company Limited upon Completion does not contravene applicable PRC laws. The parties agree to engage in continuous negotiations in good faith with a view to reaching a satisfactory solution with respect to the Domestic Shares held by Sichuan Youth and Children's Publishing House Company Limited upon Completion. Detailed arrangement relating to the disposal of such Domestic Shares will be dealt with by way of a separate agreement to be reached by the relevant parties.

(5) 四川科學技術出版社有限公司 (Sichuan Science & Technology Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川科學技術出版社 (Sichuan Science & Technology Publishing House*), which was approved to be established on 24 September 1982 and obtained its business licence on 11 June 1985, with registered capital and paid-up capital of RMB4,000,000 (approximately HK$4,575,000). This company is principally engaged in the business of publication of books, advertising, and imports and exports of related products.

(6) 四川美術出版社有限公司 (Sichuan Fine Arts Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川美術出版社 (Sichuan Fine Arts Publishing House*), which was approved to be established on 3 September 1984 and obtained its business licence on 2 July 1985, with registered capital and paid-up capital of RMB4,250,000 (approximately HK$4,860,000). This company is principally engaged in the business of publication of books, training on professional skills, advertising, sale of fine arts, and imports and exports of related products.

(7) 四川文藝出版社有限公司 (Sichuan Literature & Art Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川文藝出版社 (Sichuan Literature & Art Publishing House*), which was approved to be established on 3 September 1984 and obtained its business licence on 8 October 1985, with registered capital and paid-up capital of RMB5,000,000 (approximately HK$5,718,000). This company is principally engaged in the business of publication and distribution of books, consultation on printing techniques, advertising, and imports and exports of related products.

(8) 四川辭書出版社有限公司 (Sichuan Lexicographical Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川辭書出版社 (Sichuan Lexicographical Publishing House*), which was approved to be established on 7 June 1985 and obtained its business licence on 31 October 1986, with registered capital and paid-up capital of RMB2,000,000 (approximately HK$2,287,000). This company is principally engaged in the business of publication and distribution of books, advertising, wholesale and retail, and imports and exports of related products.

(9) 四川巴蜀書社有限公司 (Sichuan Bashu Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川巴蜀書社 (Sichuan Bashu Publishing House*), which was approved to be established on 10 August 1983 and obtained its business licence on 7 January 1985, with registered capital and paid-up capital of RMB2,000,000 (approximately HK$2,287,000). This company is principally engaged in the business of publication and distribution of books, and imports and exports of related products.

(10) 四川天地出版社有限公司 (Sichuan Tiandi Publishing House Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川天地出版社 (Sichuan Tiandi Publishing House*), which was approved to be established on 24 November 1995, with registered capital and paid-up capital of RMB2,000,000 (approximately HK$2,287,000). This company is principally engaged in the business of publication and distribution of books.

(11) 四川數字出版傳媒有限公司 (Sichuan Digital Publishing & Media Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川電子音像出版中心 (Sichuan Electronic Audio-video Publishing Center*), which was approved to be established on 9 December 1996 and obtained its business licence on 23 February 1994, with registered capital and paid-up capital of RMB10,000,000 (approximately HK$11,436,000). This company is principally engaged in the business of publication and distribution of audio-visual and electronic products, publication of internet products, wholesale of audio-visual products, advertising, imports and exports of related products, and training on professional skills.

(12) 四川省印刷物資有限責任公司 (Sichuan Printing Material Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川省印刷物資公司 (Sichuan Printing Material Company*), which was approved to be established on 10 September 1980 and obtained its business licence on 16 April 1986, with registered capital and paid-up capital of RMB30,000,000 (approximately HK$34,309,000). This company is principally engaged in the business of wholesale and retail, advertising, imports and exports of products, and warehousing service.

(13) 四川上瑞教育圖書有限責任公司 (Sichuan Shangrui Education Textbooks Company Limited*) was incorporated in the PRC with limited liability on 8 October 2004 under the PRC laws, with registered capital and paid-up capital of RMB20,000,000 (approximately HK$22,873,000). This company is principally engaged in the business of publication of books, newspapers and periodicals, sale of papers, and provision of commercial service.

(14) 四川讀者報社有限公司 (Sichuan Reader's Journal Press Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川讀者報社 (Sichuan Reader's Journal Press*), which was approved to be established on 13 October 1993, with registered capital and paid-up capital of RMB1,500,000 (approximately HK$1,715,000). This company is principally engaged in the business of publication of Sichuan Reader's Journal, advertising, wholesale and retail, and imports and exports of related products.

(15) 四川畫報社有限公司 (Sichuan Pictorial Company Limited*) was reorganised into a limited liability company on 29 December 2009 under the PRC laws from its predecessor, 四川畫報社 (Sichuan Pictorial*), which was approved to be established on 20 August 1972, with registered capital and paid-up capital of RMB1,500,000 (approximately HK$1,715,000). This company is principally engaged in the business of publication of periodicals, wholesale and retail, advertising, and imports and exports of related products.

Set out below is the financial information of the Target Group Companies for the two financial years immediately preceding the Acquisition, which are prepared in accordance with IFRS:

	For the year ended 31 December 2008 *RMB'000* *(audited)*	**For the year ended 31 December 2009** *RMB'000* *(audited)*
Net profit before taxation	108,050	150,943
Net profit after taxation	69,190	111,865
Total assets	1,819,687	1,381,339
Net assets	1,293,018	770,314

REASONS FOR AND BENEFITS FROM THE ACQUISITION

Benefiting from the sustained growth of the PRC macro economy and the gradual implementation of supportive government policy in the culture industry, the press and publishing industry achieved significant development. Merger and acquisition with characteristics of "cross-industries, cross-regions and cross-medias" and deepened integration between enterprises engaged in upstream and downstream operations in the press and publishing industry have become a major means and a preferred model for traditional enterprises in the press and publishing industry to enhance their market competitiveness and ability to maintain sustainable growth.

The Company is a pilot enterprise of the PRC cultural system reform and one of the leading provincial operators in the press and publishing industry in the PRC. One strategic objective of the Company is to become a major cultural media group in the PRC. The Company strives to strengthen its current core distribution business and seeks expansions in media and cultural education-related business. The Directors believe that expansion in upstream business through merger and acquisition will realize the business integration and strengthen the Company's competitiveness of its core businesses.

With its publishing resources and unique market position, SPG is one of the largest integrated publishers in the western region of the PRC. In addition, as at the date of this circular, SPG is the largest supplier of the Company and has significant influence on upstream business of the regional market. The long-term business cooperation between SPG and the Company, and the policy support on merger and acquisition of culture enterprises by Sichuan Provincial Government are favorable considerations for the Acquisition and the Directors believe the Target Group Companies will play an important role in facilitating the Company to achieve its strategic objectives.

The Directors believe that the Acquisition is a key step for the Company to achieve its strategic objectives, which will enable the Company to adapt to the current industrial development trend, to capture the opportunity following the PRC industrial policy adjustment, to expand into upstream business through merger and acquisition, and to become an integrated operator in the press and publishing industry.

The Directors are of the view that the Company will benefit from the following aspects upon successful Completion of the Acquisition:

(1) Leveraging on the Target Group Companies' current resources and competitiveness in the publication industry, the Company is likely to tap into upstream publication business by scale at comparatively low costs, to optimize its existing business structure, to support the sustainable development of its core business, and to better cope with an increasingly competitive market;

(2) Certain quality publication products from the Target Group Companies will provide the Company with products support, thus enabling the Company to utilize its retail distribution and zhongpan networks, as well as its subscription capabilities to increase the Company's market share and sales performance;

(3) Through Acquisition, the Company is able to benefit from the profit contribution from the Target Group Companies in the upstream industry chain of the publication business sector. An integrated operation combining publication and distribution will result in more efficient resources allocation and reduction in relevant operation costs, thus enhancing the Company's operation efficiency and profitability; and

(4) The currently available publication resources of the Target Group Companies will provide the Company with a solid basis to expand into the digitalized publication business, enabling the Company to promptly tap into the digital publication sector and to further understand the commercial pattern and operation mechanism of the content operation platform of such digital publication sector.

Taking into account of the above-mentioned factors and all relevant facts and circumstances, the Directors are of the view that the terms and conditions of the Acquisition Agreement and the transaction contemplated therein are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS

Upon Completion of the Acquisition, the Target Group Companies will become subsidiaries of the Company and their financial results of the Target Group Companies will be consolidated into the consolidated financial statements of the Company. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this Circular, the unaudited pro forma net assets of the Enlarged Group as at 31 December 2009 would be approximately RMB3,876,494,000 (approximately HK$4,433,319,000).

Looking forward, in view of the fast opening up of the PRC publication market and the continued growth of the PRC economy, the Enlarged Group will continue its existing business and explore other business opportunities in the publishing and distribution industries that have earning potentials in order to expand its existing operations and to diversify its business portfolio. With the committed efforts of the staff and management, the Directors are confident and optimistic of the prospects of the Enlarged Group and believe that the Acquisition can bring a more diversified business portfolio and higher return to the Company.

FINANCIAL EFFECT OF THE ACQUISITION ON THE COMPANY

Upon completion of the Acquisition, the Target Group Companies will become subsidiaries of the Company and their financial results will be consolidated into the consolidated financial statements of the Company. The Directors believe that the Acquisition will provide attractive business opportunities to the Company and improve its income base in view of the considerable growth potential in the publishing and distributing industries.

Based on the audited financial information of the Company as set out in Appendix I to this circular, the total assets, total liabilities, net assets and equity attributable to equity holders of the Group as at 31 December 2009 were approximately RMB5,798,025,000 (approximately HK$6,630,861,000), RMB1,901,311,000 (approximately HK$2,174,418,000), RMB3,896,714,000 (approximately HK$4,456,443,000) and RMB3,810,079,000 (approximately HK$4,357,364,000), respectively.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the total assets, total liabilities, net assets and equity attributable to equity holders of the Enlarged Group as at 31 December 2009 were approximately RMB5,966,532,000 (approximately HK$6,823,573,000), RMB2,090,038,000 (approximately HK$2,390,254,000), RMB3,876,494,000 (approximately HK$4,433,319,000) and RMB3,789,532,000 (approximately HK$4,333,866,000), respectively. The above items include the goodwill arising from the Acquisition. The actual amount of the goodwill arising from the Acquisition would be determined on the date of Completion. It is expected that the Acquisition will not have any adverse effect on the financial position and earnings of the Company.

On Completion, the fair value of the net identifiable assets, liabilities and contingent liabilities of the Company will have to be reassessed. As a result of such reassessment, the assets and liabilities of the Company upon Completion may be different from the estimations based on the basis stated for the purpose of preparation of the unaudited pro forma financial information. The amount of goodwill will be subject to regular impairment assessment and any impairment loss would be recognised as an expense in the Enlarged Group's consolidated income statement.

IMPLICATION UNDER THE LISTING RULES

The Acquisition contemplated under the Acquisition Agreement constitutes a major transaction (acquisition) for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratio exceeds 25% but does not exceed 100% and is subject to the notification, publication and shareholders' approval requirements. SPG and 四川少年兒童出版社有限公司 (Sichuan Youth and Children's Publishing House Company Limited*), who have material interests in the Acquisition, will abstain from voting at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, voting on all resolutions set out in the notice of EGM be taken by way of poll pursuant to Article 78 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or by its duly authorised representative (being a corporation) shall have one vote for each Share registered in his/her name in the register of members. A Shareholder entitled to more than one vote needs not use all his votes or cast all the votes he uses in the same manner.

PROPOSED CHANGE OF COMPANY NAME

In connection with the Acquisition, the Board proposes to change the Chinese name of the Company from "四川新華文軒連鎖股份有限公司" to "新華文軒出版傳媒股份有限公司" and to adopt "Xinhua Winshare Publishing and Media Co., Ltd.*" as the new English name of the Company.

The Board considers that the new name will better reflect the integrated business of the Company following the Acquisition as well as the Company's strategic objective to become a major cultural media group in the press and publishing industry of the PRC. The Board believes that the new name will provide the Company with an explicit image which will foster its business expansion, and is in the interest of the Company and its Shareholders as a whole.

The change of the Company's name will be subject to (i) the passing of a special resolution by the Shareholders at the EGM and (ii) the approvals from the General Administration of Press and Publication of the PRC ("GAPP") and the State Administration for Industry & Commerce of the PRC ("SAIC"). The change of name will take effect from the date on which the approvals from GAPP and SAIC have been obtained and the new name has been formally registered.

The change of name will not affect any of the rights of the Shareholders. All existing share certificates of the Company in issue bearing the Company's existing name will, after the change of name, continue to be evidence of title to the same number of Shares of the Company under its new name and will be valid for trading, settlement and registration purposes. Upon the change of name becoming effective, any issue of share certificates thereafter will be under the new name and the Shares of the Company will be traded on the Stock Exchange under the new name. There will not be any arrangements for exchange of existing share certificates. The Company will not change its stock short name and/or stock code.

The Company will make further announcement on the outcome of the EGM, the arrangement and the effective date of the change of Company's name and the trading and dealings in the Shares of the Company on the Stock Exchange under the new name of the Company.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In light of the proposed change of the Company's name, the proposed extension of the Company's business scope, and for the purpose of complying with the Listing Rules, the Board proposes to amend the Articles of Association as follows:

A. Article 1 of the Articles of Association

"The Articles of Association are formulated by the Company pursuant to the Company Law of the PRC (the "Company Law") and other relevant requirements to protect the legal interests of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company"), its shareholders and creditors, and to govern the Company's organizational structure and behavior."

shall be amended as:

"The Articles of Association are formulated by the Company pursuant to the Company Law of the PRC (the "Company Law") and other relevant requirements to protect the legal interests of Xinhua Winshare Publishing and Media Co., Ltd. (the "Company"), its shareholders and creditors, and to govern the Company's organizational structure and behavior."

B. Article 3 of the Articles of Association

"The registered name of the Company:
Chinese Name: 四川新華文軒連鎖股份有限公司。
English Name: SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD."

Shall be amended as:

"The registered name of the Company:
Chinese Name: 新華文軒出版傳媒股份有限公司。
English Name: XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD."

C. Article 7 of the Articles of Association

"The Articles of Association (the "Articles of Association") are formulated by the Company based on the amendments to the articles of association (the "original Articles of Association") passed at the inauguration meeting of the Company and subsequently amended at the 2005 extraordinary general meeting, the 2006 first extraordinary general meeting, the extraordinary general meeting held on 22 April 2007 and the annual general meeting held on 16 June 2009 pursuant to the Company Law, the Securities Law and other laws and administrative regulations of the State.

The Articles of Association has become effective and supersede the Original Articles of Association from the date of passing the Articles of Association at the annual general meeting held on 9 June 2010.

From the effective date onwards, the Articles of Association shall be the legally binding document governing the Company's organizational structure and behavior, and the rights and obligations between the Company and shareholders, and among the shareholders."

shall be amended as:

"The Articles of Association (the "Articles of Association") are formulated by the Company based on the amendments to the articles of association (the "original Articles of Association") passed at the inauguration meeting of the Company and subsequently amended at the 2005 extraordinary general meeting, the 2006 first extraordinary general meeting, the extraordinary general meeting held on 22 April 2007, the annual general meeting held on 16 June 2009 and the annual general meeting held on 9 June 2010 pursuant to the Company Law, the Securities Law and other laws and administrative regulations of the State.

The Articles of Association has become effective and supersede the Original Articles of Association from the date of passing the Articles of Association at the extraordinary general meeting held on 20 August 2010.

From the effective date onwards, the Articles of Association shall be the legally binding document governing the Company's organizational structure and behavior, and the rights and obligations between the Company and shareholders, and among the shareholders."

D. Article 11 of the Articles of Association

"The business scope of the Company includes: publishing management of the domestic and overseas books, newspapers, journals, electronic publications, audio-visual products and internet publications; plate-leased printing and provision of consultancy services of publications; general wholesale, wholesale and distribution, retail and chainstore operation of publications; printing, copying and production of publications; copyright trading and foreign co-operative publishing and distribution; purchase and sales of printing materials (the specialised items above which are subject to the approval of licences and shall be operated with licences within the valid term); research, development, promotion and application of new media; leasing of properties; business services; wholesale and retail of goods; and import and export.

The business scope of the Company shall be in accordance with the items approved by the registration authority with which the Company is registered."

shall be amended as:

"The business scope of the Company includes: publishing management of the domestic and overseas books, newspapers, journals, electronic publications, audio-visual products and internet publications; plate-leased printing and provision of consultancy services of publications; general wholesale, wholesale and distribution, retail and chainstore operation of publications; printing, copying and production of publications; copyright trading and foreign co-operative publishing and distribution; purchase and sales of printing materials; general carriage of goods, (the specialised items above which are subject to the approval of licences and shall be operated with licences within the valid term); research, development, promotion and application of new media; leasing of properties; business services; wholesale and retail of goods; and import and export.

The business scope of the Company shall be in accordance with the items approved by the registration authority with which the Company is registered."

The above is the English translation of the Chinese version of the proposed amendments to the Articles of Association. For this section only, should there be any inconsistencies between the English version and the Chinese version, the Chinese version shall prevail.

RECOMMENDATIONS

The Directors are of the opinion that the terms of the Acquisition Agreement are fair and reasonable, the Acquisition, the proposed change of the Company name and the proposed amendments to the Articles of Association are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

For the purpose of this circular, conversion of RMB into HK$ is calculated at the exchange rate of HK$1.00 to RMB0.8744.

Yours faithfully,
By order of the Board
Sichuan Xinhua Winshare Chainstore Co., Ltd.*
Gong Cimin
Chairman

* *For identification purposes only*

I. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for the three years ended 31 December 2009, 2008 and 2007 as extracted from the respective published audited financial statements:

Financial Summary

RESULTS

	For the years ended 31 December		
	2009	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Income	3,208,988	2,736,936	2,309,481
Profit before tax	366,654	341,214	388,759
Income tax	(2,922)	(3,058)	(1,765)
Profit for the year	363,732	338,156	386,994
Minority interests	(5,074)	(168)	1,802
Profit attributable to equity holders of the Company	358,658	337,988	388,796

ASSETS AND LIABILITIES

	As at 31 December		
	2009	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	5,798,025	5,387,558	4,935,265
Total liabilities	(1,901,311)	(1,652,032)	(1,211,269)
	3,896,714	3,735,526	3,723,996
Equity attributable to equity holders of the Company	3,810,079	3,673,905	3,678,638
Minority interests	86,635	61,621	45,358
	3,896,714	3,735,526	3,723,996

II. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

Consolidated Income Statement

Year ended 31 December 2009

	Notes	**2009** *RMB'000*	**2008** *RMB'000*
REVENUE	*5*	3,208,988	2,736,936
Cost of sales		(2,008,828)	(1,630,435)
Gross profit		1,200,160	1,106,501
Other income and gains	*5*	80,581	62,104
Selling and distribution costs		(631,287)	(546,035)
Administrative expenses		(268,779)	(234,904)
Other expenses		(38,649)	(76,675)
Finance income, net	*7*	32,213	39,995
Share of profits and losses of associates		(7,585)	(9,772)
PROFIT BEFORE TAX	*6*	366,654	341,214
Income tax expense	*10*	(2,922)	(3,058)
PROFIT FOR THE YEAR		363,732	338,156
Attributable to:			
Owners of the parent		358,658	337,988
Minority interests		5,074	168
		363,732	338,156
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	*13*	0.32	0.30

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 2009

	Notes	**2009** *RMB'000*	**2008** *RMB'000*
PROFIT FOR THE YEAR		363,732	338,156
Asset revaluation surplus arising on the acquisition of a subsidiary	*35*	11,018	–
Effect of income tax exemption from years 2009 to 2013	*22*	(6,476)	–
Other comprehensive income for the year, after tax		4,542	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAX		368,274	338,156
Attributable to:			
Owners of the parent		363,200	337,988
Minority interests		5,074	168
		368,274	338,156

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	823,169	533,473
Lease prepayments for land use rights	15	109,246	68,371
Investment properties	16	5,254	5,660
Goodwill	17	3,307	3,307
Other intangible assets	18	28,372	28,766
Investments in associates	20	32,599	49,079
Available-for-sale equity investments	21	692,835	428,835
Deferred tax assets	22	33,638	48,372
Property under development	23	124,841	126,203
Long-term prepayment	24	62,000	–
Total non-current assets		1,915,261	1,292,066
CURRENT ASSETS			
Inventories	25	696,826	827,046
Trade receivables	26	324,335	309,919
Prepayments, deposits and other receivables	27	172,079	153,546
Held-to-maturity investments	28	260,000	180,000
Pledged deposits	29	82,309	14,280
Cash and short-term deposits	29	2,347,215	2,610,701
Total current assets		3,882,764	4,095,492
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	46,125	9,600
Trade and bills payables	31	1,224,160	1,172,939
Deposits received, other payables and accruals	32	626,556	461,042
Tax payable		3,345	4,926
Total current liabilities		1,900,186	1,648,507

	Notes	2009 RMB'000	2008 RMB'000
NET CURRENT ASSETS		1,982,578	2,446,985
TOTAL ASSETS LESS CURRENT LIABILITIES		3,897,839	3,739,051
NON-CURRENT LIABILITIES			
Other borrowings	*30*	1,125	3,525
Total non-current liabilities		1,125	3,525
Net assets		3,896,714	3,735,526
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*33*	1,135,131	1,135,131
Reserves	*34*	2,357,111	2,311,748
Proposed final dividend	*12*	317,837	227,026
		3,810,079	3,673,905
Minority interests		86,635	61,621
Total equity		3,896,714	3,735,526

