



PHUONG NAM CULTURAL CORPORATION
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Ho Chi Minh City, on the 31st of March, 2009

ANNUAL REPORT

BUSINESS OPERATIONS OF 2008

A. OVERVIEW

1. Advantage :

- Went through the company's operation strategy up to 2010
- Management team are intensified and more professional
- Established subsidiaries expanded from the company's main activities, created the breakthrough in management and development of business to a higher level
- Developed the retail network (five new bookstores)
- Strengthened the identification series of PNC bookstores, improved the quality of customer service and increased the turnover.
- Continuously conducted several sales promotion programs such as: promotional activities in Lunar New Year holidays, mobile sales at high schools, universities, participation in book fairs, discount trade fairs, exchanged introducing authors and their works (at PNC's book café), exclusive program introducing symphony CDs of musician Nguyen Thai Son, dear customer program, etc. to promote the brand.

2. Disadvantage:

- Due to the influence of economic recession, the State's Securities Commission limited the listed companies in issuing shares to the public to increase charter capital, unabling the company to mobilize enough capital for business plan in 2008.
- Time consuming for legal procedure to establish member companies (establishment license, tax code, accounting data separation, debt cross-checking, personnel transfer, etc.) affected the company's business.
- Staff fluctuation rate has decreased but still high, influenced the company's stability and business development.
- Impacts of weather at the end of quarter 3 and beginning of quarter 4 (long-lasting stormy rains, especially in the central area) affected the company's sales.

B. BUSINESS OPERATION OF 2008**I. BUSINESS OPERATIONS RESULTS****1. Table of business operation result of 2008 (unified)**

Unit: VND

No.	Item	2008			Rate		Note
1	Total revenue	226,906,857,391	346,626,009,000	726,040,207,962	121.65%	80%	(1)
	Value Added Tax	12,249,684,932	21,507,683,000	3,609,112,320	29.46%	17%	
2	Net revenue	214,657,172,459	325,118,326,000	272,431,095,642	126.91%	84%	
3	Cost of Goods Sole	154,719,179,414	235,226,819,000	195,794,725,976	126.55%	83%	
4	Gross profit	59,937,993,045	89,891,507,000	76,636,369,666	127.86%	85%	
	<i>Margin (profit/net revenue)</i>	<i>27.92%</i>	<i>27.65%</i>	<i>28.13%</i>	<i>100.74%</i>	<i>102%</i>	
5	Revenue from financial activities	1,390,174,077	8,363,714,000	7,266,338,930	522.69%	87%	
6	Expense for financial activities	2,643,445,896	1,629,900,000	9,688,365,421	366.51%	594%	
7	Selling expense	39,873,884,043	67,710,767,000	52,501,816,866	131.67%	78%	
	<i>Selling-expense-to-net-revenue rate</i>	<i>18.58%</i>	<i>20.83%</i>	<i>19.27%</i>	<i>103.75%</i>	<i>93%</i>	
8	Overhead	9,184,584,367	9,707,241,000	16,915,183,377	184.17%	174%	(2)
9	Net operating profit	9,626,252,816	19,210,313,000	4,797,342,932	49.84%	25%	
	<i>Margin (operating profit/net revenue)</i>	<i>4.48%</i>	<i>5.91%</i>	<i>1.76%</i>	<i>39.27%</i>	<i>30%</i>	
10	Other income	1,120,937,052	875,825,000	1,052,737,917	93.92%	120%	
11	Total pre-tax profit	10,747,189,868	20,086,138,000	5,850,080,849	54.43%	29%	
12	Income tax	2,021,614,736	3,462,575,000	2,114,897,892	104.61%	61%	
13	Total after-tax profit	9,356,725,181	16,623,563,000	3,735,182,957	39.92%	22%	

Note:

(1) According to the unifying statement of AFC auditing company, intercompany sales must be excluded, so the revenue is VND 276 billion instead of VND 310 billion

(2) The business management cost increased sharply because of auditing requirements to have business management of member companies included into the company's general management cost.

2. Balance Sheet of 2008:

Unit: VND

A. ASSETS	Code	Ref.	31/12/2008	01/01/2008
SHORT-TERM ASSETS	100		200,710,492,788	147,505,653,505
Cash and cash equivalents	110		7,270,474,201	6,881,057,312
Current receivable	130	5.2	57,335,059,002	44,905,676,211
Inventory	140	5.3	124,553,657,206	87,959,959,809
Other short-term assets	150	5.4	11,551,302,379	7,758,960,173
LONG-TERM ASSETS	200		89,448,489,993	70,531,