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent									
	Notes	Issued capital RMB'000 (note 33)	Share premium account 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	Minority interests RMB'000	Total equity RMB'000
Year ended 31 December 2008 (Restated)											
As at 1 January 2008		1,135,131	1,708,203	33,514	93,285	48,393	340,539	319,573	3,678,638	45,358	3,723,996
Total comprehensive income for the year		–	–	–	–	–	–	337,988	337,988	168	338,156
Final dividend for 2007		–	–	–	–	–	(340,539)	–	(340,539)	–	(340,539)
Appropriation to statutory surplus reserve		–	–	–	33,568	–	–	(33,568)	–	–	–
Proposed final 2008 dividend		–	–	–	–	–	227,026	(227,026)	–	–	–
Investments in subsidiaries		–	–	–	–	–	–	–	–	7,350	7,350
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	8,733	8,733
Equity transactions with minority equity holders		–	–	(2,182)	–	–	–	–	(2,182)	2,782	600
Dividends to minority equity holders		–	–	–	–	–	–	–	–	(2,770)	(2,770)
As at 31 December 2008		1,135,131	1,708,203*	31,332*	126,853*	48,393*	227,026	396,967*	3,673,905	61,621	3,735,526
Year ended 31 December 2009 (Restated)											
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 minority equity holders		–	–	–	–	–	–	–	–	(3,353)	(3,353)
Acquisition of a subsidiary	35(A)	–	–	–	–	–	–	–	–	28,398	28,398
Appropriation to statutory surplus reserve		–	–	–	35,438	–	–	(35,438)	–	–	–
Disposal of subsidiaries	36	–	–	–	–	–	–	–	–	(5,009)	(5,009)
Proposed final 2009 dividend		–	–	–	–	–	317,837	(317,837)	–	–	–
Acquisition of minority interests	35(A)	–	–	–	–	–	–	–	–	(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

* These reserve accounts comprise the consolidated reserves of RMB2,357,111,000 (2008: RMB2,311,748,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		366,654	341,214
Adjustments for:			
Finance income, net	7	(32,213)	(39,995)
Gains on held-to-maturity investments	5	(8,691)	(27,093)
Loss on an investment designated at fair value through profit or loss		–	1,925
Amortisation of intangible assets	6	4,098	3,448
Recognition of lease prepayments for land use rights	6	4,278	3,766
Share of profits and losses of associates		7,585	9,772
Loss on disposal of items of property, plant and equipment	6	265	152
Depreciation	6	56,146	39,869
Dividends from available-for-sale equity investments	5	(15,520)	–
Excess over the cost of business combinations	5	(3,590)	–
Gain on disposal of subsidiaries	36	(31)	–
Impairment/(reversal of impairment) of trade and other receivables	6	(4,046)	2,368
Write-down of inventories to net realisable value	6	25,356	35,340
		400,291	370,766
Increase/(decrease) in inventories		118,972	(257,749)
Increase/(decrease) in trade receivables		(45,886)	9,942
(Increase)/decrease in prepayments, deposits and other receivables		(17,289)	23,620
Increase in trade and bills payables		87,620	93,050
Increase in deposits received, other payables and accruals		100,704	272,992
Increase/(decrease) in a property under development		1,362	(178)
Cash generated from operations		645,774	512,443
Interest paid		(3,602)	(782)
PRC corporate income tax paid		(1,889)	(1,576)
Net cash flows from operating activities		640,283	510,085

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		36,159	33,535
Interest income from held-to-maturity investments	5	8,691	27,093
Dividends received	5	15,520	291
Proceeds from disposal of items of property, plant and equipment		1,774	1,063
Purchases of items of property, plant and equipment	14	(236,410)	(79,865)
Purchase of a lease prepayment for land use rights	15	(14,126)	–
Purchases of intangible assets	18	(1,782)	(5,313)
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		20,040	124,244
Increase in investments in associates		(20,400)	(11,615)
Acquisition of subsidiaries	35	(4,242)	2,170
Disposal of subsidiaries	36	(18,463)	–
Cash contribution from a minority equity holder		–	7,350
Increase in available-for-sale equity investments		(264,000)	(80,000)
Increase in a long-term prepayment		(62,000)	–
Increase in pledged time deposits		(68,029)	(4,280)
(Purchase)/disposal of held-to-maturity investments		(80,000)	150,000
Disposal of investments at fair value through profit or loss		–	866,255
Equity transaction with minority equity holders		–	600
Net cash flows from/(used in) investing activities		(687,268)	1,031,528
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank and other borrowings		34,125	–
Dividends paid		(227,026)	(340,539)
Dividends paid to minority shareholders		(3,560)	(2,563)
Net cash used in financing activities		(196,461)	(343,102)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(243,446)	1,198,511
Cash and cash equivalents at beginning of year		2,534,945	1,336,434
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,291,499	2,534,945
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	1,105,544	1,311,898
Non-pledged time deposits with original maturity of less than three months when acquired	29	1,185,955	1,223,047
		2,291,499	2,534,945

Statement of Financial Position
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	717,999	530,495
Lease prepayments for land use rights	15	78,065	68,371
Investment properties	16	5,254	5,660
Other intangible assets	18	24,777	27,565
Investments in subsidiaries	19	200,446	108,898
Investments in associates	20	43,460	64,733
Available-for-sale equity investments	21	692,835	428,835
Deferred tax assets	22	40,614	47,090
Long-term prepayment	24	62,000	–
Due from a subsidiary		7,750	5,875
Total non-current assets		1,873,200	1,287,522
CURRENT ASSETS			
Inventories	25	650,772	802,727
Trade receivables	26	209,770	279,830
Prepayments, deposits and other receivables	27	179,251	186,753
Held-to-maturity investments	28	260,000	180,000
Pledged deposits	29	30,000	–
Cash and short-term deposits	29	2,273,375	2,525,698
Total current assets		3,603,168	3,975,008
CURRENT LIABILITIES			
Trade and bills payables	31	1,057,445	1,107,559
Deposits received, other payables and accruals	32	563,398	430,926
Tax payable		–	854
Total current liabilities		1,620,843	1,539,339
NET CURRENT ASSETS		1,982,325	2,435,669
TOTAL ASSETS LESS CURRENT LIABILITIES		3,855,525	3,723,191

	Notes	2009 RMB'000	2008 RMB'000
Net assets		3,855,525	3,723,191
EQUITY			
Issued capital	*33*	1,135,131	1,135,131
Reserves	*34*	2,402,557	2,361,034
Proposed final dividend	*12*	317,837	227,026
Total equity		3,855,525	3,723,191

Notes to Financial Statements

31 December 2009

1. CORPORATE INFORMATION

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.

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. However, 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 ("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 and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis, except for investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 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. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

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

(a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. IAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes, the amendments have had no impact on the financial position or results of operations of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. As the Group has no financial instrument recorded at fair value, the amendments have had no impact on the disclosure to the financial statements.

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14 and thus the adoption of IFRS 8 has had no impact on the disclosure of operating segments.

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements except for concessionaire sales. The amendment has had no impact on the financial position or results of operations of the Group.

(g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. As the Group currently has no embedded derivative, the adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group's current accounting policy aligns with the requirement of this interpretation, therefore, the adoption of this interpretation did not have any significant financial impact on the Group.

(k) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

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

(m) IFRIC 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

IFRIC 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) Improvements to IFRSs

In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes to accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

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

- IAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

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

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

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

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

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

- IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g. discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

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

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than a straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

- IAS 39 *Financial Instruments: Recognition and Measurement:* (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of IAS 39 is applicable.

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 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*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs* 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in IFRIC 8 *Scope of IFRS 2* and *IFRIC 11 IFRS 2-Group and Treasury Share Transactions*. The Group expects to adopt the IFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

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

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

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

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. IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. 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.

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The IAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the IAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

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

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to IFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. Except for the amendment to IAS 18 and the amendment to IFRS 8, the Group expects to adopt the amendments from 1 January 2010. 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 are as follows:

(a) IFRS 2 *Share-based Payment:* Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of IFRS 2 even though it is outside the scope of IFRS 3.

(b) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in IFRS 5; (ii) the general requirements of IAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other IFRSs are not required unless:

  (i) those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

  (ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of IFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) IFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) IAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

(e) 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.

(f) AS 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.

(g) IAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 Operating Segments before aggregation for financial reporting purposes.

(h) IAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) IAS 39 *Financial Instruments: Recognition and Measurement:* Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) IFRIC 9 *Reassessment of Embedded Derivatives:* Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation:* Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

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.

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 allowance on inventories

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

Impairment allowances on receivables

The Group periodically reviews its receivable balances to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the consolidated income 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 from 3 to 40 years, after taking into account of their estimated residual values, as set out in the principal accounting policies below. Depreciation of items of property, plant and equipment and investment properties is calculated on the straight-line basis over their expected useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's interests in associates are stated in the consolidated 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 interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with 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.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed 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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets (other than goodwill)

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

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

Property, plant and equipment

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

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.

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 building as a finance lease in property, plant and equipment.

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.

Investments and other financial assets

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 assets, 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.

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 are recognised in accordance with the policies 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.

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 finance costs.

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 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.

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 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. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

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 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 either directly or 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.

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.

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.

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.

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;

(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.

Financial liabilities

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

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

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 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 or other valuation models.

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, which are not restricted as to use.

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.

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.

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 an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

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

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 year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted 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.

Government grants

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

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.

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.

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: Provision of ancillary support and services to book publishers
- 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 its 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 from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations 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.

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

Year ended 31 December 2008

	Product	Zhongpan	Subscription	Retailing	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue and other income						
Sales to external customers	27,562	118,220	2,180,595	405,169	5,390	2,736,936
Intersegment sales	447,868	1,725,546	–	–	337	2,173,751
Other income	459	13,380	3,620	16,328	3	33,790
	475,889	1,857,146	2,184,215	421,497	5,730	4,944,477
Elimination of intersegment sales						(2,173,751)
						2,770,726
Results						
Segment results	71,146	18,217	344,596	(48,135)	(13,692)	372,132
Elimination of intersegment results						(42,451)
Unallocated expenses						(54,851)
Unallocated income and gains						1,221
Finance income, net						39,995
Gains on held-to-maturity investments						27,093
Losses on investments designated at fair value through profit or loss						(1,925)
Profit before tax						341,214
Assets and liabilities						
Segment assets	517,573	2,791,436	1,185,150	541,549	188,501	5,224,209
Elimination of intersegment assets						(448,192)
Unallocated assets						611,541
Total assets						5,387,558
Segment liabilities	305,561	1,085,255	408,605	144,541	39,586	1,983,548
Elimination of intersegment liabilities						(347,886)
Unallocated liabilities						16,370
Total liabilities						1,652,032
Other segment information:						
Share of profits and losses of associates	–	–	–	–	(9,772)	(9,772)
Capital expenditure:						
– Property, plant and equipment	686	18,599	45,384	15,163	33	79,865
– Intangible assets	512	1,998	2,350	453	–	5,313
Depreciation	834	20,850	7,152	10,842	191	39,869
Amortisation of intangible assets	331	1,293	1,520	293	11	3,448
Write-down of inventories to net realisable value	(1,504)	8,673	19,017	9,154	–	35,340
Impairment/(reversal of impairment) of trade and other receivables	(2,321)	7,823	(5,704)	2,562	8	2,368
Investments in associates	–	–	–	–	49,079	49,079
Available-for-sale equity investments	–	–	–	–	–	428,835

5. REVENUE, OTHER INCOME AND GAINS

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

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

		2009	**2008**
	Notes	*RMB'000*	*RMB'000*
Revenue			
Sale of goods		3,208,988	2,736,936
Other income and gains			
Government grants		822	3,678
Gross rental income	*(i)*	7,479	4,464
Commission income	*(ii)*	26,776	21,756
Gains on held-to-maturity investments		8,691	27,093
Dividends from available-for-sale equity investments		15,520	–
Excess over the cost of business combinations		3,590	–
Others		17,703	5,113
Total other income and gains		80,581	62,104

Notes:

(i) Rental income is analysed as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Gross rental income in respect of:		
Investment properties	3,760	3,053
Sub-letting of properties	3,719	1,411
	7,479	4,464
Less: Direct operating expenses	(381)	(241)
Net rental income	7,098	4,223

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

	2009	**2008**
	RMB'000	*RMB'000*
Commission from concessionaire sales	21,273	13,893
Commission from agency services for printing	5,503	7,863
	26,776	21,756

6. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		2,008,828	1,630,435
Depreciation:			
Property, plant and equipment	*14*	55,740	39,463
Investment properties	*16*	406	406
		56,146	39,869
Recognition of lease prepayments for land use rights	*15*	4,278	3,766
Amortisation of intangible assets*	*18*	4,098	3,448
Minimum lease payments under operating leases on properties		51,204	51,285
Loss on disposal of items of property, plant and equipment, net		265	152
Impairment/(reversal of impairment) of trade and other receivables		(4,046)	2,368
Write-down of inventories to net realisable value		25,356	35,340
Auditors' remuneration		3,520	4,574
Staff costs:			
Directors' and supervisors' emoluments	*9*	2,056	1,912
Other staff costs			
Wages, salaries and other employee benefits		287,354	250,297
Post-employment pension scheme contributions		24,705	22,106
		312,059	272,403
		314,115	274,315
Foreign exchange differences		141	1,193

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

7. FINANCE INCOME, NET

	Group 2009	Group 2008
	RMB'000	*RMB'000*
Bank interest income	35,815	40,777
Interest expense on bank and other borrowings, wholly repayable within five years	(3,602)	(782)
	32,213	39,995

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 2009 were approximately RMB24,747,000 (2008: RMB22,137,000).

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	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fees	1,450	1,270	300	189
Other emoluments:				
Salaries, allowances and benefits in kind	–	104	204	204
Discretionary bonuses*	–	54	60	60
Post-employment pension scheme contributions	–	7	42	24
	–	165	306	288
Total	1,450	1,435	606	477

* 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.

(a) Independent non-executive directors

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

	2009	2008
	RMB'000	*RMB'000*
Mr. Chan Yuk Tong	190	161
Mr. Han Xiaoming	140	108
Mr. Cheng Sanguo	110	90
Total	440	359

The amount in 2009 represented the fees paid. There were no other emoluments payable to the independent non-executive directors during the year (2008: nil).

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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.

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Executive directors:					
Mr. Gong Cimin*	310	–	–	–	310
Mr. Zhang Bangkai*	125	–	–	–	125
Mr. Dai Chuanping**	175	–	–	–	175
Mr. Yang Miao**	–	54	30	3	87
Mr. Zhang Yexin**	–	50	24	4	78
	610	104	54	7	775
Non-executive directors:					
Ms. Wang Jianping	43	–	–	–	43
Mr. Yu Changjiu	25	–	–	–	25
Mr. Li Jiawei	28	–	–	–	28
Mr. Wu Qiang	28	–	–	–	28
Mr. Luo Jun*	73	–	–	–	73
Mr. Zhao Junhuai	38	–	–	–	38
Mr. Zhang Chengxing*	21	–	–	–	21
Mr. Mo Shixing	33	–	–	–	33
Mr. She Jingping**	12	–	–	–	12
	301	–	–	–	301
Total	911	104	54	7	1,076

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

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

(c) Supervisors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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.

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Mr. Xiao Changjiu	38	–	–	–	38
Mr. Xu Yuzheng*	13	–	–	–	13
Mr. Peng Xianyi	18	–	–	–	18
Ms. Dai Wen	12	–	–	–	12
Ms. Lan Hong	–	66	18	12	96
Ms. Liu Nan	–	66	18	6	90
Mr. Li Qiang	–	72	24	6	102
Mr. Fu Daiguo	48	–	–	–	48
Mr. Li Guangwei	48	–	–	–	48
Mr. Li Yunyi**	6	–	–	–	6
Mr. Wang Feng**	6	–	–	–	6
Total	189	204	60	24	477

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

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

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 RMB880,480).

(d) Five highest paid employees

The five highest paid employees during the year included nil (2008: 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	
	2009	**2008**
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	1,138	1,284
Discretionary bonuses	1,102	837
Post-employment pension scheme contributions	48	34
	2,288	2,155

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 RMB880,480).

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong. Under the prevailing PRC income tax law, except for certain preferential treatment available to the Company and certain subsidiaries, the Group and its associates are subject to corporate income tax at a rate of 25% on their respective taxable income.

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

	2009	**2008**
	RMB'000	*RMB'000*
Current PRC income tax charge for the year	2,826	2,669
Deferred income tax *(note 22)*	96	389
	2,922	3,058

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			
	2009		**2008**	
	RMB'000	%	*RMB'000*	%
Profit before tax	366,654		341,214	
Income tax at the PRC statutory income tax rate of 25%	91,663	25.0	85,303	25.0
Income not subject to tax	(3,880)	(1.1)	–	–
Expenses not deductible for tax purposes	18,600	5.1	4,901	1.4
Tax losses not recognised	1,430	0.4	3,974	1.2
Tax concessions*	(104,891)	(28.6)	(91,120)	(26.7)
Tax charge at the Group's effective rate	2,922	0.8	3,058	0.9

* 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 years 2009 to 2013.

The share of tax attributable to associates amounting to RMB594,000 (2008: RMB519,000), is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB365,836,000 (2008: RMB355,056,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

	2009	**2008**
	RMB'000	*RMB'000*
Proposed final and special dividends – RMB0.28 (2008: RMB0.2) per ordinary share	317,837	227,026

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

	2009	**2008**
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent	358,658	337,988

	Number of shares	
	2009	**2008**
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

Diluted earnings per share for the years ended 31 December 2008 and 2009 have not been presented because no diluting events existed during these two years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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 *(note 35)*	45,625	–	483	65,465	–	111,573
Disposal of subsidiaries *(note 36)*	–	–	(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

Group

	Buildings	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008						
At 1 January 2008:						
Cost or valuation	395,869	30,109	60,789	121,796	17,906	626,469
Accumulated depreciation	(31,345)	(14,701)	(37,068)	(49,236)	–	(132,350)
Net carrying amount	364,524	15,408	23,721	72,560	17,906	494,119
At 1 January 2008, net of accumulated depreciation	364,524	15,408	23,721	72,560	17,906	494,119
Additions	31,920	13,215	13,092	13,657	7,981	79,865
Transfers from construction in progress	23,711	–	–	1,041	(24,752)	–
Acquisition of a subsidiary	–	–	117	50	–	167
Disposals	–	–	(709)	(506)	–	(1,215)
Depreciation provided during the year	(10,805)	(5,456)	(6,346)	(16,856)	–	(39,463)
At 31 December 2008, net of accumulated depreciation	409,350	23,167	29,875	69,946	1,135	533,473
At 31 December 2008:						
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

Company

	Buildings	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

Company

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Equipment and fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008						
At 1 January 2008:						
Cost	395,869	29,865	58,281	119,001	17,906	620,922
Accumulated depreciation	(31,345)	(14,526)	(36,294)	(47,687)	–	(129,852)
Net carrying amount	364,524	15,339	21,987	71,314	17,906	491,070
At 1 January 2008, net of accumulated depreciation	364,524	15,339	21,987	71,314	17,906	491,070
Additions	31,920	13,083	12,883	13,293	7,981	79,160
Transfers from construction in progress	23,711	–	–	1,041	(24,752)	–
Disposals	–	–	(487)	(490)	–	(977)
Depreciation provided during the year	(10,805)	(5,456)	(6,124)	(16,373)	–	(38,758)
At 31 December 2008, net of accumulated depreciation	409,350	22,966	28,259	68,785	1,135	530,495
At 31 December 2008:						
Cost	453,993	42,328	66,579	132,674	1,135	696,709
Accumulated depreciation	(44,643)	(19,362)	(38,320)	(63,889)	–	(166,214)
Net carrying amount	409,350	22,966	28,259	68,785	1,135	530,495

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

As at 31 December 2009, except for eight (2008: four) properties with an aggregate net book value of approximately RMB137,058,000 (2008: RMB70,296,000), the Group has obtained the relevant building ownership certificates.

15. LEASE PREPAYMENTS FOR LAND USE RIGHTS

Group

	2009	**2008**
	RMB'000	*RMB'000*
Carrying amount at 1 January	72,137	75,903
Addition	14,126	–
Acquisition of a subsidiary *(note 35)*	32,005	–
Recognised during the year	(4,278)	(3,766)
Carrying amount at 31 December	113,990	72,137
Less: Current portion, included in prepayments, deposits and other receivables	(4,744)	(3,766)
Non-current portion	109,246	68,371

Company

	2009	**2008**
	RMB'000	*RMB'000*
Carrying amount at 1 January	72,137	75,903
Addition	13,820	–
Recognised during the year	(3,826)	(3,766)
Carrying amount at 31 December	82,131	72,137
Less: Current portion, included in prepayments, deposits and other receivables	(4,066)	(3,766)
Non-current portion	78,065	68,371

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

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

16. INVESTMENT PROPERTIES

	Group and Company 2009	2008
	RMB'000	*RMB'000*
Carrying amount at 1 January	5,660	6,066
Depreciation provided during the year	(406)	(406)
Carrying amount at 31 December	5,254	5,660
Fair value	36,471	37,623

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

The investment properties with a net carrying amount of RMB348,000 (2008: RMB374,000) 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 2009 have been determined by the directors of the Company. The valuation performed by the directors of the Company was on an income capitalisation approach. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

17. GOODWILL

	RMB'000
At 1 January 2008 and 31 December 2008:	
Cost	3,307
Accumulated impairment	–
Net carrying amount	3,307
At 1 January 2009 and 31 December 2009:	
Cost	3,307
Accumulated impairment	–
Net carrying amount	3,307

18. OTHER INTANGIBLE ASSETS

Group

	Computer software *RMB'000*	Others *RMB'000*	Total *RMB'000*
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 *(note 35)*	326	1,601	1,927
Disposal of subsidiaries *(note 36)*	(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
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	25,583	1,318	26,901
Additions	5,313	–	5,313
Amortisation provided during the year	(3,266)	(182)	(3,448)
At 31 December 2008, net of accumulated amortisation	27,630	1,136	28,766
At 31 December 2008:			
Cost	37,250	1,764	39,014
Accumulated amortisation	(9,620)	(628)	(10,248)
Net carrying amount	27,630	1,136	28,766

Company

	Computer software	
	2009 *RMB'000*	2008 *RMB'000*
Cost at 1 January, net of accumulated amortisation	27,565	25,514
Additions	817	5,313
Amortisation provided during the year	(3,605)	(3,262)
At 31 December, net of accumulated amortisation	24,777	27,565
At 31 December:		
Cost	36,518	35,700
Accumulated amortisation	(11,741)	(8,135)
Net carrying amount	24,777	27,565

19. INVESTMENTS IN SUBSIDIARIES

	Company 2009	Company 2008
	RMB'000	*RMB'000*
Unlisted investments, at cost	200,446	108,898

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

Name	Place of registration and operations	Paid-up capital	Percentage of equity attributable to the Company Indirect	Direct	Principal activities
			(%)	*(%)*	
Sichuan Xinhua Online Network Co., Ltd.	PRC	RMB10,000,000	–	100	Internet publication and computer service
Chengdu Xin Hui Industrial Co., Ltd. ("Chengdu Xin Hui")	PRC	RMB100,000,000	–	62.5	Development of real properties
Beijing Hong Zhe Cultural Development Co., Ltd.	PRC	RMB4,980,000	10	90	Sale of publications
Beijing Xinhua Wenxuan Advertising Co., Ltd.	PRC	RMB13,000,000	–	81.54	Provision of advertising services and sale of publications and newspapers
Sichuan Xinhua Wenxuan Media Co., Ltd.	PRC	RMB5,700,000	–	70	Sale of publications and provision of conference and exhibition services
Sichuan Xinhua Shang Paper Co., Ltd. ("Sichuan Xinhua Shang")	PRC	RMB15,000,000	–	51	Sale of printing related products
Beijing Huaxia Shengxuan Book Co., Ltd.	PRC	RMB15,000,000	–	51	Sale of publications
Xinhua Colour Printing	PRC	RMB100,000,000	–	65	Provision of publication printing service
Chengdu Yin Xing Bo Wen Book and Cultural Development Co., Ltd. ("Yin Xing Bo Wen")	PRC	RMB20,000,000	–	100	Textbook related digital products
Beijing Huaying Winshare Movie & Culture Co., Ltd	PRC	RMB20,000,000	–	100	Movie and related shooting service

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

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

20. INVESTMENTS IN ASSOCIATES

	Group 2009 *RMB'000*	Group 2008 *RMB'000*
Share of net assets	31,039	47,519
Goodwill	1,560	1,560
	32,599	49,079

	Company 2009 *RMB'000*	Company 2008 *RMB'000*
Unlisted equity investments, at cost	43,460	64,733

The Group's trade payable balances with the associates are disclosed in notes 32 and 41(b) to the financial statements.

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

Name	Place of registration and operations	Paid-up capital	Percentage of ownership interest attributable to the Group *(%)*	Principal activity
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	RMB40,200,000	34	Technology Development

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

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

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

	2009	2008
	RMB'000	*RMB'000*
Current assets	124,609	107,853
Non-current assets	15,193	136,179
Current liabilities	(58,604)	(135,314)
Revenues	113,590	140,468
Losses	(14,996)	(20,722)

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group and Company	
	2009	2008
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	692,835	428,835

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

	Group and Company	
	2009	2008
	RMB'000	*RMB'000*
Bank of Chengdu Co., Ltd.	240,000	240,000
Anhui Xinhua Media Co., Ltd.	186,415	186,415
Chengdu Institute Sichuan International Studies University	260,000	–
Others	6,420	2,420
	692,835	428,835

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

As at 31 December 2009 and 2008, the unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

22. DEFERRED TAX ASSETS

Deferred tax assets

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	48,372	47,090	47,090	47,090
Acquisition of a subsidiary	–	1,671	–	–
Charged to the income statement *(note 10)*	(655)	(389)	–	–
Charged to other comprehensive income	(6,476)	–	(6,476)	–
At end of year	41,241	48,372	40,614	47,090
Provision in respect of:				
Revaluation of items of property, plant and equipment and lease prepayments for land use rights for tax purposes	40,614	47,090	40,614	47,090
Temporary difference arising from write-down of inventories to net realisable value	627	1,282	–	–
	41,241	48,372	40,614	47,090

Deferred tax liabilities

	Group	
	2009	**2008**
	RMB'000	*RMB'000*
At beginning of year	–	–
Fair value adjustments arising from acquisition of a subsidiary *(note 35)*	(8,162)	–
Deferred tax charged to the income statement during the year *(note 10)*	559	–
Gross deferred tax liabilities at end of year	(7,603)	–
Net deferred tax assets recognised in the consolidated statement of financial position at end of year	33,638	48,372

23. PROPERTY UNDER DEVELOPMENT

	Group	
	2009	2008
	RMB'000	*RMB'000*
Development costs	124,841	126,203

The balance represented lease prepayments for land use rights and other development costs incurred by Chengdu Xin Hui, a subsidiary of the Company, on the development of a property located in Chengdu. The development of the property has been put on hold since 2008 due to changes of development plan as required by the government. Pursuant to the changes of development plan, Chengdu Xin Hui was required by the government to acquire the land use right of a smaller piece of land nearby and include it in the development of the property. As the housing demolition and relocation on the smaller piece of land nearby is still in process and the negotiation on the acquisition price has not completed. 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.

24. LONG TERM PREPAYMENT

	Group and Company	
	2009	2008
	RMB'000	*RMB'000*
Investment deposits	62,000	–

The balance represented the Company's investment deposits in Sichuan Winshare Art Investing & Managing Co., Ltd. and Hainan Publishing Co., Ltd., amounting to RMB12,000,000 and RMB50,000,000 respectively as at 31 December 2009. The business licences of the companies above have not been approved at the year end of 2009.

25. INVENTORIES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Merchandise and products for resale	696,826	827,046	650,772	802,727

At 31 December 2009, there was no inventory pledged as security. (2008: RMB9,222,000).

26. TRADE RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	387,435	378,319	259,801	337,754
Impairment of trade receivables	(60,530)	(65,950)	(47,461)	(55,474)
Allowance for sales returns	(2,570)	(2,450)	(2,570)	(2,450)
	324,335	309,919	209,770	279,830

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 RMB10,080,000. 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	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	197,146	94,907	84,451	75,678
3 to 6 months	60,983	131,998	59,727	130,420
6 months to 1 year	65,285	65,161	64,804	62,714
1 to 2 years	921	17,208	788	10,373
Over 2 years	–	645	–	645
	324,335	309,919	209,770	279,830

Included in the balance as at 31 December 2009 are trade receivables from Xinhua and the fellow subsidiaries (collectively the "Xinhua Group") and associates of RMB8,144,000 (2008: RMB27,465,000) and RMB43,565,000 (2008: RMB11,492,000), respectively (note 41), 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	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	65,950	66,735	55,474	54,692
Charged for the year	16,926	10,597	16,052	10,524
Acquisition of a subsidiary	2,161	2,318	–	–
Amount written off	(3,540)	(5,347)	(3,524)	(4,394)
Amount reversed	(20,967)	(8,353)	(20,541)	(5,348)
	60,530	65,950	47,461	55,474

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.

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	305,479	264,028	191,270	241,779
Less than three months past due	17,935	28,038	17,712	27,033
Over three months past due	921	17,853	788	11,018
	324,335	309,919	209,770	279,830

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

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

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	4,690	7,539	4,191	7,404
Prepayments to suppliers	35,204	17,567	12,257	8,212
Prepayments for construction fees	11,847	6,973	11,279	6,977
Input value-added tax receivables	37,745	52,452	34,999	52,364
Due from the Xinhua Group *(note 41)*	442	283	437	283
Due from subsidiaries	–	–	41,195	50,178
Due from associates *(note 41)*	–	2,707	–	2,707
Prepaid expenses	9,974	7,090	5,267	6,705
Other receivables	72,177	58,935	69,626	51,923
	172,079	153,546	179,251	186,753

Other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables	73,454	60,233	70,876	53,189
Less: Provision for impairment	(1,277)	(1,298)	(1,250)	(1,266)
	72,177	58,935	69,626	51,923

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	1,298	1,174	1,266	1,110
Charged for the year	64	269	53	269
Amount written off	(16)	–	–	–
Amount reversed	(69)	(145)	(69)	(113)
	1,277	1,298	1,250	1,266

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	72,177	58,935	69,626	51,923

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

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

Included in the amounts due from subsidiaries as at 31 December 2009 were three entrusted loans of RMB1,875,000, RMB16,000,000 and RMB5,875,000. All these entrusted loans were lent by the Company (the "Lender") to Chengdu Xin Hui (the "Borrower"). The entrusted loans of RMB1,875,000 were granted in 2009 and will mature in December 2012. The entrusted loans of RMB16,000,000 and RMB5,875,000 were included in the amounts due from subsidiaries as at 31 December 2008 and have been extended to March 2010 and December 2011, respectively, in 2009. Therefore, the Company classified the entrusted loans of RMB1,875,000 and RMB5,875,000 as non-current assets as at 31 December 2009. 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 4.78% to 6.72% (2008: from 5.4% to 6.72%)

According to the agreement entered into between the Company and Xinhua on 29 April 2007 concerning the financing arrangement of Chengdu Xin Hui, the Company and Xinhua would provide entrusted loans to Chengdu Xin Hui in proportion to their respective equity interests in Chengdu Xin Hui. The above-mentioned entrusted loans by the Company to Chengdu Xin Hui were arranged according to the agreement. These entrusted loans by Xinhua to Chengdu Xin Hui are disclosed in note 31.

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.

28. HELD-TO-MATURITY INVESTMENTS

As at 31 December 2009, the held-to-maturity investments of the Group were stated at amortised cost. The investments were principal-secured, with an expected annual interest rate of 2.95% and will mature in January and February 2010.

29. CASH AND SHORT-TERM DEPOSITS

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	1,105,544	1,311,898	1,031,704	1,226,895
Pledged time deposits with original maturity of less than three months when acquired	82,309	14,280	30,000	–
Non-pledged time deposits with original maturity of:				
More than three months when acquired	55,716	75,756	55,716	75,756
Less than three months when acquired	1,185,955	1,223,047	1,185,955	1,223,047
	2,429,524	2,624,981	2,303,375	2,525,698
Less: Pledged time deposits with original maturity of less than three months when acquired	(82,309)	(14,280)	(30,000)	–
Cash and short-term deposits	2,347,215	2,610,701	2,273,375	2,525,698

At the end of the reporting period, the Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounting to RMB2,411,844,000 (2008: RMB2,606,929,000), which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December 2009 and 2008:

	Group	
	2009	**2008**
	RMB'000	*RMB'000*
Cash and short-term deposits	2,347,215	2,610,701
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(55,716)	(75,756)
	2,291,499	2,534,945

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2009	**2008**
	RMB'000	*RMB'000*
Bank loans – secured	23,000	–
Bank loans – unsecured	10,000	–
Other borrowings – unsecured	14,250	13,125
Total interest-bearing bank and other borrowings	47,250	13,125
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year or on demand	46,125	9,600
In the second year	–	3,525
In the third to fifth years, inclusive	1,125	–
	47,250	13,125
Total interest-bearing bank and other borrowings	47,250	13,125
Less: Portion classified as current liabilities	(46,125)	(9,600)
Long-term portion	1,125	3,525

The balance of the secured bank loans comprises two bank loans amounting to RMB13,000,000 and RMB10,000,000 in Xinhua Colour Printing granted by Bank of Chengdu on 19 June 2009 and 17 July 2009, respectively, bearing an interest rate of 5.31% per annum. These two bank loans are secured by leasehold lands of the Group amounting to RMB31,859,000 (note 15) and will mature on 18 June 2010 and 16 July 2010, respectively.

The balance of the unsecured bank loan as at 31 December 2009 represented a bank loan amounting to RMB10,000,000 in Sichuan Xinhua Shang granted by Shenzhen Development Bank on 29 September 2009 bearing an interest rate of 4.86%. The bank loan is guaranteed by the Company amounting to RMB40,000,000 (note 37) and will mature on 29 March 2010.

The balance of the unsecured other borrowings as at 31 December 2009 represented the entrusted loans granted by Xinhua to Chengdu Xin Hui, a subsidiary of the Company. On 28 April 2007, 2 July 2007 and 30 December 2009, three entrusted loan agreements were entered into among Chengdu Xin Hui, Xinhua and China Construction Bank Company Limited ("CCB"), respectively pursuant to which Xinhua agreed to entrust CCB to grant loans of RMB9,600,000, RMB3,525,000 and RMB1,125,000, respectively, to Chengdu Xin Hui and these entrusted loans bear interest rates of 5.91%, 6.08%, and 5.40% per annum and will mature on 27 April 2009, 1 July 2010 and 29 December 2012, respectively. The entrusted loan of RMB9,600,000 matured in April 2009 has been extended to April 2010. The interest expense incurred was RMB734,000 during the year (2008: RMB782,000) (note 41(a)).

These entrusted loans granted by Xinhua to Chengdu Xin Hui were arranged according to the agreement entered into between the Company and Xinhua on 29 April 2007 concerning the financing arrangement of Chengdu Xin Hui as mentioned in note 27.

31. TRADE AND BILLS PAYABLES

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

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	403,703	446,861	324,358	382,314
3 to 6 months	353,924	248,928	260,809	260,992
6 months to 1 year	247,447	270,747	248,954	262,442
1 to 2 years	85,134	139,062	86,012	134,834
Over 2 years	133,952	67,341	137,312	66,977
	1,224,160	1,172,939	1,057,445	1,107,559

Included in the balance as at 31 December 2009 were trade payables to the Xinhua Group and associates of RMB197,000 (2008: RMB3,995,000) and RMB9,814,000 (2008: RMB13,696,000), 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 2009, the bills payable of the Group amounting to RMB154,050,000 (2008: RMB34,907,000) were secured by the Group's pledged time deposits amounting to RMB82,309,000 (2008: RMB14,280,000) (note 29) and guaranteed by the Company amounting to RMB64,000,000 (note 37) (2008: nil). There was no inventory pledged as security as at 31 December 2009 (2008: RMB9,222,000) (note 25).

32. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued salaries, wages and benefits	101,051	70,087	96,407	68,000
Deposits from suppliers and lessees	420,900	336,506	418,586	331,198
Accrued operating expenses	39,811	34,917	3,067	20,323
Due to the Xinhua Group *(note 41)*	39,400	1,004	772	812
Due to associates *(note 41)*	3,624	100	401	100
Dividend payables to minority equity holders	–	207	–	–
Others	21,770	18,221	44,165	10,493
Total deposits received, other payables and accruals	626,556	461,042	563,398	430,926

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

33. ISSUED CAPITAL

	Group and Company	
	2009	**2008**
	RMB'000	*RMB'000*
Issued and fully paid:		
693,194,000 (2008: 693,194,000) Domestic Shares of RMB1.00 each	693,194	693,194
441,937,000 (2008: 441,937,000) H Shares of RMB1.00 each	441,937	441,937
	1,135,131	1,135,131

There is no movement in the Group's and Company's total number of shares and share structure for the year ended 31 December 2009.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity as set out in these financial statements.

(b) Company

	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000 (note i)	Other reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
As at 1 January 2008	1,708,203	33,514	91,559	48,393	351,335	340,539	2,573,543
Total comprehensive income or the year	–	–	–	–	355,056	–	355,056
Final dividend for 2007	–	–	–	–	–	(340,539)	(340,539)
Appropriation to statutory surplus reserve	–	–	33,568	–	(33,568)	–	–
Proposed final 2008 dividend	–	–	–	–	(227,026)	227,026	–
As at 31 December 2008 and 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	1,708,203*	33,514*	160,565*	41,917*	458,358*	317,837	2,720,394

* These reserve accounts comprise the reserves of RMB2,402,557,000 (2008: RMB2,361,034,000) 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 registered capital after such uses.

(ii) Distributable reserve

As at 31 December 2009, the Company had retained profits of approximately RMB274,567,000 (2008: RMB259,866,000) after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC GAAP or the amount determined under IFRSs, available for distribution by way of cash or in kind.

35. BUSINESS COMBINATIONS

A Acquisition of Xinhua Colour Printing

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

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

	Notes	**Fair value recognised on acquisition** *RMB'000*	**Previous carrying amount** *RMB'000*
Property, plant and equipment	*14*	111,352	98,267
Lease prepayments for land use rights	*15*	32,005	12,042
Other intangible assets	*18*	1,927	1,927
Long-term equity investments		96	498
Cash and short-term deposits		10,222	10,222
Inventories		11,675	11,675
Trade receivables		7,826	7,826
Prepayments and other receivables		713	713
Trade payables		(20,492)	(20,492)
Accruals and other payables		(66,025)	(66,025)
Deferred tax liabilities	*22*	(8,162)	–
Net assets		81,137	56,653
Minority interests (35%)		(28,398)	
Carrying amount of equity interest held prior to acquisition (45%)		(25,494)	
Valuation surplus of equity interest held prior to acquisition (45%)		(11,018)	
Total net assets acquired		16,227	
Excess over the cost of business combination	*5*	(2,580)	
Total cash consideration		13,647	

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

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

Since its acquisition, Xinhua Colour Printing contributed RMB56,237,000 to the Group's turnover and RMB3,518,000 operating profit to the consolidated profit for the year ended 31 December 2009.

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 RMB3,221,574,000 and RMB356,959,000, respectively.

B Acquisition of Yin Xing Bo Wen

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

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

	Notes	**Fair value recognised on acquisition** *RMB'000*	**Fair value recognised amount** *RMB'000*
Property, plant and equipment	*14*	221	221
Cash and short-term deposits		5,974	5,974
Inventories		2,433	2,433
Trade receivables		10,951	10,951
Prepayments and other receivables		747	747
Trade payables		(7,050)	(7,050)
Accruals and other payables		(54)	(54)
Net assets		13,222	13,222
Equity interest held prior to acquisition (41%)		(5,421)	
Total net assets acquired		7,801	
Excess over the cost of business combination	*5*	(1,010)	
Total cash consideration		6,791	

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

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

Since its acquisition, Yin Xing Bo Wen contributed RMB802,000 to the Group's turnover and RMB7,022,000 operating loss to the consolidated profit for the year ended 31 December 2009.

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 RMB3,227,537,000 and RMB365,032,000, respectively.

36. DISPOSAL OF SUBSIDIARIES

	Notes	2009 RMB'000	2008 RMB'000
Net assets disposed of:			
Property, plant and equipment	*14*	508	–
Other intangible assets	*18*	5	–
Cash and bank balances		20,383	–
Trade receivables		54,290	–
Prepayments and other receivables		855	–
Trade payables		(63,941)	–
Accruals and other payables		(554)	–
Tax payable		(2,518)	–
Minority interests		(5,009)	–
		4,019	–
Gain on disposal of subsidiaries		31	–
		4,050	–
Satisfied by:			
Cash		1,920	–
Transfer to an associate		2,130	–
		4,050	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009 RMB'000	2008 RMB'000
Cash consideration	1,920	–
Cash and bank balances disposed of	(20,383)	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(18,463)	–

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Guarantees given to banks in connection with facilities granted to a subsidiary	–	–	104,000	–
	–	–	104,000	–

As at 31 December 2009, the banking facilities granted to a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB74,000,000 (2008: Nil).

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 2009, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company	
	2009	**2008**
	RMB'000	*RMB'000*
Within one year	7,674	1,835
In the second to fifth years, inclusive	16,127	1,019
After five years	15,623	–
	39,424	2,854

(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 2009, the Group and the Company had total future minimum lease payments under noncancellable operating leases falling due as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	55,315	35,154	54,129	29,650
In the second to fifth years, inclusive	89,941	13,612	89,102	8,699
After five years	7,389	8,223	7,389	8,223
	152,645	56,989	150,620	46,572

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 and Company	
	2009	**2008**
	RMB'000	*RMB'000*
Property, plant and equipment:		
Contracted, but not provided for	19,486	32,412

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	
	2009	**2008**
	RMB'000	*RMB'000*
Investment in an associate:		
Contracted, but not provided for	16,000	16,000
Investment to establish a subsidiary:		
Contracted, but not provided for	48,000	–

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	
		2009	**2008**
	Notes	*RMB'000*	*RMB'000*
The Xinhua Group:			
Sale of merchandise	*(i)*	101,667	93,611
Rental income	*(iii)*	1,344	1,344
Rental expense	*(iv)*	22,824	22,824
Interest expense	*(v)*	734	782
Purchase of services	*(ii)*	9,522	14,504
Purchase of property, plant and equipment	*(ii)*	50	193
Grants of entrusted loans	*(v)*	10,725	–
Acquisition of equity interests from the Xinhua Group		–	12,156
Purchase of land use right	*(vi)*	12,400	–
Associates:			
Sale of merchandise*	*(i)*	32,973	7,005
Purchase of merchandise*	*(ii)*	–	22,218
Purchase of printing services	*(ii)*	877	1,675
Purchase of service	*(ii)*	–	341

Notes:

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

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

(iii) Pursuant to a property lease agreement signed between the Company and Xinhua dated 29 April 2007, the annual rental is at a fixed amount of RMB1,344,000.

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

(v) Please refer to note 30 for details.

(vi) The land use right was purchased from Xinhua, and the price was based on the valuation assessed by the independent assessment agency in Sichuan Province, and mutually agreed upon by the Group and Xinhua.

* 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.

(b) Balances with related parties:

		Group	
		2009	**2008**
	Notes	*RMB'000*	*RMB'000*
Trade and other receivables:			
Trade receivables due from the Xinhua Group	*26*	8,144	27,465
Trade receivables due from associates of the Group	*26*	43,565	11,492
Other receivables due from the Xinhua Group	*27*	442	283
Other receivables due from associates of the Group	*27*	–	2,707
Trade and other payables:			
Trade payables due to the Xinhua Group	*31*	197	3,995
Trade payables due to associates of the Group	*31*	9,814	13,696
Other payables due to the Xinhua Group	*32*	39,400	1,004
Other payables due to associates of the Group	*32*	3,624	100
Other borrowings due to Xinhua	*30*	14,250	13,125

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 26 and note 31 for details.

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

	2009	**2008**
	RMB'000	*RMB'000*
Short-term employee benefits	1,450	1,428
Post-employment benefits	–	7
Total compensation paid to key management personnel	1,450	1,435

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

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 2009, 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 RMB17,680,000 (2008: RMB18,052,000) 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 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, 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 24, 26 and 27 to the financial statements, respectively.

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, was as follows:

Group

	2009					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

	2008					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	–	9,600	3,525	–	13,125
Trade and bills payables	241,310	270,747	660,882	–	–	1,172,939
Other payables	74,165	1,456	13,998	–	–	89,619
	315,475	272,203	684,480	3,525	–	1,275,683

Company

	2009					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 2 years	Over 2 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	201,811	262,442	643,306	–	–	1,107,559
Other payables	71,834	1,152	6,419	–	–	79,405
	273,645	263,594	649,725	–	–	1,186,964

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 2009 and 2008.

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

Group

	2009	2008
	RMB'000	*RMB'000*
Other borrowings	47,250	13,125
Trade and bills payables	1,224,160	1,172,939
Deposits received, other payables and accruals	626,556	461,042
Less: Cash and short-term deposits	(2,347,215)	(2,610,701)
Net debt	(449,249)	(963,595)
Equity attributable to owners of the parent	3,812,401	3,673,905
Adjusted capital	3,812,401	3,673,905
Capital and net debt	3,363,152	2,710,310
Gearing ratio	(13.4%)	(35.6%)

43. POST BALANCE SHEET EVENTS

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

Anhui Xinhua Media Co., Ltd., an available-for-sale equity investment of the Company, was listed on Shanghai Stock Exchange on 18 January 2010 with an offering price of RMB11.8 per share. The Company holds 62,320,000 shares in Anhui Xinhua Media Co., Ltd. with a lockup period until 28 February 2012.

The meeting of the board of directors of the Company was held on 1 April 2010, in which a final dividend of approximately RMB90,811,000, equivalent to RMB0.08 per share (tax inclusive) and a special dividend of approximately RMB227,026,000, equivalent to RMB0.20 per share (tax inclusive), was proposed in respect of the year.

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 1 April 2010.

III. INDEBTEDNESS STATEMENT

Working Capital

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources as at the close of business on 31 May 2010, the Enlarged Group has sufficient working capital for its present requirements and for the requirements for the next twelve months from the date of this circular.

Statement of Indebtedness

As at 31 May 2010, the Group and the Enlarged Group had outstanding indebtedness as follows:

Debts

As at 31 May 2010, the Group and the Enlarged Group had no debt securities (issued and outstanding, or authorised, or otherwise created but unissued).

Borrowings

As at 31 May 2010, the total outstanding bank and other borrowings of the Group and the Enlarged Group were RMB37,250,000, comprising

i. Secured bank loans of approximately RMB23,000,000; and

ii. Unsecured other borrowing of approximately RMB14,250,000.

Contingent Liabilities

As at 31 May 2010, the Group and the Enlarged Group had no contingent liabilities.

Mortgages and Charges

As at 31 May 2010, the secured bank loans of approximately RMB23,000,000 as stated above were secured by a land use right held by the Group and the Enlarged Group with a carrying value of approximately RMB31,577,000. As at the close of business on 31 May 2010, the Group and the Enlarged Group had pledged deposits of approximately RMB77,928,000 for issuance of bank acceptance bills.

Save as disclosed above, the Group and the Enlarged Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or the finance lease commitments or other contingent liabilities.

As at the Latest Practicable Date, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Company and the Enlarged Group.

ERNST & YOUNG
安 永

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

The Directors
Sichuan Xinhua Winshare Chainstore Co., Ltd.

28 June 2010

Dear Sirs,

We set out below our report on the combined financial information relating to 15 companies, namely Sichuan People's Publishing House Co., Ltd., Sichuan Publishing Group Co., Ltd., Sichuan Education Publishing House Co., Ltd., Sichuan Youth and Children's Publishing House Co., Ltd., Sichuan Science & Technology Publishing House Co., Ltd., Sichuan Literature & Art Publishing House Co., Ltd., Sichuan Fine Arts Publishing House Co., Ltd., Sichuan Lexicographical Publishing House Co., Ltd., Sichuan Bashu Publishing House Co., Ltd., Sichuan Tiandi Publishing House Co., Ltd., Sichuan Digital Publishing & Media Co., Ltd., Sichuan Pictorial Co., Ltd., Sichuan Readers' Journal Press Co., Ltd., Sichuan Printing Material Co., Ltd. and Sichuan Shangrui Education Textbook Co., Ltd. (hereinafter collectively referred to as the "Publication Group Companies"), including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Publication Group Companies for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Years") and the combined statements of financial position of the Publication Group Companies as at 31 December 2007, 2008 and 2009 together with the explanatory notes thereto, prepared on the basis set out in Note 2 of Section II below, for inclusion in the circular of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") dated 28 June 2010 (the "Circular") in connection with the Company's proposed acquisition of the entire equity interests in each of the Publication Group Companies, details of which are disclosed in section headed "Letter from the Board" contained in the Circular.

The Publication Group Companies consist of 15 companies controlled by Sichuan Publication Group Co., Ltd. (the "Parent"). Except for Sichuan Shangrui Education Book Co., Ltd. which was established in 2004 as a limited liability company, the remaining 14 companies (hereinafter referred to as "14 Entities") were established on 29 December 2009 through a reorganisation of Sichuan Publication Group (the "Reorganisation") which was controlled by the Parent. Details of the Reorganisation are set out in Note 1 of Section II of this report.

The Publication Group Companies are principally engaged in publishing and wholesaling of publications and related products. Particulars of the companies comprising the Publication Group Companies are set out in Note 1 of Section II of this report.

The Publication Group Companies have adopted 31 December as their financial year end date for statutory reporting purpose. The financial statements of each of the Publication Group Companies were prepared in accordance with relevant accounting standards and financial regulations of the People's Republic of China (the "PRC"), and have been audited by PRC certified public accountants. Please refer to Note 1 of Section II for details.

For the purpose of this report, the management of the Publication Group Companies have prepared the combined financial information of the Publication Group Companies, including combined statements of financial position of the Publication Group Companies as at the end of each of the Relevant Years and the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Publication Group Companies for each of the Relevant Years, together with the notes thereto (collectively the "Combined Financial Information"), in accordance with the basis set out in Note 2 of Section II below.

Procedures performed in respect of the Combined Financial Information

For the purpose of this report, we have carried out an independent audit on the Combined Financial Information in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Adjustments have been made, for the purpose of this report, as are considered necessary to adjust the financial information of the Publication Group Companies to conform to the presentation and the accounting policies referred to in Note 3 of Section II below for the Relevant Years for the purpose of inclusion in the Circular.

The management of the Publication Group Companies are responsible for the preparation and the true and fair presentation of the Combined Financial Information in accordance with the basis set out in Note 2 of Section II and the directors of the Company are responsible for the content of the Circular in which this report is included. In preparing the Combined Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion on the Combined Financial Information and to report our opinion thereon.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Financial Information. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Combined Financial Information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the Combined Financial Information 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 management of the Publication Group Companies, as well as evaluating the overall presentation of the Combined Financial Information.

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

Opinion in Respect of the Combined Financial Information

In our opinion, for the purpose of this report, the Combined Financial Information gives a true and fair view of the state affairs of the Publication Group Companies as at 31 December 2007, 2008 and 2009 and the combined results and combined cash flows of the Publication Group Companies for each of the Relevant Years in accordance with the basis of presentation set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION

Combined Income Statements

The following is a summary of the combined results of the Publication Group Companies for the Relevant Years prepared on the basis set out in Note 2 of Section II below:

		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	748,320	727,277	767,265
Cost of revenue	*5*	(558,584)	(565,685)	(572,718)
Gross profit		189,736	161,592	194,547
Other income and gains	*4*	53,828	69,786	85,712
Selling and distribution expenses		(21,931)	(20,539)	(25,074)
General and administrative expenses		(92,849)	(114,528)	(111,922)
Other expenses		(4,779)	(5,221)	(2,462)
Operating profit		124,005	91,090	140,801
Finance income, net	*6*	11,751	16,960	10,142
Profit before tax	*5*	135,756	108,050	150,943
Income tax	*10*	(42,345)	(38,860)	(39,078)
Profit for the year		93,411	69,190	111,865
Attributable to:				
Owners of the parent		93,512	69,176	111,672
Minority interests		(101)	14	193
		93,411	69,190	111,865

Combined Statements of Comprehensive Income

The following is a summary of the combined statements of comprehensive income of the Publication Group Companies for the Relevant Years prepared on the basis set out in Note 2 of Section II below:

		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year		93,411	69,190	111,865
Changes in fair value of an available-for-sale equity investment	*15*	20,351	(20,823)	10,019
Revaluation of items of property, plant and equipment for tax purposes	*10*	–	–	887
Other comprehensive income for the year, net of tax		20,351	(20,823)	10,906
Total comprehensive income for the year		113,762	48,367	122,771
Attributable to:				
Owners of the parent		113,863	48,353	122,578
Minority interests		(101)	14	193
		113,762	48,367	122,771

Combined Statements of Financial Position

The combined statements of financial position of the Publication Group Companies as at 31 December, 2007, 2008 and 2009, prepared on the basis set out in Note 2 of Section II below, are as follows:

		As at 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*11*	215,125	206,892	13,268
Investment properties	*12*	1,328	2,451	4,256
Intangible assets	*13*	1,031	991	591
Lease prepayments for land use rights	*14*	7,089	6,959	–
Available for sale equity investments	*15*	41,731	10,728	20,747
Deferred tax assets	*10*	6,948	5,104	5,684
		273,252	233,125	44,546
Current assets				
Trade receivables	*16*	564,048	519,875	538,852
Prepayments, deposits and other receivables	*17*	604,529	645,371	193,374
Inventories	*18*	89,452	99,216	81,069
Cash and bank balances	*19*	235,205	322,100	523,498
		1,493,234	1,586,562	1,336,793
Current liabilities				
Trade payables	*20*	146,267	153,556	182,874
Other payables and accruals	*21*	194,814	168,750	366,574
Provisions for supplementary pension subsidies and early retirement benefits	*22*	9,901	10,410	–
Tax payable		52,716	61,747	61,577
		403,698	394,463	611,025
Net current assets		1,089,536	1,192,099	725,768
Total assets less current liabilities		1,362,788	1,425,224	770,314

		As at 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Total assets less current liabilities		1,362,788	1,425,224	770,314
Non-current liabilities				
Provisions for supplementary pension subsidies and early retirement benefits	*22*	118,810	132,206	–
Net assets		1,243,978	1,293,018	770,314
Equity:				
Equity attributable to owners of the parent				
Paid-in capital		–	–	162,250
Reserves	*24*	1,243,468	1,292,494	607,737
		1,243,468	1,292,494	769,987
Minority interests		510	524	327
Total equity		1,243,978	1,293,018	770,314

Combined Statements of Changes in Equity

The combined statements of changes in equity of the Publication Group Companies for the Relevant Years, prepared on the basis set out in Note 2 of Section II below, are as follows:

		Attributable to owners of the parent							
	Note	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Other reserve *RMB'000*	Owner's equity/ retained earnings *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2007		–	–	8,482	–	1,115,518	1,124,000	1,101	1,125,101
Total comprehensive income for the year	*26*	–	–	–	–	113,863	113,863	(101)	113,762
Dividend for 2007		–	–	–	–	(160)	(160)	–	(160)
Contribution from the Parent *(Note (i))*		–	–	–	–	5,765	5,765	–	5,765
Capital reduction in a subsidiary		–	–	–	–	–	–	(490)	(490)
At 31 December 2007 and 1 January 2008		–	–*	8,482*	–*	1,234,986*	1,243,468	510	1,243,978
Total comprehensive income for the year	*26*	–	–	–	–	48,353	48,353	14	48,367
Contribution from the Parent *(Note (i))*		–	–	–	–	673	673	–	673
At 31 December 2008 and 1 January 2009		–	–*	8,482*	–*	1,284,012*	1,292,494	524	1,293,018
Total comprehensive income for the year	*26*	–	–	–	2,482	120,096	122,578	193	122,771
Distribution to minority interest as a result of liquidation of a subsidiary		–	–	–	–	–	–	(390)	(390)
Contribution from the Parent *(Note (i))*		–	–	–	–	962	962	–	962
Distribution to the Parent *(Note (ii))*		–	–	–	–	(800,217)	(800,217)	–	(800,217)
Capitalisation as a result of establishments of the Publication Group Companies *(Note (iii))*		85,790	519,063	–	–	(604,853)	–	–	–
Capital injection from the Parent *(Note (iii))*		58,460	77,710	–	–	–	136,170	–	136,170
Paid-in capital of Sichuan Shangrui Education Textbooks Co., Ltd. *(Note (iv))*		18,000	–	–	–	–	18,000	–	18,000
At 31 December 2009		162,250	596,773*	8,482*	2,482*	–*	769,987	327	770,314

* The reserve accounts comprise the combined reserves of RMB1,243,468,000, RMB1,292,494,000 and RMB607,737,000 as at 31 December 2007, 2008 and 2009, respectively in the combined statements of financial position.

Notes:

(i) Contribution from the Parent

The details of contribution from the Parent for the Relevant Years are set out below:

		2007	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*
Employee benefits	*a*	5,161	–	–
Others		604	673	962
		5,765	673	962

a. The Parent made a payment of RMB5,161,000 to Sichuan People's Publishing House, an entity of the Publication Group Companies, in 2007 for the benefits of its employees, which was accounted for as a contribution from the Parent.

(ii) Distribution to the Parent

The details of distribution to the Parent for the Relevant Years are set out below:

		2007	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*
Transfer of certain assets and liabilities to the Parent upon the establishments of the Publication Group Companies	*a*	–	–	772,450
Others	*b*	–	–	27,767
		–	–	800,217

a. Upon the establishments of the Publication Group Companies, certain assets and liabilities not related to the business of the Publication Group Companies were carved out and retained by the Parent. The details of these assets and liabilities together with the abovementioned equity interests in Shangrui were set out in Note 1 of Section II.

b. Pursuant to the Reorganisation, the Parent has agreed to take on the liabilities of the supplementary pension subsidies and early retirement benefits of the retired employees and early retired employees of the Publication Group Companies from 31 December 2009. The provision for such liabilities upon the establishment of the Publication Group Companies as limited liability companies was RMB129,495,000. In return, the Publication Group Companies would make a lump sum payment of RMB157,262,000 to the Parent. The distribution to the Parent amounting to RMB27,767,000 represented the difference between the payment to be made by the Publication Group Companies and the liabilities taken on by the Parent.

(iii) Except for Shangrui, all the other 14 companies comprising the Publication Group Companies were established on 29 December 2009. Upon establishments, their appraised net assets value prepared in accordance with PRC accounting standards was converted into their respective paid-in capital totaling RMB85,790,000 after carving out certain assets and liabilities with all the existing reserves eliminated and the resulting difference dealt with in the capital reserves. Meanwhile, the Parent injected cash in an aggregate amount of RMB136,170,000 to the companies, which was capitalised as paid-in capital and/or capital reserve by the respective companies.

(iv) Paid-in capital of Shangrui

As set out in Note 1 of Section II, 90% of the equity interests of Shangrui were held by seven entities of the Publication Group Companies in an aggregate amount of RMB18,000,000, which were fully eliminated till such equity interests were transferred to the Parent upon the establishments of the Publication Group Companies.

Combined Statements of Cash Flows

The combined statements of cash flows of the Publication Group Companies for the Relevant Years, prepared on the basis set out in Note 2 of Section II below, are as follows:

		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities:				
Profit before tax		135,756	108,050	150,943
Adjustments for:				
Depreciation	*5*	12,435	11,986	12,358
Gains on disposal of items of property, plant and equipment, net	*4*	(101)	(615)	(452)
Recognition of lease prepayments for land use rights	*5*	130	130	111
Gains on disposal of items of lease prepayments for land use rights	*4*	–	–	(4,379)
Impairment of trade and other receivables, net	*5*	3,828	2,675	1,068
Amortisation of intangible assets	*5*	328	400	400
Provision for/(Reversal of) impairment of inventories		(3,501)	12,960	7,387
Dividends from available-for-sale equity investments		(709)	(2,070)	(1,380)
Interest income	*6*	(11,921)	(16,960)	(10,142)
Finance costs	*6*	170	–	–
		136,415	116,556	155,914
(Increase)/decrease in trade receivables		(81,391)	44,213	(20,738)
(Increase)/decrease in prepayments, deposits and other receivables		(145,693)	(42,313)	186,714
Decrease/(increase) in inventories		(14,902)	(22,724)	10,760
Increase in trade payables		32,264	7,289	29,318
Increase/(decrease) in other payables and accruals		34,502	(29,597)	45,111
Increase/(decrease) in provisions for supplementary pension subsidies and early retirement benefits		(18,793)	17,438	(16,654)
Cash generated from operations		(57,598)	90,862	390,425
Interest paid		(170)	–	–
PRC corporate income tax paid		(36,240)	(27,985)	(38,941)
Net cash flows from/(used in) operating activities		(94,008)	62,877	351,484

	Notes	For the year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000
Net cash flows from/(used in) operating activities		(94,008)	62,877	351,484
Cash flows from investing activities:				
Proceeds from disposal of items of property, plant and equipment		841	1,728	2,009
Proceeds from disposal of items of lease prepayment for land use rights		–	–	5,600
Purchases of items of property, plant and equipment		(24,899)	(5,989)	(7,406)
Purchase of intangible assets		–	(360)	–
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		–	(2,000)	(1,000)
Increase in available-for-sale equity investments		(10,000)	(20)	–
Disposal available-for-sale equity investments		50	10,200	–
Capital reduction in a subsidiary		(490)	–	–
Dustribution to minority interest as a result of liquidation of a subsidiary		–	–	(390)
Dividends from available-for-sale equity investments		709	2,070	1,380
Interest received		10,699	16,565	11,692
Net cash flows from/(used in) investing activities		(23,090)	22,194	11,885
Cash flows from financing activities:				
Capital injection from the Parent		–	–	136,170
Distribution to the Parent		–	–	(300,000)
Repayment of a bank loan		(38,000)	–	–
Contribution from the Parent		5,765	673	962
Net cash flows from/(used in) financing activities		(32,235)	673	(162,868)
Net increase/(decrease) in cash and cash equivalents		(149,333)	85,744	200,501
Cash and cash equivalents at beginning of year		333,748	184,415	270,159
Cash and cash equivalents at end of year	19	184,415	270,159	470,660

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and group reorganisation

Prior to the Reorganisation, the subsidiaries and entities controlled by the Parent were engaged in various businesses which included:

(i) the business of publishing and wholesaling of publications and related products (the "Relevant Business") conducted by the Publication Group Companies;

(ii) the business of publishing and wholesaling of minority publications and related products exclusively for the minority regions conducted by Sichuan Ethnic Publishing House ("Ethnic Publishing");

(iii) the business of printing and property management conducted by various other entities and subsidiaries controlled by the Parent.

In connection with the Reorganisation, the Parent effected the transfer of the Relevant Business together with related assets and liabilities, after carving out certain assets and liabilities historically associated with the Relevant Business as detailed below to the respective 14 Entities upon their respective establishment as limited liability companies. Upon the establishment of the 14 Entities, their appraised net assets value prepared in accordance with PRC accounting standards was converted into their respective paid-in capital totaling RMB85,790,000 after carving out certain assets and liabilities with all the existing reserves eliminated and the resulting difference dealt with in the capital reserves. Meanwhile, the Parent injected cash in an aggregate amount of RMB136,170,000 to the 14 Entities, which was capitalised as paid-in capital and/or capital reserve by the respective companies. As Shangrui was established as a limited liability company in 2004, no such transfer of business or carve out of assets or liabilities was carried out. Except for the Relevant Business, the Parent retained other businesses (the "Retained Businesses") which represented (ii) and (iii) set out above, and the assets and liabilities in relation to these Retained Businesses.

The particulars of the former entities comprising the Publication Group Companies and the companies upon their respective establishment are as follows:

Name of the company/entity	Place and dates of approval/ establishment of the former entities	Place and date of establishment of the companies in connection with the Reorganisation	Paid-in capital upon establishment of the companies *RMB'000*	Proportion of ownership interest directly owned by the Parent	Principal activities
Sichuan People's Publishing House Co., Ltd. (四川人民出版社有限公司) (formerly as Sichuan People's Publishing House) ("People's Publishing")	Chengdu, the PRC 11 October 1952/ 1 November 1980	Chengdu, the PRC 29 December 2009	10,000	100%	Publishing and wholesaling of publications and related products
Sichuan Publishing Group Co., Ltd. (四川出版印刷有限公司) (formerly as Sichuan Publishing Group Company) ("Publishing Group Company")	Chengdu, the PRC 17 October 1992/ 12 February 1993	Chengdu, the PRC 29 December 2009	50,000	100%	Publishing and wholesaling of publications and related products

Name of the company/entity	Place and dates of approval/ establishment of the former entities	Place and date of establishment of the companies in connection with the Reorganisation	Paid-in capital upon establishment of the companies *RMB'000*	Proportion of ownership interest directly owned by the Parent	Principal activities
Sichuan Education Publishing House Co., Ltd. (四川教育出版社有限公司) (formerly as Sichuan Education Publishing House) ("Education Publishing")	Chengdu, the PRC 27 August 1983/ 29 July 1985	Chengdu, the PRC 29 December 2009	10,000	100%	Publishing and wholesaling of publications and related products
Sichuan Youth and Children's Publishing House Co., Ltd. (四川少年兒童出版社有限公司) (formerly as Sichuan Youth and Children's Publishing House) ("Youth and Children's Publishing")	Chengdu, the PRC 24 September 1980/ 27 June 1985	Chengdu, the PRC 29 December 2009	10,000	100%	Publishing and wholesaling of publications and related products
Sichuan Science & Technology Publishing House Co., Ltd. (四川科學技術出版社有限公司) (formerly as Sichuan Science & Technology Publishing House) ("Science & Technology Publishing")	Chengdu, the PRC 24 September 1982/ 11 June 1985	Chengdu, the PRC 29 December 2009	4,000	100%	Publishing and wholesaling of publications and related products
Sichuan Literature & Art Publishing House Co., Ltd. (四川文藝出版社有限公司) (formerly as Sichuan Literature & Art Publishing House) ("Literature & Art Publishing")	Chengdu, the PRC 3 September 1984/ 8 October 1985	Chengdu, the PRC 29 December 2009	5,000	100%	Publishing and wholesaling of publications and related products
Sichuan Fine Arts Publishing House Co., Ltd. (四川美術出版社有限公司) (formerly as Sichuan Fine Arts Publishing House) ("Fine Arts Publishing")	Chengdu, the PRC 3 September 1984/ 2 July 1985	Chengdu, the PRC 29 December 2009	4,250	100%	Publishing and wholesaling of publications and related products
Sichuan Lexicographical Publishing House Co., Ltd. (四川辭書出版社有限公司) (formerly as Sichuan Lexicographical Publishing House) ("Lexicographical Publishing")	Chengdu, the PRC 7 June 1985/ 31 October 1986	Chengdu, the PRC 29 December 2009	2,000	100%	Publishing and wholesaling of publications and related products

Name of the company/entity	Place and dates of approval/ establishment of the former entities	Place and date of establishment of the companies in connection with the Reorganisation	Paid-in capital upon establishment of the companies *RMB'000*	Proportion of ownership interest directly owned by the Parent	Principal activities
Sichuan Bashu Publishing House Co., Ltd. (四川巴蜀書社有限公司) (formerly as Sichuan Bashu Publishing House) ("Bashu Publishing")	Chengdu, the PRC 10 August 1983/ 7 January 1985	Chengdu, the PRC 29 December 2009	2,000	100%	Publishing and wholesaling of publications and related products
Sichuan Tiandi Publishing House Co., Ltd. (四川天地出版社有限公司) (formerly as Sichuan Tiandi Publishing House) ("Tiandi Publishing")	Chengdu, the PRC 24 November 1995 *(Note i)*	Chengdu, the PRC 29 December 2009	2,000	100%	Publishing and wholesaling of publications and related products
Sichuan Digital Publishing & Media Co., Ltd. (四川數字出版傳媒有限公司) (formerly as Sichuan Electronic Audio-video Publishing Center) ("Digital Publishing")	Chengdu, the PRC 9 December 1996/ 23 February 1994 *(Note iv)*	Chengdu, the PRC 29 December 2009	10,000	100%	Publishing and wholesaling of publications and related products
Sichuan Pictorial Co., Ltd. (四川畫報社有限公司) (formerly as Sichuan Pictorial) ("Sichuan Pictorial")	Chengdu, the PRC 20 August 1972 *(Note ii)*	Chengdu, the PRC 29 December 2009	1,500	100%	Publishing and wholesaling of publications and related products
Sichuan Readers' Journal Press Co., Ltd. (四川讀者報社有限公司) (formerly as Sichuan Readers' Journal Press) ("Readers' Journal")	Chengdu, the PRC 13 October 1993 *(Note iii)*	Chengdu, the PRC 29 December 2009	1,500	100%	Publishing and wholesaling of publications and related products
Sichuan Printing Material Co., Ltd. (四川省印刷物資有限責任公司) (formerly as Sichuan Printing Material Company) ("Printing Material")	Chengdu, the PRC 10 September 1980/ 16 April 1986	Chengdu, the PRC 29 December 2009	30,000	100%	Provision of printing related materials
Shangrui (四川上瑞教育圖書有限責任公司) *(Note v)*	N/A	Chengdu, the PRC 8 October 2004	20,000	100%	Wholesaling of publications and related products

Note (i) Tiandi Publishing was approved to be established as a public institution on 24 November 1995. The entity obtained its business licence on 29 December 2009 upon its establishment as a limited liability company.

Note (ii) Sichuan Pictorial was approved to be established as a public institution on 20 August 1972. The entity obtained its business licence on 29 December 2009 upon its establishment as a limited liability company.

Note (iii) Readers' Journal was approved to be established as a public institution on 13 October 1993. The entity obtained its business licence on 29 December 2009 upon its establishment as a limited liability company.

Note (iv) Digital Publishing obtained its business licence on 23 February 1994 and the approval for its establishment was issued on 9 December 1996.

Note (v) On 8 October 2004, seven entities of the Publication Group Companies, namely People's Publishing, Education Publishing, Youth and Children's Publishing, Publishing Group Company, Science & Technology Publishing, Literature & Art Publishing and Tiandi Publishing, together with Ethnic Publishing which is an entity controlled by the Parent jointly established Shangrui which is one of the Publication Group Companies. As Shangrui was continuously controlled by the Parent, the equity interest held by each entity was accounted for as available-for-sale equity investment. The above seven entities of Publication Group Companies collectively held 90% equity interests of Shangrui. In connection with the reorganisation, all of the abovementioned entities transferred their equity interests in Shangrui to the Parent and Shangrui turned into a wholly-owned subsidiary of the Parent thereafter.

The financial statements of the entities comprising the Publication Group Companies were prepared in accordance with relevant accounting rules and regulations applicable to enterprises operating in Mainland China for the Relevant Years and were audited by the following PRC certified public accountants:

Name of company	**2007**	**2008**	**2009**
People's Publishing	Sichuan Zhongfa Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants
Publishing Group Company	Sichuan Zhongfa Certified Public Accountants	Sichuan Xingliangxin Certified Public Accountants	Sichuan Tianhua Certified Public Accountants
Education Publishing	Sichuan Tianhua Certified Public Accountants	Sichuan Tianhua Certified Public Accountants	Sichuan Xingliangxin Certified Public Accountants
Youth and Children's Publishing	Sichuan Xingchenngxin Certified Public Accountants	Sichuan Huaheng Certified Public Accountants	Sichuan Huaheng Certified Public Accountants
Science & Technology Publishing	Sichuan Xingliangxin Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants
Literature & Art Publishing	Sichuan Xingliangxin Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants
Fine Arts Publishing	Sichuan Xingliangxin Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants	Sichuan Zhongfa Certified Public Accountants
Lexicographical Publishing	Sichuan Tianhua Certified Public Accountants	Sichuan Tianhua Certified Public Accountants	Sichuan Xingliangxin Certified Public Accountants
Bashu Publishing	Sichuan Tianhua Certified Public Accountants	Sichuan Tianhua Certified Public Accountants	Sichuan Tianhua Certified Public Accountants

Name of company	2007	2008	2009
Tiandi Publishing	Sichuan Xingchenngxin Certified Public Accountants	Sichuan Huaheng Certified Public Accountants	Sichuan Huaheng Certified Public Accountants
Digital Publishing	Sichuan Xingchenngxin Certified Public Accountants	Sichuan Huaheng Certified Public Accountants	Sichuan Huaheng Certified Public Accountants
Sichuan Pictorial	Sichuan Tianhua Certified Public Accountants	Sichuan Tianhua Certified Public Accountants	Sichuan Xingliangxin Certified Public Accountants
Readers' Journal	Note (i)	Note (i)	Sichuan Xingchenngxin Certified Public Accountants
Printing Material	Sichuan Xingchenngxin Certified Public Accountants	Sichuan Huaheng Certified Public Accountants	Sichuan Huaheng Certified Public Accountants
Shangrui	Sichuan Zhongfa Certified Public Accountants	Sichuan Xingliangxin Certified Public Accountants	Sichuan Tianhua Certified Public Accountants

Note (i) Readers' Journal's financial statements were not audited for 2007 and 2008. As Readers' Journal was a public institution before its establishment as a limited liability company in 2009, audited financial statements were not required for 2007 and 2008.

2. Basis of presentation

As the Parent controlled the Relevant Business before the Reorganisation and continues to have control over the Publication Group Companies after the Reorganisation, the Combined Financial Information has been prepared under the merger basis of accounting and the net assets of the combining companies are combined using the historical book values from the controlling party's perspective.

Accordingly, the relevant assets and liabilities comprising the Publication Group Companies have been stated at historical amounts in the Combined Financial Information.

The Financial Information relating to the combined income statements, combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Publication Group Companies as set out in Section I for the Relevant Years includes the results of operations and cash flows of the Publication Group Companies for the Relevant Years. The combined statements of financial position of the Publication Group Companies as at 31 December of the Relevant Years as set out in Section I have been prepared to present the combined assets and liabilities of the Publication Group Companies as at the end of those periods. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Combined Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The Retained Businesses carried on by the other entities/companies controlled by the Parent and the assets and liabilities in relation to the Retained Business have not been included in the Combined Financial Information throughout the Relevant Years due to the following considerations: (i) the Retained Businesses are in dissimilar businesses; (ii) the Retained Businesses were and will be operated by different entities and management both before and after the Reorganisation; and (iii) the Retained Businesses have no more than incidental common facilities and costs and have separate accounting records.

The assets and liabilities on the books of the Publication Group Companies historically associated with the Retained Businesses that were retained by the Parent, have been included in the Combined Financial Information up to the date when such assets and liabilities were carved out from the Publication Group Companies in 2009 and they were at the same time dealt with as a distribution to the Parent in the Combined Financial Information. Details of these carved-out assets and liabilities are as follows:

Assets and liabilities carved out	**Carrying amount**
	RMB'000
Net carrying amount of property, plant and equipment	183,615
Net carrying amount of investment properties	1,695
Net carrying amount of lease prepayments for land use rights	5,757
Available-for-sale equity investments	18,000
Other receivables	264,399
Cash and bank balances	300,000
Other payables	(1,016)
Net assets carved out	772,450

3.1 Principal accounting policies

The Financial Information has been prepared under the historical cost convention, except for an available-for-sale equity investment, which has been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by IASB, and IASs and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that are relevant to the Publication Group Companies' operations and have been early adopted as at 1 January 2007:

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Combined and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendments*	Amendments to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and* IFRS7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*
IFRIC 11	IFRS 2 – *Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 14	IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
Improvements to IFRS (May 2008)**	Amendments to a number of IFRSs

* Included in Improvements to IFRSs 2009 (as issued in April 2009)

** The Publication Group Companies adopted all the improvements to IFRSs issued in May 2008 except for the amendments to IFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Impact of issued but not yet effective IFRSs

The Publication Group Companies has not applied the following relevant new and revised IFRSs, which have been issued but are not yet effective in the Combined Financial Information:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – The Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 5 Amendments	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1]
IFRS 8 Amendment	Amendment to HKFRS 8 *Operating Segments Disclosure of information about segment assets*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Combined and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayment of a Minimum Funding Requriment*[5]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfer of Assets from Customers*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Lease*[2]
Improvement to IFRS*	Improvements to IFRS issued in 2009[7]

* the IASB has issued improvements IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording.

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2010

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for annual periods beginning on or after 1 January 2011

6 Effective for annual periods beginning on or after 1 January 2013

7 Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

The Publication Group Companies are in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. The management of the Publication Group Companies anticipate that these new and revised IFRSs are unlikely to have a significant impact on the Publication Group Companies' results and financial position.

Consolidation

The financial statements of the subsidiaries are prepared for the same reporting periods as those of the Publication Group Companies, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition or establishment, being the date on which the respective controlling party obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Publication Group Companies and their subsidiaries are eliminated on consolidation in full.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the controlling party, whether directly or indirectly through subsidiaries, and in respect of which the Publication Group Companies have not agreed any additional terms with the holders of those interests which would result in the Publication Group Companies as a whole having a contractual obligation in respect of those interests that meet the definition of financial liability. Minority interests are presented in the combined statements of financial position and combined statements of changes in equity within equity, separately from equity attributable to the owner of the parent. Minority interests in the results of the Publication Group Companies are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the owner of the parent.

Where losses applicable to the minority exceed the minority's interest in the equity of a company, the excess and any further losses applicable to the minority are charged against the Publication Group Companies' interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the relevant group company subsequently reports profits, the relevant group company' interest is allocated all such profits until the minority's share of losses previously absorbed by the Publication Group Companies has been recovered.

Impairment of non-financial assets

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

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by quantity multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognised in the combined income statements 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 is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Related parties

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

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

(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 Publication Group Companies or their 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 Publication Group Companies, or of any entity that is a related party of the Publication Group Companies.

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 Publication Group Companies are the lessor, assets leased by the Publication Group Companies under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the combined income statements on the straight-line basis over the lease terms. Where the Publication Group Companies are the lessee, rentals payable under the operating leases are charged to the combined income statements on the straight-line basis over the lease terms.

Property, plant and equipment

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

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 combined 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 Publication Group Companies recognise 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 5%. The estimated useful lives for this purpose are as follows:

Buildings	20-50 years
Motor vehicles	5-15 years
Equipment and fixtures	3-10 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 combined income statement in the year the item is derecognised.

Construction in progress represents office buildings and related facilities under construction 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.

Intangible assets

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 are 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 Publication Group Companies mainly comprise computer software which is stated at cost less any impairment losses and are amortised on the straight-line basis over its estimated useful life of five 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 45 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 payments made to the PRC government authorities for obtaining land use rights. Lease prepayments for land use rights are initially stated at cost and subsequently charged to the combined income statements on the straight-line basis over the respective periods of the rights ranging from 50 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.

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 standard cost basis. The difference between standard costs and actual costs is allocated between cost of inventory and cost of sales. The net realisable value is determined based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Consumables are stated at cost less any impairment losses.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Publication Group Companies determines the classification of their 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 Publication Group Companies 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 Publication Group Companies' financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments.

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 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.

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 Publication Group Companies evaluate their available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Publication Group Companies are unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Publication Group Companies 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 Publication Group Companies have the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

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 Publication Group Companies assess 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 Publication Group Companies first assess 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 Publication Group Companies determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess 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 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 either directly or 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.

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.

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Publication Group Companies assess 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.

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 Publication Group Companies determine the classification of their 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 Publication Group Companies' 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 Publication Group Companies have transferred their rights to receive cash flows from the asset or have 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 Publication Group Companies have transferred substantially all the risks and rewards of the asset, or (b) the Publication Group Companies have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Publication Group Companies have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have 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 Publication Group Companies' continuing involvement in the asset. In that case, the Publication Group Companies also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Publication Group Companies have 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 Publication Group Companies could be required to repay.

Financial liabilities

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

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

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 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 or other valuation models.

Cash and cash equivalents

For the purpose of the combined 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 Publication Group Companies' 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, which are not restricted as to use.

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.

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 Publication Group Companies. 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 Publication Group Companies. 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 Publication Group Companies operate.

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 an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

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

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 year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted 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.

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 combined income statements over the expected useful life of the relevant asset by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Publication Group Companies 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 Publication Group Companies maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) 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.

(c) 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.

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 Publication Group Companies of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Publication Group Companies. 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 combined income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the entities of the Publication Group Companies are required to participate in a retirement benefit scheme organised by the local municipal government whereby the Publication Group Companies are required to contribute a certain percentage of the salaries of their employees to the retirement benefit scheme. The only obligation of the Publication Group Companies 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 combined income statement as incurred.

The Publication Group Companies also provided supplementary pension subsidies to retired employees during the Relevant Years. Such supplementary pension subsidies are considered as defined benefit plans. The liability recognised in the combined statements of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the date of the combined statements of financial position. The defined benefit obligation is calculated annually by the management using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yield of government securities which have maturities approximating to the terms of the related pension liability. The Publication Group Companies have adopted immediate recognition of actuarial gain or loss through profit or loss during the Relevant Years.

Employee termination and early retirement benefits are recognised in the period in which the Publication Group Companies have entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service, salary level at the time of application, minimum compensation levels set by the local regulatory authorities, and district of the employee concerned.

3.2 Significant accounting judgements and estimates

The preparation of the Publication Group Companies' 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 Publication Group Companies' 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:

Classification between investment properties and owner-occupied properties

The Publication Group Companies 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 Publication Group Companies consider whether a property generates cash flows largely independent of the other assets held by the Publication Group Companies. 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 administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Publication Group Companies 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 administrative purposes.

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

Estimation uncertainty

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

Impairment allowance on inventories

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

Impairment allowances on receivables

The Publication Group Companies periodically review their receivable balances to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the combined income statements, the Publication Group Companies make 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 Publication Group Companies. The Publication Group Companies use 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 Publication Group Companies have estimated the useful lives of the property, plant and equipment and investment properties from 3 to 50 years, after taking into account of their estimated residual values, as set out in the principal accounting policies above. Depreciation of items of property, plant and equipment and investment properties is calculated on the straight-line basis over their expected useful lives.

Employee retirement benefits

The Publication Group Companies have recognised the employee retirement benefit obligations as a liability. The amount of such expense obligations are determined using actuarial techniques, which should rely on various assumptions and conditions. Such assumptions included discount rates, growth rate of the benefits, mortality rates and other factors. The deviation from the actual result and actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee retirement benefit obligation.

4. Revenue and other income and gains

Revenue, which is also the Publication Group Companies' turnover, represents the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returns and trade discounts.

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

	Note	2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
Revenue				
Sale of products		748,320	727,277	767,265
Other income and gains				
Income from rental of printing substrates		5,579	14,549	13,158
Gains on disposal of items of property, plant and equipment		101	615	452
Gains on disposal of lease prepayments for land use rights		–	–	4,379
Government grants	*(i)*	41,304	46,706	58,941
Others		6,844	7,916	8,782
		53,828	69,786	85,712

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

	Note	2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
Government grants for compilation of publications	*a*	15,901	35,057	41,359
Value-added tax refund		19,367	6,222	6,894
Others		6,036	5,427	10,688
		41,304	46,706	58,941

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 combined statements of financial position.

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

5. Profit before tax

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

	Notes	**2007** *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
Cost of revenue		558,584	565,685	572,718
Minimum lease payments under operating leases: Buildings		1,340	1,083	1,039
Depreciation:				
Property, plant and equipment	*11*	12,415	11,939	12,132
Investment properties	*12*	20	47	226
		12,435	11,986	12,358
Impairment of trade and other receivables, net		3,828	2,675	1,068
Amortisation of intangible assets	*13*	328	400	400
Recognition of lease prepayments for land use rights	*14*	130	130	111
Staff costs:				
Directors' remuneration	*8*	160	171	151
Other staff costs:				
Wages and salaries and other employee benefits		27,215	28,041	34,304
Social insurance costs and staff welfare		15,569	15,734	17,775
Contributions to defined contribution retirement schemes		6,264	7,351	7,396
Termination benefits recognised during the year for early retired employees	*22*	1,567	–	–
Contributions to defined benefit retirement scheme	*22*	5,116	6,168	4,467
		55,731	57,294	63,942
		55,891	57,465	64,093

6. Finance income, net

An analysis of finance income and costs is as follows:

	Note	**2007** *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
Bank Interest income		4,660	1,900	3,916
Interest income from the Parent	*23*	7,261	15,060	6,226
Interest on a bank loan wholly repayable within five years		(170)	–	–
		11,751	16,960	10,142

7. Post employment benefits

The Publication Group Companies' 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 Publication Group Companies contribute on a monthly basis to these retirement plans. Under these plans, the Publication Group Companies have no obligation for post employment benefits beyond the contributions made. Contributions to these plans were expensed as incurred.

The aggregate contributions of the Publication Group Companies to the defined contribution retirement schemes for the years ended 31 December 2007, 2008 and 2009 were approximately RMB6,275,000, RMB7,362,000 and RMB7,408,000, respectively.

The Publication Group Companies also provided supplementary pension subsidies to retired and early retired employees prior to 31 December 2009. Such supplementary pension subsidies are considered as defined benefit plans. The liability recognised in the combined statements of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the date of the combined statements of financial position. Pursuant to the Reorganisation, the Parent took over the obligation of supplementary pension subsidies and early retirement benefits of the retirees of the Publication Group Companies and the Publication Group Companies would make a lump sum payment equal to the balance of the provision for supplementary pension subsidies and early retired benefits as at the date of their establishment as limited liability companies of the Parent. For details, please refer to note 22.

8. Directors' remuneration

Details of the remuneration of directors of the Publication Group Companies for the Relevant Years, 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:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	89	92	95
Bonuses	60	68	44
Pension plan contributions	11	11	12
	160	171	151

The amounts represented remuneration of Mr. Li Zhuomin, a director of Shangrui, for the Relevant Years. The 14 Entities of the Publication Group Companies did not have directors until their respective establishment as limited liability companies, upon which Mr. Luo Yunxi, Mr. Wang Huaguang, Mr. An Qingguo, Ms. Wang Jianping, Ms. Qian Danning, Mr. Ma Xiaofeng, Mr. Huang Lixin, Mr. Lei Hua, Mr. Duan Zhihong, Mr. Xiong Hong, Mr. Liao Mingchun, Mr. Wang Dajun, Mr. Zhang Hongjiu, Mr. Wan Shihong were appointed as directors of the Publication Group Companies respectively on 29 December 2009, for whom there was no remuneration incurred from their respective appointment to the end of 2009.

9. Five highest paid individuals

The five highest paid individuals did not include any director of the Publication Group Companies during the Relevant Years. Details of the remuneration of the five highest paid individuals for the years ended 31 December 2007, 2008 and 2009 are as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	513	531	592
Bonuses	460	435	497
Pension plan contributions	15	17	13
	988	983	1,102

The emoluments of each of the above highest paid individuals for the Relevant Years fell within the range of nil to HK$1,000,000 (equivalent to RMB880,480).

10. Income tax

The Publication Group Companies are subject to income tax on an individual legal entity basis on profit arising in or derived from the tax jurisdictions in which entities of the Publication Group Companies are domiciled and operate. Under the prevailing PRC income tax law, except for certain preferential treatment available to the Publication Group Companies, the Publication Group Companies are subject to corporate income tax ("CIT") at rates of 33% for 2007 and 25% for 2008 and 2009 on their respective taxable income.

No provision for Hong Kong profits tax has been made as the Publication Group Companies had no assessable profits arising in Hong Kong during the Relevant Years.

The major components of income tax expense for the Relevant Years are:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax charge in the PRC	42,933	37,016	38,771
Deferred income tax	(588)	1,844	307
Income tax expense reported in the combined income statements	42,345	38,860	39,078

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

	Note	2007 RMB'000	2008 RMB'000	2009 RMB'000
Profit before tax		135,756	108,050	150,943
At the PRC statutory income tax rate		44,800	27,012	37,736
Non-deductible expenses		1,294	8,907	439
Non-taxable income		(6,391)	–	–
Deferred taxable income	*(i)*	2,163	456	1,010
Non-deductible tax losses		1,349	1,191	378
Effect of change in tax rate		–	1,702	–
Tax losses utilised from previous periods		(870)	(408)	(485)
Income tax expense reported in the combined income statements		42,345	38,860	39,078
Effective income tax rate		31%	36%	26%

(i) This effect represented the government grants which were accounted for as deferred income. Pursuant to relevant tax laws, the government grants are taxable upon receipt.

The movements in deferred tax assets during the Relevant Years are as follows:

Deferred tax assets

	Impairment of assets RMB'000	Temporary difference arising from government grants recognition RMB'000	Revaluation of items of property, plant and equipment for tax purposes RMB'000	Total RMB'000
At 1 January 2007	6,228	132	–	6,360
Deferred tax credited to the income statement	40	548	–	588
At 31 December 2007 and 1 January 2008	6,268	680	–	6,948
Deferred tax charged to the income statement	(142)	–	–	(142)
Effect of change in tax rate	(1,537)	(165)	–	(1,702)
At 31 December 2008 and 1 January 2009	4,589	515	–	5,104
Deferred tax credited/(charged) to the income statement	208	(515)	–	(307)
Recognised directly in equity	–	–	887	887
At 31 December 2009	4,797	–	887	5,684

11. Property, plant and equipment

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Equipment and fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2007, net of accumulated depreciation	184,627	13,422	5,510	470	204,029
Additions	1,180	3,012	1,464	19,243	24,899
Transfers to investment properties *(Note 12)*	(648)	–	–	–	(648)
Disposals	(468)	(4)	(268)	–	(740)
Depreciation charge for the year	(7,871)	(2,914)	(1,630)	–	(12,415)
At 31 December 2007, net of accumulated depreciation	176,820	13,516	5,076	19,713	215,125
Additions	491	1,007	595	3,896	5,989
Transfers from construction in progress	367	–	–	(367)	–
Transfers to investment properties *(Note 12)*	(1,170)	–	–	–	(1,170)
Disposals	(117)	(181)	(345)	(470)	(1,113)
Depreciation charge for the year	(7,845)	(2,697)	(1,397)	–	(11,939)
At 31 December 2008, net of accumulated depreciation	168,546	11,645	3,929	22,772	206,892
Additions	1,017	2,599	2,140	1,650	7,406
Transfers to investment properties *(Note 12)*	(3,726)	–	–	–	(3,726)
Disposals	(147)	(1,410)	–	–	(1,557)
Depreciation charge for the year	(7,921)	(2,535)	(1,676)	–	(12,132)
Carve-out upon the Reorganisation	(154,970)	(4,061)	(162)	(24,422)	(183,615)
At 31 December 2009, net of accumulated depreciation	2,799	6,238	4,231	–	13,268

Certain items of property, plant and equipment in relation to the Retained Businesses were carved out and retained by the Parent upon the Reorganisation Publication Group Companies. Please refer to Note 1 of Section II for details.

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Equipment and fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2007					
Cost	203,228	29,014	13,585	470	246,297
Accumulated depreciation	(18,601)	(15,592)	(8,075)	–	(42,268)
Net carrying amount	184,627	13,422	5,510	470	204,029
At 31 December 2007					
Cost	202,971	29,060	14,121	19,713	265,865
Accumulated depreciation	(26,151)	(15,544)	(9,045)	–	(50,740)
Net carrying amount	176,820	13,516	5,076	19,713	215,125
At 31 December 2008					
Cost	202,059	29,689	13,504	22,772	268,024
Accumulated depreciation	(33,513)	(18,044)	(9,575)	–	(61,132)
Net carrying amount	168,546	11,645	3,929	22,772	206,892
At 31 December 2009					
Cost	5,177	20,980	12,378	–	38,535
Accumulated depreciation	(2,378)	(14,742)	(8,147)	–	(25,267)
Net carrying amount	2,799	6,238	4,231	–	13,268

All of the Publication Group Companies' buildings are located in Mainland China

As at 31 December 2007, 2008 and 2009, except for 50, 51 and 14 properties with aggregate net book values of approximately RMB3,975,000, RMB4,163,000 and RMB2,799,000 respectively, the Publication Group Companies have obtained the relevant building ownership certificates.

The gross carrying amount of fully depreciated property, plant and equipment that were still in use in the Publication Group Companies as at 31 December 2007, 2008 and 2009 was RMB7,104,000, RMB8,028,000 and RMB6,011,000, respectively.

12. Investment properties

	Note	2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*
Carrying amount at beginning of year		700	1,328	2,451
Transfers from property, plant and equipment	*11*	648	1,170	3,726
Carve-out upon the Reorganisation		–	–	(1,695)
Depreciation provided during the year		(20)	(47)	(226)
Carrying amount at end of year		1,328	2,451	4,256
Fair value at end of year		1,958	3,480	5,299

The Publication Group Companies' investment properties are situated in Mainland China and under a long-term lease.

Certain items of investment properties were carved out and retained by the Parent upon the Reorganisation. Please refer to Note 1 of Section II for details.

Except for 1 property at 31 December 2008 and 16 properties at 31 December 2009 with aggregate net book values of approximately RMB44,000 and RMB4,256,000, respectively, the Publication Group Companies have obtained the relevant building ownership certificates as at the end of each of the Relevant Years.

The fair values of the investment properties as at 31 December 2007, 2008 and 2009 have been determined by the management of the Publication Group Companies. The valuations performed by the management of the Publication Group Companies were arrived at by reference to recent market prices for similar properties at similar locations. 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.

13. Intangible assets

	Computer software		
	2007 *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
At beginning of year, net of accumulated amortisation	1,359	1,031	991
Additions	–	360	–
Amortisation provided during the year	(328)	(400)	(400)
At end of year, net of accumulated amortisation	1,031	991	591
At end of year			
Cost	1,673	2,033	2,033
Accumulated amortisation	(642)	(1,042)	(1,442)
Net carrying amount	1,031	991	591

14. Lease prepayments for land use rights

	2007 *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
Carrying amount at beginning of year	7,349	7,219	7,089
Disposals	–	–	(1,221)
Carve-out upon the Reorganisation	–	–	(5,757)
Recognised during the year	(130)	(130)	(111)
Carrying amount at end of the year	7,219	7,089	–
Less: Current portion, included in prepayments, deposits and other receivables	(130)	(130)	–
Non-current portion	7,089	6,959	–

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

All the lease prepayments for land use rights were carved out and retained by the Parent upon the Reorganisation. Please refer to Note 1 of Section II for details.

15. Available-for-sale equity investments

	2007 *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
Listed equity investment, at fair value – Hong Kong	31,351	10,528	20,547
Unlisted equity investments, at cost	12,875	2,695	2,695
Provision for impairment	(2,495)	(2,495)	(2,495)
	10,380	200	200
	41,731	10,728	20,747

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 rate.

During the Relevant Years, the Publication Group Companies recognised a gain amounting to RMB20,351,000 and RMB10,019,000 in 2007 and 2009, respectively and a loss amounting to RMB20,823,000 in 2008 in respect of the available-for-sale investments in other comprehensive income directly in equity.

The fair values of listed equity investment are based on quoted market prices. The unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the management of the Publication Group Companies are of the opinion that their fair values cannot be measured reliably. The Publication Group Companies do not intend to dispose of these investments in the near future.

16. Trade receivables

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	634,128	590,010	610,614
Provision for impairment	(65,584)	(65,544)	(67,305)
Allowance for sales returns	(4,496)	(4,591)	(4,457)
	564,048	519,875	538,852

Trade receivables, which are non-interest bearing, are recognised and carried at the original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. Included in the balances as at 31 December 2007, 2008 and 2009 were trade receivables from the fellow subsidiaries and/or entities controlled by the Parent (together with the Parent, collectively hereafter referred to as the "Parent Group") of RMB21,766,000, RMB7,476,000 and RMB6,668,000, respectively. Please refer to note 23 for details.

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

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	61,787	65,584	65,544
Impairment losses recognised	3,872	3,657	3,342
Impairment losses reversed	(75)	(3,697)	(1,581)
At end of year	65,584	65,544	67,305

An aged analysis of the Publication Group Companies' trade receivables as at the end of each of the Relevant Years based on the invoice date, net of provision for impairment and allowance for sales returns, is as follows:

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Less than 6 months	414,427	403,923	426,340
6 months to 1 year	104,890	78,794	78,373
1 to 2 years	28,378	21,198	17,052
2 to 3 years	4,752	5,497	6,943
Over 3 years	11,601	10,463	10,144
	564,048	519,875	538,852

Trade receivables generally have a credit term of 180 days. An aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	414,427	403,923	426,340
Past due but not impaired			
Less than 6 months past due	104,890	78,794	78,373
Over 6 months past due	44,731	37,158	34,139
	564,048	519,875	538,852

Most of the receivables that were neither past due nor impaired relate to Sichuan Xinhua Winshare Chainstore Co., Ltd., a major customer of the Publication Group Companies and the rest relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Publication Group Companies. Based on past experience, the management of the Publication Group Companies 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 Publication Group Companies do not hold any collateral or other credit enhancements over these balances.

17. Prepayments, deposits and other receivables

		2007	2008	2009
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers		30,120	21,720	4,835
Due from the Parent Group	*23*	522,013	606,669	167,314
An entrusted loan to the Parent Group	*23*	8,000	8,000	8,000
Other receivables		44,396	8,982	13,225
		604,529	645,371	193,374

Other receivables

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	62,194	29,495	33,045
Less: Provision for impairment	(17,798)	(20,513)	(19,820)
	44,396	8,982	13,225

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

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	17,767	17,798	20,513
Impairment losses recognised	31	2,715	138
Impairment losses reversed	–	–	(831)
At end of year	17,798	20,513	19,820

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	44,396	8,982	13,225

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 entrusted loan to the Parent Group represented an entrusted loan of RMB8,000,000 provided by the Publication Group Companies in July 2007 to finance the Parent Group's working capital with an annual interest rate of 6.57%. The entrusted loan was extended in July 2008 and June 2009 with revised annual interest rates of 7.47% and 5.31%, respectively and will mature in June 2010. The entrusted loan was secured by a building of the Parent Group (note 23).

Except for the entrusted loan, the balances due from the Parent Group are unsecured, interest-free and have no fixed terms of repayment.

18. Inventories

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Merchandise and products for resale	89,452	99,216	81,069

19. Cash and bank balances

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Unrestricted cash and bank balances	174,415	252,159	421,660
Restricted cash	20,790	19,941	19,838
Non-pledged time deposits with original maturity of:			
More than three months when acquired	30,000	32,000	33,000
Less than three months when acquired	10,000	18,000	49,000
Cash and bank balances	235,205	322,100	523,498
Less: Restricted cash	(20,790)	(19,941)	(19,838)
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(30,000)	(32,000)	(33,000)
Cash and cash equivalents	184,415	270,159	470,660

As at 31 December 2007, 2008 and 2009, the Publication Group Companies' cash and bank balances, including pledged bank deposits, were denominated in RMB amounting to RMB235,205,000, RMB322,100,000 and RMB523,498,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Publication Group Companies are permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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 Publication Group Companies, 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.

20. Trade payables

An aged analysis of the trade payables as at the end of each of the Relevant Years, based on the invoice date, is as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Less than 6 months	125,803	132,292	157,906
6 months to 1 year	1,915	2,165	6,428
1 to 2 years	1,647	1,272	1,395
2 to 3 years	6,071	1,087	190
Over 3 years	10,831	16,740	16,955
	146,267	153,556	182,874

Trade payables are non-interest bearing and generally have credit terms ranging from 30 to 90 days. Included in the balances as at 31 December 2007, 2008 and 2009 were trade payables to the Parent Group of RMB511,000, RMB1,207,000 and RMB1,166,000, respectively (note 23).

21. Other payables and accruals

		2007	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Accrued salaries, wages and benefits		34,056	30,132	24,756
Deposits from suppliers		35,971	31,413	35,458
Other taxes payable		56,213	51,442	56,545
Due to the Parent Group	*23*	38,583	24,797	217,223
Deferred income		13,970	15,794	19,835
Other payables		16,021	15,172	12,757
		194,814	168,750	366,574

Other payables are non-interest bearing and have no fixed terms of repayment.

22. Provisions for supplementary pension subsidies and early retirement benefits

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Publication Group Companies also paid supplementary pension subsidies and early retirement benefits to their employees who retired prior to 31 December 2009. Pursuant to the Reorganisation, the Parent has agreed to take on the liabilities of the supplementary pension subsidies and early retirement benefits of the retired employees or early retired employees of the Publication Group Companies from 31 December 2009. In return, the Publication Group Companies would make a lump sum payment of RMB157,262,000 to the Parent.

Subsequent to 31 December 2009, the Publication Group Companies closed the supplementary pension subsidies and early retirement benefit plan for their employees who retired after 31 December 2009. The Publication Group Companies' obligations in respect of the supplementary pension subsidies and early retirement benefits at the end of each of the Relevant Years were computed by the management using the projected unit credit method. The components of net benefit expenses recognised in the combined income statements and the amounts recognised in the combined statements of financial position are summarised below:

(a) The provision for supplementary pension subsidies and early retirement benefits recognised in the combined statements of financial position are determined as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Present value of defined benefit obligations on the combined statements of financial position	128,711	142,616	–
Portion classified as current liabilities	(9,901)	(10,410)	–
Non-current portion	118,810	132,206	–

(b) The movements of provisions for supplementary pension subsidies and early retirement benefits recognised in the combined statements of financial position are as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Net liabilities at beginning of year	145,265	128,711	142,616
Benefits paid during the year	(8,964)	(9,901)	(10,410)
Net expenses/(income) recognised in the combined income statement	(7,590)	23,806	(2,711)
Taken on by the Parent	–	–	(129,495)
Net liabilities at the end of year	128,711	142,616	–

The lump sum payment of RMB157,262,000 mentioned above has been made by the Publication Group Companies in March 2010 and the difference of RMB27,767,000 between the payment and the liabilities taken on by the Parent has been dealt with as a distribution to the Parent. Please also refer to note (ii) to the combined statements of changes in equity in Section I.

(c) The net expenses recognised in the combined income statements of the Publication Group Companies are analysed as follows:

		2007	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Interest expenses	*5*	5,116	6,168	4,467
Actuarial loss/(gains)		(14,273)	17,638	(7,178)
Termination benefits recognised during the year for early retired employees	*5*	1,567	–	–
Net expenses/(income)		(7,590)	23,806	(2,711)

(d) The principal actuarial assumptions used for the purpose of the actuarial valuation are as follows:

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Discount rate	4.50%-4.83%	2.38%-3.25%	3.00%-3.95%
Retirees' supplementary benefit inflation rate	3.91%	3.91%	3.91%

The Publication Group Companies have adopted China Life table 2000-2003 for the mortality rates.

23. Related party transactions

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

	Notes	2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
Sale of merchandise to the Parent Group	*(i)*	7,540	24,720	9,883
Purchase of services from the Parent Group	*(ii)*	40,924	40,595	60,220
Interest income from the Parent Group	*(iii)*	7,261	15,060	6,226

Notes:

(i) The sales to the Parent Group were made according to the prices and conditions offered to the major customers of the Publication Group Companies.

(ii) The price of the services purchased was based on mutually agreed terms.

(iii) The interest income from the Parent Group was based on mutually agreed interest rates.

(b) Balances with related parties:

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables due from the Parent Group	21,766	7,476	6,668
Other receivables due from the Parent Group	522,013	606,669	167,314
An entrusted loan to the Parent Group	8,000	8,000	8,000
Trade payables due to the Parent Group	511	1,207	1,166
Other payables due to the Parent Group	38,583	24,797	217,223

Except for the entrusted loan granted to the Parent Group and other receivables due from the Parent Group, the other amounts were unsecured and interest-free. There are no fixed terms of repayment and settlement will be in cash. There were no guarantees provided or received for any related party receivables or payables. Please refer to note 17 for the terms of the entrusted loan granted to the Parent Group.

Compensation of key management personnel of the Publication Group Companies

	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	149	160	139
Pension plan contributions	11	11	12
Total compensation paid to key management personnel	160	171	151

Further details of the directors' remuneration are included in note 8.

24. Reserves

(a) Statutory reserves

In accordance with the articles of association of the Publication Group Companies, the net profit after tax of the Publication Group Companies for the purpose of profit distribution will be deemed to be the lessor of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Publication Group Companies' articles of association, net profit after tax can only be distributed as dividends after an allowance has been made for the following: (1) making up prior year's cumulative losses, if any; (2) allocation to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of Publication Group Companies' respective paid-in capital. For the purpose of calculating the transfer to the reserve, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this statutory reserve must be made before any distribution of dividends to the owners. The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Publication Group Companies' paid-in capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the paid-in capital of the respective company; and (3) allocation to the discretionary common reserve if approved by the equity holder. The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(b) Other reserve

Other reserve represents the changes in fair value of an available-for-sale equity investment. Please refer to note 15 for details.

25. Segment information

The Publication Group Companies are principally engaged in the publishing and wholesaling of publications and related products and all the businesses are carried out in Sichuan Province. As a result, management consider that the presentation of segment reporting of the Publication Group Companies is not necessary.

26. Other comprehensive income

Other comprehensive income for the Relevant Years represented the changes in fair value of an available-for-sale equity investment. Please refer to note 15 for details.

27. Operating lease commitments

The Publication Group Companies as lessees

The lease commitments are in respect of office premises, all of which are classified as operating leases. These non-cancellable leases have lease terms of between two months and five years. Future minimum lease payments under these leases as at the end of each of the Relevant Years are as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	333	590	456
In the second to fifth years, inclusive	493	180	285
	826	770	741

The Publication Group Companies as lessors

The Publication Group Companies lease their investment properties to certain related parties and independent third parties, with leases negotiated for terms of two years. Future minimum rental receivables under non-cancellable operating leases as at the end of each of the Relevant Years are as follows:

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	180	128	213
In the second to fifth years, inclusive	77	5	–
	257	133	213

28. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Years are as follows:

Financial assets

	2007 Loans and receivables *RMB'000*	2007 Available-for-sale equity investments *RMB'000*	2007 Total *RMB'000*	2008 Loans and receivables *RMB'000*	2008 Available-for-sale equity investments *RMB'000*	2008 Total *RMB'000*	2009 Loans and receivables *RMB'000*	2009 Available-for-sale equity investments *RMB'000*	2009 Total *RMB'000*
Available for-sale equity investments	–	41,731	41,731	–	10,728	10,728	–	20,747	20,747
Trade receivables	564,048	–	564,048	519,875	–	519,875	538,852	–	538,852
Financial assets included in prepayments, deposits and other receivables	574,409	–	574,409	623,651	–	623,651	188,539	–	188,539
Cash and bank balances	235,205	–	235,205	322,100	–	322,100	523,498	–	523,498
	1,373,662	41,731	1,415,393	1,465,626	10,728	1,476,354	1,250,889	20,747	1,271,636

Financial liabilities

	2007 Financial liabilities at amortised cost *RMB'000*	2008 Financial liabilities at amortised cost *RMB'000*	2009 Financial liabilities at amortised cost *RMB'000*
Trade payables	146,267	153,556	182,874
Financial liabilities included in other payables and accruals	54,604	39,969	229,980
	200,871	193,525	412,854

29. Financial risk management objectives and policies

The Publication Group Companies' principal financial instruments comprise loans and receivables and available-for-sale equity investments. The main purpose of these financial instruments is to raise finance for the Publication Group Companies' operations. The Publication Group Companies have various other financial assets and liabilities such as trade receivables, trade payables and other payables, which arise directly from their operations.

The main risks arising from the Publication Group Companies' financial instruments are interest rate risk, credit risk and liquidity risk. Generally, senior management of the Publication Group Companies analyse and formulate measures to manage the Publication Group Companies' exposure to these risks. The Publication Group Companies introduce conservative strategies on their risk management. As the Publication Group Companies' exposure to these risks is kept to a minimum, the Publication Group Companies have not used any derivatives and other instruments for hedging purposes. The Publication Group Companies do not hold or issue derivative financial instruments for trading purposes.

(i) Interest rate risks

The Publication Group Companies do not have any long-term debt obligations with floating interest rates as at the end of each of the Relevant Years. Therefore, the Publication Group Companies consider that the exposure to interest rate risks is insignificant.

(ii) Credit risk

The Publication Group Companies trade only with recognised and creditworthy third parties. It is the Publication Group Companies' policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Publication Group Companies' exposure to bad debts is not significant.

The carrying amounts of cash and bank balances, trade receivables, other receivables, amounts due from related parties and other financial assets, represent the Publication Group Companies' maximum exposure to credit risk in relation to the Publication Group Companies' other financial assets. Substantially all of the Publication Group Companies' cash and bank balances are held in major financial institutions located in the PRC, which management believe are of high credit quality. The Publication Group Companies have policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

Since the Publication Group Companies trade only with recognised and creditworthy third parties, there is no requirement for collateral. As the Publication Group Companies' major customers are the PRC state-owned entities, the Publication Group Companies believe that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. Most of the trade receivables of the Publication Group Companies related to Sichuan Xinhua Winshare Chainstore Co., with the rest spreading over a diversified portfolio of customers.

(iii) Liquidity risk

The Publication Group Companies' objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Publication Group Companies' outstanding borrowing obligation is not exposed to excessive repayment risk in any particular period. The Publication Group Companies ensure that they maintain sufficient cash and credit lines to meet their liquidity requirements.

The liquidity of the Publication Group Companies is primarily dependent on their ability to maintain adequate cash inflows from operations to meet their debt obligations as they fall due, and their ability to obtain external financing to meet their committed future capital expenditure.

The maturity profile of the Publication Group Companies' financial liabilities as at the end of each of the Relevant Years, based on the contractual undiscounted payments, is as follows:

As at 31 December 2007

	On demand	**Less than 3 months**	**3 to less than 12 months**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	18,549	1,705	126,013	146,267
Financial liabilities included in other payable and accruals	54,604	–	–	54,604
	73,153	1,705	126,013	200,871

As at 31 December 2008

	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	19,099	2,060	132,397	153,556
Financial liabilities included in other payable and accruals	39,969	–	–	39,969
	59,068	2,060	132,397	193,525

As at 31 December 2009

	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	18,540	6,268	158,066	182,874
Financial liabilities included in other payable and accruals	229,980	–	–	229,980
	248,520	6,268	158,066	412,854

The management have carried out a detailed review of the cash flow forecasts of the Publication Group Companies for the next twelve months from this report date. Based on these forecasts, the management have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Publication Group Companies during that period. In preparing the cash flow forecasts, the management have considered historical cash requirements of the Publication Group Companies as well as other key factors, including the availability of the loans financing and additional capital from equity holder of the Publication Group Companies. The management are of the opinion that the assumptions and sensitivities which are included in the cash flow forecasts are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

(iv) Capital management

The Publication Group Companies' objectives for managing capital are to safeguard the entities' ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services and products commensurately with the level of risk.

The Publication Group Companies manage the capital structures and make adjustments to them in the light of changes in economic conditions and the risk characteristics of the underlying assets.

29. Events after the reporting period

No significant subsequent events have occurred subsequent to 31 December 2009.

30. Subsequent financial statements

No audited financial statements have been prepared by the Publication Group Companies in respect of any period subsequent to 31 December 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

Set out below is the management discussion and analysis of financial information of the Group for the three years ended 31 December 2009

For the year ended 31 December 2009

Revenue

For the year ended 31 December 2009, the Group's sales revenue amounted to RMB3,209 million, representing an increase of 17.2% as compared with that of 2008. The increase in sales was mainly due to the growth in sales of supplementary material products, sales of papers and retail businesses.

Gross Profit Margin

The gross profit margin of the Group for the year ended 31 December 2009 was 37.4%, which was lower than the 40.4% for the year ended 31 December 2008. The decrease in gross profit margin was mainly due to the lower gross profit level of the subsidiary acquired in late 2008. The gross profit margin was maintained at the same level as compared with last year after excluding such factor.

Expenses and Costs

For the year ended 31 December 2009, total selling and distribution costs and administrative expenses were RMB900 million, representing an increase of 15.3% from RMB781 million in the year ended 31 December 2008. This was mainly due to the higher promotional expenses of supplementary materials as compared to that of textbooks, and the increase of promotional expenses resulting from an increase in sales of supplementary materials. In addition, the increase in labour costs was due to the business development and acquisition of subsidiaries during the year ended 31 December 2009, which increased the expenses for that year.

Other expenses for the year ended 31 December 2009 amounted to RMB39 million. After excluding the 2008 earthquake related donations of RMB22 million, a decrease of other expenses of 29.4% was recorded during 2009 as compared with 2008. This was due to the optimization of inventory structure, resulting in a decrease in the provision for inventories. At the same time, various measures were adopted to improve receivables collection during 2009 and reversed the provision for bad debts for previous years.

Profit attributable to equity holders of the Company

The Group's profit for the year ended 31 December 2009 amounted to RMB364 million, representing an increase of 7.6% from RMB338 million in the year ended 31 December 2008. The profit attributable to shareholders of the Company increased by 6.1% to RMB359 million from the year ended 31 December 2008.

Liquidity and financial resources

As at 31 December 2009, the Group had cash and short-term deposits of approximately RMB2,347 million, and the bank and other borrowings of the Group represented RMB47 million of fixed-interest financing of the subsidiaries. The Company did not have any bank and other borrowings. The stable and strong cash flow and robust financial conditions laid out a sound foundation for the continuing development of the Group.

Key financial ratios of the Company

As at 31 December 2009, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 32.8 % as compared to 30.7 % for the year ended 31 December 2008. There was no significant change in the Group's capital structure during the year ended 31 December 2009.

Foreign currency risk

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 arrangements.

Employee Information

As at 31 December 2009, the Group had a total of 6,680 staff. The standard remuneration package 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. Furthermore, in 2009, the Company had amended the implementation method of paid annual leave policy and holiday administration system in accordance with the relevant laws and regulations in the PRC. The Company continued to provide regular training for staff, like business training, online classroom training sessions to enhance the business qualities and working abilities.

Significant investment

In June 2009, the Company acquired a 24.3% equity interests in Chengdu Institute of Sichuan International Studies University (四川外語學院成都學院) at a consideration of RMB260 million. Management believes the project presents a stable earnings prospect and cash inflow, which will generate considerable investment return for the Group. This investment represents the Group's entry into the cultural and education sector. In December 2009, the Group obtained a dividend of RMB11.76 million.

In December 2009, the Company entered into a cooperation agreement with Hainan Province Finance Bureau (海南省財政廳) to establish Hainan Publisher Company Limited (海南出版社有限公司) ("Hainan Publisher") through joint contribution. The Company contributed RMB98 million to hold 50% equity interests in Hainan Publisher. Both parties had agreed that Hainan Province Finance Bureau and the Company would enjoy 49% and 51% of total voting rights of Hainan Publisher, respectively. Through this cooperation, the Company further achieved the cross-region cooperation and expansion into the upstream of publishing business chain which would facilitate the development of the Company into a vertically integrated operation.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2009.

Mortgages and charges

At 31 December 2009, the Group's leasehold land with a carrying value of approximately RMB31,859,000 was pledged as security for the Group's interest-bearing bank loans. The Group also had pledged deposits of approximately RMB82,309,000 for issuance of bank acceptance bills.

For the year ended 31 December 2008

Revenue

For the year ended 31 December 2008, the Group's sales revenue amounted to RMB2,737 million, representing a year-on-year increase of approximately 18.5% over the year ended 31 December 2007. The increase was primarily attributable to the optimized structure of textbooks and supplementary material products, balanced development of business of various selling areas and rational application of pricing strategy, rising capability of channel control, and growth of book distribution to libraries and textbooks for use in tertiary and vocational education business.

Gross Profit Margin

The gross profit margin of the Group for the year ended 31 December 2008 was 40.4%, a slight increase over that for the year ended 31 December 2007.

Expenses and Costs

During the year ended 31 December 2008, the total selling and distribution costs and administrative expenses were RMB781 million, representing an increase of 27.7% from RMB612 million in the year ended 31 December 2007. After deducting the write-back of accrued welfare of RMB26 million for year 2007, expenses for the year ended 31 December

2008 increased by 22.5% compared to the year ended 31 December 2007. This was due to relatively higher business development expenses for business expansion outside Sichuan Province, intensified marketing promotion of supplementary materials resulting in increased marketing expenses and transportation costs, newly-recruited staff in promoting new businesses and staff salaries increases that raised staff costs during the year ended 31 December 2008 and increased maintenance costs caused by the 5.12 Wenchuan earthquake.

Profit attributable to equity holders of the Company

The Group's profit for the year ended 31 December 2008 amounted to RMB338 million, representing a decrease of 12.6% from RMB387 million in the corresponding period of year 2007. The profit attributable to shareholders decreased by 13.1% to RMB338 million from the previous year.

The Group's profit for the years 2008 and 2007 were affected by several non-operating factors. Non-operating factors for the year 2008 included exchange losses of RMB1 million, government grants of RMB4 million and donations in relation to 5.12 Wenchuan earthquake of RMB22 million; while non-operating factors for the year 2007 included exchange losses of RMB13 million, government grants of RMB53 million, share conversion expenses due to the listing of the state-owned shares of RMB8 million, interest income on application monies in connection with the H Shares offering of the Company of RMB20 million and write-back of accrued welfare of RMB26 million.

After adjusting the above factors, the Group's profit for the year ended 31 December 2008 amounted to RMB358 million, representing an increase of 16.0% from RMB308 million in 2007. The growth in profit for the year was mainly due to the growth in sales in government-subsidised textbooks and supplementary materials.

Liquidity and financial resources

Except for the borrowings of Chengdu Xin Hui Industrial Company Limited, a subsidiary of the Company, the Group did not have any bank loans and other borrowings. As at 31 December 2008, the Group had other borrowings of RMB13 million as fixed-interest financing.

As at 31 December 2008, the Group had cash and short-term deposits of approximately RMB2,611 million. In order to increase the return on such funds, the Group deposited part of such funds in commercial banks in PRC as structured deposits according to its own cash flow projection. These structured deposits are principal-secured on terms ranging from one month to one year. These structured deposits are stated on the balance sheet as held-to-maturity investments and investments at fair value through profit or loss. As at 31 December 2008, the Group had cash and short-term deposits, pledged deposits and structured deposits of approximately RMB2,805 million.

Key financial ratios of the Company

As at 31 December 2008, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 30.7% (31 December 2007: 24.5%). There was no significant change in the Group's capital structure during the year 2008.

Foreign currency risk

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.

Employee Information

As at 31 December 2008, the Company had a total of 6,265 (2007: 6,174) staff. The Company has in place a performance appraisal system and incentive/penalty mechanism whereby salaries are linked to the performance of employees. The remuneration policy of the Company is regularly reviewed and enhanced. The standard remuneration package of the Company includes basic salary, performance-based bonus and benefits. Pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are also available to employees. In addition, the Company has implemented a paid annual leave policy with effect from 2008. Internal training and regular training are available to the staff. During the year ended 31 December 2008, in view of the unique feature of regional development, the Company had implemented online classroom training sessions to expand the scope of training to the staff.

Significant investment

In August 2008, the Company entered into acquisition agreements with the Parent and Shantou Guang Shang Packaging Co., Ltd. (汕頭市廣商包裝有限公司） to acquire an aggregate 51% equity interests in Sichuan Xinhua Shang Paper Co., Ltd. (四川新華商紙業有公司) held by them at a consideration of RMB12.40 million in total. Through the acquisition, the Group gained strong support to its ancillary publishing service.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2008.

Mortgages and charges

At 31 December 2008, the Group had pledged deposits and inventories of approximately RMB14,280,000 and RMB9,222,000, respectively, for issuance of bank acceptance bills.

For the year ended 31 December 2007

Revenue

For the year ended 31 December 2007, the Group's sales revenue amounted to RMB2,309 million, representing a year-on-year increase of 4.1% over the year ended 31 December 2006. The increase was primarily attributable to the growth of the PRC publishing and distribution industry, the economies of scale resulting from centralised procurement, and the enhanced variety of products in ancillary support and services.

Gross Profit Margin

The gross profit margin of the Group for the year ended 31 December 2007 was 40.1%, a slight increase over that of 2006.

Expenses and Costs

In 2007, the Group's selling and distribution costs and administrative expenses totaled RMB612 million. Excluding the effect of the write-back of accrued welfare of last year amounting to RMB26 million, the total expenses in the year ended 31 December 2007 amounted to RMB638 million, representing an increase of 19.0% over RMB536 million in the year ended 31 December 2006, which was primarily attributable to: (i) the construction of Zhongpan network across the nation; (ii) intensified competition in the market of supplementary materials in Sichuan; (iii) the increase in staff costs; and (iv) increase in agency fee due to the change in the mode of selling government-subsidised-textbooks in Sanzhou to agency sales. In 2007, the Group's other expenses increased by 16.3% from RMB55 million in 2006 to RMB64 million. This was primarily attributable to the exchange loss of approximately RMB13 million and expenses on conversion of state-owned shares transferred to the National Council for the Social Security Fund ("NSSF") of approximately RMB8 million. Excluding these two items, other expenses actually decreased by 21.6%.

Profit attributable to equity holders of the Company

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

Liquidity and financial resources

Except for the borrowings of Chengdu Xin Hui Industrial Company Limited ("Chengdu Xin Hui"), a subsidiary of the Company, the Group did not have any bank borrowings. As at 31 December 2007, the Group had other long-term borrowings of RMB13 million as fixed-interest financing.

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

As at 31 December 2007, the Group had cash and short-term deposits, pledged deposits and structured deposits of approximately RMB2,745 million.

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

Key financial ratios of the Company

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

Foreign currency risk

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

Employee Information

As at 31 December 2007, we employed a total of 6,174 (2006: 5,728) employees. Remuneration policy is regularly reviewed and remuneration system is regularly enhanced, and to share corporate development with our employees. Standard remuneration package includes basic salary, performance-based bonus and benefits. Pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are also available to employees. Internal training and regular training is made available to our employees. During the year, we offered training sessions concerning our ERP system, retail sales skills, educational publication subscription skills, professional knowledge of publishing, logistics information system, finance and auditing knowledge, human resources knowledge and other general management skills.

Significant investment

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

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

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2007.

Mortgages and charges

At 31 December 2007, the Group had pledged deposits of approximately RMB10,000,000 for issuance of bank acceptance bills.

Set out below is the management discussion and analysis of financial information of the Target Group Companies for the three years ended 31 December 2009.

OVERVIEW

The Target Group Companies consist of 15 companies which are principally engaged in the business of publication and distribution of books, and wholesale of textbooks, periodicals, audio-visual and digital products and related products.

For the years ended 31 December 2007, 2008 and 2009

Financial Review

Revenue

For the years ended 31 December 2007, 2008 and 2009, the Target Group Companies recorded revenues of RMB748,320,000, RMB727,277,000 and RMB767,265,000, respectively. Revenue remained relatively stable during the three years.

Gross Profit Margin

The gross profit margins of the Target Group Companies for the years ended 31 December 2007, 2008 and 2009 were 25.4%, 22.2% and 25.4%, respectively. Gross profit margin remained relatively stable during the three years other than the slight decrease in 2008 due to the price change of printing papers.

Expenses and Costs

For the years ended 31 December 2007, 2008 and 2009, the selling and distribution costs and administrative expenses were RMB114,780,000, RMB135,067,000 and RMB136,996,000, respectively. Other expenses for the years ended 31 December 2007, 2008 and 2009 amounted to RMB4,779,000, RMB5,221,000, and RMB2,462,000, respectively.

Profit attributable to equity holders of the Company

The Target Group Companies' profit for each of the three years ended 31 December 2007, 2008 and 2009 amounted to RMB93,411,000, RMB69,190,000 and RMB111,865,000, respectively. The three-year average growth rate reached 10% and the fast growth was attributable to (1) efficient management which increased in revenue, and (2) the increase in governmental subsidies.

Compared to 2007, the profit in year 2008 decreased by 26%; this was mainly attributable to the impact of 5.12 Wenchuan earthquake and the provision for retiring staff.

Liquidity and financial resources

As at 31 December 2007, 31 December 2008 and 31 December 2009, the non-current assets of the Target Group Companies were RMB273,252,000, RMB233,125,000 and RMB44,546,000 respectively, which comprised of property, plant and equipment, investment properties, intangible assets, lease prepayments, available for sale equity investments, and deferred tax assets. The decrease in non-current assets for year 2009 was due to the carve-out of the assets of some of the Target Group Companies when they were converted into limited liability companies in December 2009.

As at 31 December 2007, 31 December 2008 and 31 December 2009, the current assets of the Target Group Companies were RMB1,493,234,000, RMB1,586,562,000 and RMB1,336,793,000 respectively, which comprised of trade receivables, other receivables, inventories, bank balances and cash.

As at 31 December 2007, 31 December 2008 and 31 December 2009, the current liabilities of the Target Group Companies were RMB403,698,000, RMB394,463,000 and RMB611,025,000 respectively, which comprised of trade payables, other payables and provision for pension subsidies and early retirement benefits.

Key financial ratios of the Target Group Companies

The gearing ratio (total borrowings to total assets) of the Target Group Companies for each of the year ended 31 December 2007, 2008 and 2009 was 29.58%, 28.94% and 44.23%, respectively.

Foreign currency risk

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

Employee Information

As at 31 December 2007, 31 December 2008 and 31 December 2009, the Target Group Companies employed a total of 986, 958 and 975 employees, respectively; and the Target Group Companies have adopted the remuneration policies and training schemes which the employees found satisfactory.

The remuneration of the employees of the Target Group Company for the three years ended 31 December 2007, 2008 and 2009 amounted to RMB 55,891,000, 57,465,000 and 64,093,000, respectively. The Target Group Companies' standard remuneration package includes basic salary, position-based salary, and performance-based bonus and benefits. Some of the Target Group Companies have also established the enterprise annuity plan pursuant to applicable PRC laws. Pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are available to employees of the Target Group Companies. In addition, the Target Group Companies have adopted the paid annual leave system and formulated measures for leave management.

The Target Group Companies provide regular training sessions to employees with a view to further improving their professional skills and capabilities.

Significant investment and future plans

For the three years ended 31 December 2007, 2008 and 2009, the Target Group Companies did not hold any significant investments. As at the Latest Practicable Date, the business operation of the Target Group Companies is stable. At present, the Target Group Companies have no specific plans for material investments or capital assets. Upon Completion, the Target Group Companies' future plans for material investment or capital assets will be made in accordance with the Enlarged Group's overall strategy and the aligned interest.

Contingent liabilities

The Target Group Companies did not have any contingent liabilities as at 31 December 2007, 2008 and 2009.

Mortgages and charges

The Target Group Companies did not have any mortgages, charges, pledges or other encumbrances on their assets for the three years ended 31 December 2007, 2008 and 2009.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of financial position (the "Unaudited Pro forma Financial Information") of the Enlarged Group as if the Acquisition had been completed on 31 December 2009. The accompanying Unaudited Pro forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the acquisition of an aggregate 100% equity interests in the Target Group Companies by the Company, subject to the fulfillment of the terms and conditions of the Acquisition Agreement.

The accompanying Unaudited Pro forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Unaudited Pro forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position of the Enlarged Group as at 31 December 2009 or any future date.

The Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2009 (the "Unaudited Pro Forma Financial Information") gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2009.

The accompanying Unaudited Pro Forma Financial Information is based upon the historical consolidated statement of financial position of the Group and the Publication Group Companies as extracted from the respective audited annual report for the year ended 31 December 2009 and the Financial Information for the year ended 31 December 2009, respectively, as set out in Appendices I and II to the Circular. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The accompanying Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information does not purport to describe the financial position that would have been presented had the Acquisition been completed. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position.

The accompanying Unaudited Pro Forma Financial Information should be read in conjunction with the audited financial information of the Group as set out in Appendix I and other financial information elsewhere in the Circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP

				Pro forma adjustments			
	The Group as at 31 December 2009	The Publication Group Companies as at 31 December 2009	Total	Acquisition of the Publication Group Companies	Elimination of receivables and payables	Elimination of investment in the Group held by the Publication Group Companies	Unaudited pro forma Enlarged Group
	Note (1)	*Note (2)*		*Note (3)*	*Note (4)*	*Note (5)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets							
Property, plant and equipment	823,169	13,268	836,437				836,437
Investment properties	5,254	4,256	9,510				9,510
Intangible assets	28,372	591	28,963				28,963
Lease prepayments for land use rights	109,246	–	109,246				109,246
Goodwill	3,307	–	3,307	485,013			488,320
Investments in associates	32,599	–	32,599				32,599
Available for sale equity investments	692,835	20,747	713,582			(20,547)	693,035
Property under development	124,841	–	124,841				124,841
Long-term prepayment	62,000	–	62,000				62,000
Deferred tax assets	33,638	5,684	39,322				39,322
	1,915,261	44,546	1,959,807				2,424,273
Current assets							
Trade receivables	324,335	538,852	863,187		(422,248)		440,939
Prepayments, deposits and other receivables	172,079	193,374	365,453		(50)		365,403
Inventories	696,826	81,069	777,895				777,895
Held-to-maturity investments	260,000	–	260,000				260,000
Pledged deposits	82,309	–	82,309				82,309
Cash and bank balances	2,347,215	523,498	2,870,713	(1,255,000)			1,615,713
	3,882,764	1,336,793	5,219,557				3,542,259

	The Group as at 31 December 2009	The Publication Group Companies as at 31 December 2009	Total	Pro forma adjustments: Acquisition of the Publication Group Companies	Pro forma adjustments: Elimination of receivables and payables	Pro forma adjustments: Elimination of investment in the Group held by the Publication Group Companies	Unaudited pro forma Enlarged Group
	Note (1)	*Note (2)*		*Note (3)*	*Note (4)*	*Note (5)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities							
Interest-bearing bank and other borrowings	46,125	–	46,125				46,125
Trade payables	1,224,160	182,874	1,407,034		(422,248)		984,786
Other payables and accruals	626,556	366,574	993,130		(50)		993,080
Tax payable	3,345	61,577	64,922				64,922
	1,900,186	611,025	2,511,211				2,088,913
Net current assets	1,982,578	725,768	2,708,346				1,453,346
Total assets less current liabilities	3,897,839	770,314	4,668,153				3,877,619
Non-current liabilities							
Other borrowings	1,125	–	1,125				1,125
Net assets	3,896,714	770,314	4,667,028				3,876,494
Represented by:							
Equity attributable to owners of the parent							
Paid-in capital	1,135,131	162,250	1,297,381	(162,250)		(6,900)	1,128,231
Reserves	2,357,111	607,737	2,964,848	(607,737)		(13,647)	2,343,464
Proposed final dividend	317,837	–	317,837				317,837
	3,810,079	769,987	4,580,066				3,789,532
Minority interests	86,635	327	86,962				86,962
Total equity	3,896,714	770,314	4,667,028				3,876,494

Notes:

(1) The balances are extracted from the audited financial information of the Group as at 31 December 2009.

(2) The balances are extracted from the accountant's report of the Publication Group Companies as at 31 December 2009 as set out in Appendix II to this Circular.

(3) The adjustments represent the Acquisition by the Group of the entire equity interests in the Publication Group Companies for a consideration of RMB1,255,000,000 to be satisfied by cash, and the elimination of the Group's entire equity interests in the Publication Group Companies upon completion of the acquisition of the 100% equity interest in the Publication Group Companies.

Under International Financial Reporting Standard 3 Business Combinations issued by the IASB, the Group apply the purchase method to account for the acquisition of the Publication Group Companies in the consolidated financial statements of the Group, and the individual assets and liabilities of the Publication Group Companies acquired by the Group are adjusted to fair values at 31 December 2009 in preparation for the unaudited pro forma statement of financial position of the Enlarged Group.

For the purpose of this unaudited pro forma financial information of the Enlarged Group, in the opinion of the directors, the Publication Group Companies' fair value of the assets and liabilities being acquired is subject to changes upon completion of the proposed Acquisition because the fair value of the Publication Group Companies' assets and liabilities being acquired shall be assessed on the date of completion. Since this unaudited pro forma financial information of the Enlarged Group is prepared solely for illustrative purposes, the directors of the Company assumed the fair values of the assets and liabilities of the Publication Group Companies as at 31 December 2009 to be their respective carrying values. The goodwill is calculated as below:

	RMB'000
Consideration	1,255,000
Carrying values of net assets of the Publication Group Companies	(769,987)
Goodwill	485,013

(4) The adjustments represent the elimination of the balances arose from prior transactions conducted between the Group and the Publication Group Companies.

(5) Being one of the promoters of the Company, Sichuan Children's Publishing House Co., Ltd., a Company of the Publication Group Companies holds the Company's 0.608% share interest of with fair value of RMB20,547,000 as at 31 December 2009. The adjustments represent the elimination of the share interest held by Sichuan Children's Publishing House Co., Ltd. and the share equity of the Company.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in section (1) of Appendix V to this circular.

ERNST & YOUNG
安 永

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

28 June 2010

The Directors
Sichuan Xinhua Winshare Chainstore Co., Ltd.

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out in Appendix V to the Company's circular dated 28 June 2010 (the "Circular") issued by the Company in connection with the proposed acquisition (the "Acquisition") of the entire equity interests Sichuan People's Publishing House Co., Ltd., Sichuan Publishing Group Co., Ltd., Sichuan Education Publishing House Co., Ltd., Sichuan Youth and Children's Publishing House Co., Ltd., Sichuan Science & Technology Publishing House Co., Ltd., Sichuan Literature & Art Publishing House Co., Ltd., Sichuan Fine Arts Publishing House Co., Ltd., Sichuan Lexicographical Publishing House Co., Ltd., Sichuan Bashu Publishing House Co., Ltd., Sichuan Tiandi Publishing House Co., Ltd., Sichuan Digital Publishing & Media Co., Ltd., Sichuan Pictorial Co., Ltd., Sichuan Readers' Journal Press Co., Ltd., Sichuan Printing Materials Co., Ltd. and Sichuan Shangrui Education Textbooks Co., Ltd. (hereinafter collectively referred to as the "Publication Group Companies"), pursuant to a sale and purchase agreement dated 22 June 2010. The pro forma financial information is unaudited and has been prepared by the directors of the Company, solely for illustrative purposes, to provide information about how the Acquisition as described in the accompanying introduction to the Unaudited Pro Forma Financial Information might have affected the historical financial information in respect of the Group presented in Appendix I to the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and the notes to the Unaudited Pro Forma Financial Information in section (1) of Appendix V to the Circular.

Respective responsibilities of directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the unaudited evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 had the Acquisition actually been completed on that date or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company, and each of their respective associates, 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

Name of Director	Name of company	Nature of interest	Number of Shares	Class 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 of controlled corporation *(Note)*	53,336,000	Social Legal Person Shares	4.7%	Long Position

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

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

3. PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

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

Name of shareholder	Number of Shares directly or indirectly held	Capacity	Class of Shares	Approximate % in the relevant class of Shares	Approximate % of registered capital of the Company	Long Position/ Short Position/ Lending Pool
四川發展(控股)有限責任公司 (Sichuan Development (Holding) Co., Ltd)	592,809,525 *(Note 1)*	Interests in controlled corporation	State-owned Shares	92.65%	52.22%	Long Position
The Parent	592,809,525 *(Note 1)*	Beneficial owner	State-owned Shares	92.65%	52.22%	Long Position
Chengdu Hua Sheng (Group) Industry Co. Ltd.	53,336,000 *(Note 2)*	Beneficial owner	Social Legal Person Shares	100%	4.70%	Long Position
National Council for the Social Security Fund	40,176,100	Beneficial owner	H Shares	9.09%	3.54%	Long Position

Notes:

1 The above reference to 592,809,525 Shares refer to the same block of shares.

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

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

4. COMPETING BUSINESS

So far as is known to the Directors, as at the Latest Practicable Date, SPG did not carry on any business activities that compete or are likely to compete, either directly or indirectly, with the activities of the Group. Except for Mr. Li Jiawei, a non-executive Director, none of the other Directors or Supervisors had any interest in any business which is directly or indirectly or may be in competition with that of the Group. Mr. Li Jiawei is currently the vice president and general manager of Liaoning Publication Group Co., Ltd. and the director of Northern United Publishing & Media (Group) Company Limited (formally known as Liaoning Publication Media Company Limited). The business of those companies in which he serves may be in competition with that of the Group.

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

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

6. LITIGATION

As confirmed by the Company's PRC legal adviser, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and, to the Directors' best knowledge, there was no litigation or claim of material importance pending or threatened by or against any member of the Enlarged Group.

7. INTEREST IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2009, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009 (being the date to which the latest published audited financial statements of the Company were made up).

9. QUALIFICATION OF EXPERTS

The following are the qualification of the experts (in alphabetical order) who have given opinion or advice contained in this circular:

Name	Qualification
BOCI Securities	Qualified PRC financial adviser
Ernst & Young	Certified public accountants
Guantao Law Firm	Qualified PRC legal adviser
King & Wood	Qualified PRC legal adviser
WAG	Licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

10. EXPERTS' INTEREST

As at the Latest Practicable Date, none of the above experts had shareholding interests in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribed for securities of any member of the Group. As at the Latest Practicable Date, none of the above experts had direct or indirect interests in any assets which had since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

11. CONSENT OF EXPERTS

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name included in this circular in the form and context in which it appears.

12. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) entered into by the members of the Enlarged Group within two years immediately preceding the date of the Announcement (i.e. 22 June 2010) and up to the Latest Practicable Date, which may be or are material:

(a) On 18 May 2010, the Company entered into a joint venture agreement with the Parent and Chongqing Gold Abacus Software Company Limited (重慶金算盤軟件有限公司, Gold Abacus for short), pursuant to which, amongst others, the Company, the Parent and Gold Abacus agreed to establish a joint venture company with a registered capital of RMB30 million, which will be owned by the Company, the Parent and Gold Abacus as to 75%, 15% and 10% equity interests respectively. The joint venture company is proposed to principally engage in the business of the provision of online transaction related services with respect to the publication and cultural products.

(b) On 1 April 2010, as approved by the Board, the Company entered into three joint venture agreements with Chengdu Hua Sheng (Group) Industry Co. Ltd. including (1) to establish Sichuan Wenxuan International Early Childhood Education Investment Company Limited (四川文軒國際幼兒教育投資有限公司) principally engaging in the business of early childhood education in Sichuan Province, the PRC, and the Company contributed RMB15.3 million to hold 51% equity interests in that company; (2) to establish Sichuan Wenxuan International Logistics Company Limited (四川文軒國際物流有限責任公司) engaging in the industrial and logistical property development at Chengdu International Container Logistics Park (成都國際集裝箱物流園區) in Qing-Bai-Jiang District, Chengdu City, and the Company contributed RMB25.5 million to hold 51% equity interests in that company; and (3) to establish Sichuan Wenxuan Logistics Commerce Company Limited (四川文軒物流商業有限責任公司) engaging in the commercial and residential property development at Chengdu International Container Logistics Park (成都國際集裝箱物流園區) in Qing-Bai-Jiang District, Chengdu City, and the Company contributed RMB25.5 million to hold 51% equity interests in that company. The respective procedures regarding the capital contribution are in progress.

(c) On 29 December 2009, the Company entered into a cooperation agreement with Hainan Province Finance Bureau (海南省財政廳). The agreement contracted both parties to establish Hainan Publisher Company Limited (海南出版社有限公司) through joint contribution and that the Company contributed RMB98 million to hold 50% equity interests in that company. At the same time, both parties had agreed that Hainan Province Finance Bureau and the Company would enjoy 49% and 51% of total voting rights of that company, respectively. Through this cooperation, the Company further achieved the cross-region cooperation and expansion into the upstream of publishing business chain which would facilitate the development of the Company's business chain into a vertically integrated operation.

(d) On 7 September 2009, the Company entered into a transfer agreement with the Parent, pursuant to which the Company agreed to purchase and the Parent agreed to sell the land use right in respect of a land parcel situated at Regions 4 and 5, Ma Liu Wan Cun, Jin Jiang Industrial Development Zone, Chengdu, Sichuan Province (四川成都市錦江工業開發區麻柳灣村四組、五組) with a total gross site area of 15.21 mu at a total consideration of RMB12.40 million.

(e) On 8 June 2009, the Company entered into agreements with Sichuan Hongming Properties Company Limited (四川弘明置業有限公司) and Sichuan Derui Enterprise Development Company Limited (四川德瑞企業發展公司), acquired a 24.3% equity interests in Chengdu Institute of Sichuan International Studies University (四川外語學院成都學院) at a consideration of RMB260 million. The project presents a stable earnings prospect and cash inflow, which will generate considerable investment return for the Group. Investment in the aforesaid institute is the exploration by the Group into the cultural and education sector.

(f) On 26 August 2008, the Company entered into acquisition agreements with the Parent and Shantou Guang Shang Packaging Co., Ltd. (汕頭市廣商包裝有限公司) to acquire an aggregate 51% equity interests in Sichuan Xinhua Shang Paper Co., Ltd. (四川新華商紙業有限公司) held by them at a consideration of RMB12.40 million in total. Through the acquisition, the Group gained strong support to its ancillary publishing service.

13. GENERAL

(a) The registered office of the Company in the PRC is at 12th Floor, No. 86 Section One, People's South Road, Qingyang District, Chengdu, Sichuan, the PRC and the head office of the Company in the PRC is at No. 6 Wenxuan Road, Shang Mao Avenue, Cheng Bei, Chengdu, Sichuan 610081, the PRC.

(b) The principal place of business of the Company in Hong Kong is at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

(c) The Hong Kong H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, whose office is at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The joint company secretaries of the Company are Mr. You Zugang and Mr. Ngai Wai Fung. Mr. You is a member of the Institute of Internal Auditors. Mr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours (from 8:30 a.m. to 5:30 p.m.) on any weekday, except Saturdays, Sundays and public holidays, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association;

(b) the annual reports of the Company for the three years ended 31 December 2007, 2008 and 2009, respectively;

(c) the accountants' report of the Target Group Companies, the text of which is set out in Appendix II of this circular;

(d) the material contracts referred to in the paragraph headed "Material Contracts" in Appendix VI of this circular;

(e) the written consents referred to in the paragraph headed "Consent of Experts" in Appendix VI of this circular; and

(f) the circular issued by the Company dated 23 April 2010 in relation to the then proposed grant of general mendate to repurchase H Shares.

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

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 811)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**" or "**Meeting**") of 四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*) (the "**Company**") will be held at 9:30 a.m. on Friday, 20 August 2010 at Chengdu Hejiangting Hanwen Hotel, 138 Bingjiang Donglu, Chengdu, Sichuan, the People's Republic of China (the "**PRC**") for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the acquisition agreement ("**Acquisition Agreement**") dated 22 June 2010 (a copy of which has been produced at the Meeting marked "A" and signed by the chairman of the Meeting for identification purpose) entered into between (i) the Company, as purchaser; and (ii) 四川出版集團有限責任公司 (Sichuan Publication Group Company Limited*), as seller, in relation to the acquisition ("**Acquisition**") of the entire equity interests in each of 四川人民出版社有限公司 (Sichuan People's Publishing House Company Limited*), 四川出版印刷有限公司 (Sichuan Publishing Group Company Limited*), 四川教育出版社有限公司 (Sichuan Education Publishing House Company Limited*), 四川少年兒童出版社有限公司 (Sichuan Youth and Children's Publishing House Company Limited*), 四川科學技術出版社有限公司 (Sichuan Science & Technology Publishing House Company Limited*), 四川美術出版社有限公司 (Sichuan Fine Arts Publishing House Company Limited*), 四川文藝出版社有限公司 (Sichuan Literature & Art Publishing House Company Limited*), 四川辭書出版社有限公司 (Sichuan Lexicographical Publishing House Company Limited*), 四川巴蜀書社有限公司 (Sichuan Bashu Publishing House Company Limited*), 四川天地出版社有限公司 (Sichuan Tiandi Publishing House Company Limited*), 四川數字出版傳媒有限公司 (Sichuan Digital Publishing & Media Company Limited*), 四川省印刷物資有限責任公司 (Sichuan Printing Material Company Limited*), 四川上瑞教育圖書有限責任公司 (Sichuan Shangrui Education Textbooks Company Limited*), 四川讀者報社有限公司 (Sichuan Reader's Journal Press Company Limited*) and 四川畫報社有限公司 (Sichuan Pictorial Company Limited*) (collectively, "**Target Group Companies**") for an aggregate consideration of RMB1,255,000,000, subject to the terms and conditions contained therein, as set out in the circular ("**Circular**") of the Company dated 28 June 2010 (a copy of which has been produced at the Meeting marked "B" and signed by the chairman for identification purpose), the terms and conditions thereof and all transactions contemplated thereunder be and are hereby approved; and

(b) the directors of the Company ("**Directors**") be and are hereby authorised to do all such acts and things, to sign and execute all other relevant documents and to take such steps which, in the opinion of the Directors, are necessary, appropriate, desirable or expedient to give effect to or implement the Acquisition and the terms of the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

SPECIAL RESOLUTIONS

2. "**THAT**:

(a) the English name of the Company be changed to:

"XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD.*";

(b) the Chinese name of the Company be changed to:

"新華文軒出版傳媒股份有限公司"; and

(c) any Director or secretary to the Board be and is hereby authorised to deal with, on behalf of the Company the relevant filing, amendments and registration (where necessary) procedures and other related issues arising from the change of the Company's name."

3. "**THAT**:

(a) the following amendments to the articles of association of the Company ("Articles of Association") be approved:

A. Article 1 of the Articles of Association

"The Articles of Association are formulated by the Company pursuant to the Company Law of the PRC (the "Company Law") and other relevant requirements to protect the legal interests of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company"), its shareholders and creditors, and to govern the Company's organizational structure and behavior."

shall be amended as:

"The Articles of Association are formulated by the Company pursuant to the Company Law of the PRC (the "Company Law") and other relevant requirements to protect the legal interests of Xinhua Winshare Publishing and Media Co., Ltd. (the "Company"), its shareholders and creditors, and to govern the Company's organizational structure and behavior."

B. Article 3 of the Articles of Association

"The registered name of the Company:

Chinese Name：四川新華文軒連鎖股份有限公司。

English Name：SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD."

Shall be amended as:

"The registered name of the Company:

Chinese Name：新華文軒出版傳媒股份有限公司。

English Name：XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD."

C. Article 7 of the Articles of Association

"The Articles of Association (the "Articles of Association") are formulated by the Company based on the amendments to the articles of association (the "original Articles of Association") passed at the inauguration meeting of the Company and subsequently amended at the 2005 extraordinary general meeting, the 2006 first extraordinary general meeting, the extraordinary general meeting held on 22 April 2007 and the annual general meeting held on 16 June 2009 pursuant to the Company Law, the Securities Law and other laws and administrative regulations of the State.

The Articles of Association has become effective and supersede the Original Articles of Association from the date of passing the Articles of Association at the annual general meeting held on 9 June 2010.

From the effective date onwards, the Articles of Association shall be the legally binding document governing the Company's organizational structure and behavior, and the rights and obligations between the Company and shareholders, and among the shareholders."

shall be amended as:

"The Articles of Association (the "Articles of Association") are formulated by the Company based on the amendments to the articles of association (the "original Articles of Association") passed at the inauguration meeting of the Company and subsequently amended at the 2005 extraordinary general meeting, the 2006 first extraordinary general meeting, the extraordinary general meeting held on 22 April 2007, the annual general meeting held on 16 June 2009 and the annual general meeting held on 9 June 2010 pursuant to the Company Law, the Securities Law and other laws and administrative regulations of the State.

The Articles of Association has become effective and supersede the Original Articles of Association from the date of passing the Articles of Association at the extraordinary general meeting held on 20 August 2010.

From the effective date onwards, the Articles of Association shall be the legally binding document governing the Company's organizational structure and behavior, and the rights and obligations between the Company and shareholders, and among the shareholders."

D. Article 11 of the Articles of Association

"The business scope of the Company includes: publishing management of the domestic and overseas books, newspapers, journals, electronic publications, audio-visual products and internet publications; plate-leased printing and provision of consultancy services of publications; general wholesale, wholesale and distribution, retail and chainstore operation of publications; printing, copying and production of publications; copyright trading and foreign co-operative publishing and distribution; purchase and sales of printing materials (the specialised items above which are subject to the approval of licences and shall be operated with licences within the valid term); research, development, promotion and application of new media; leasing of properties; business services; wholesale and retail of goods; and import and export.

The business scope of the Company shall be in accordance with the items approved by the registration authority with which the Company is registered."

shall be amended as:

"The business scope of the Company includes: publishing management of the domestic and overseas books, newspapers, journals, electronic publications, audio-visual products and internet publications; plate-leased printing and provision of consultancy services of publications; general wholesale, wholesale and distribution, retail and chainstore operation of publications; printing, copying and production of publications; copyright trading and foreign co-operative publishing and distribution; purchase and sales of printing materials; general carriage of goods (the specialised items above which are subject to the approval of licences and shall be operated with licences within the valid term); research, development, promotion and application of new media; leasing of properties; business services; wholesale and retail of goods; and import and export.

The business scope of the Company shall be in accordance with the items approved by the registration authority with which the Company is registered."; and

(b) any Director or secretary to the Board be and is hereby authorised to deal with, on behalf of the Company the relevant filing, amendments and registration (where necessary) procedures and other related issues arising from the amendments to the Articles of Association."

By order of the Board
Sichuan Xinhua Winshare Chainstore Co., Ltd.*
Gong Cimin
Chairman

Sichuan, the PRC, 28 June 2010

* *For identification purposes only*

Notes:

1. The register of members of the Company will be closed from 21 July 2010 to 20 August 2010 (both dates inclusive), during which period no transfer of shares of the Company can be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificate(s) 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 holders of H Shares of the Company) or the head office of the Company in the PRC (for holders of domestic shares of the Company), no later than 4:30 p.m. on 20 July 2010.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and, in the event of a poll, vote on their behalves. A proxy need not be a shareholder of the Company.

3. In order to be valid, the proxy form must be deposited by hand or by post, for the holders of H Shares of the Company, to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or for the holders of Domestic Shares of the Company, to the head office of the Company in the PRC not less than 24 hours before the time for holding the EGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the EGM or any adjourned meetings should you so wish.

4. Shareholders or their proxies shall produce their identity documents when attending the EGM.

5. Shareholders who intend to attend the EGM should complete the reply slip and return it by hand or by post to the Company's H Shares share registrar (for holders of H Shares of the Company) or to the head office of the Company in the PRC (for holders of the Domestic Shares of the Company) on or before 31 July 2010.

6. The EGM is expected to take approximately 1 hour. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.

7. The head office of the Company in the PRC is as follows:

No. 6 Wenxuan Road
Shang Mao Avenue, Cheng Bei
Chengdu, Sichuan 610081
The PRC

As at the date of this notice, the Board comprises (a) Mr. Gong Cimin and Mr. Zhang Bangkai as executive directors; (b) Ms. Wang Jianping, Mr. Zhang Chengxing, Mr. Li Jiawei, Mr. Luo Jun, Mr. Yu Changjiu, Mr. Wu Qiang, Mr. Zhao Miao and Mr. Zhao Junhuai as non-executive directors; and (c) Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong as independent non-executive directors.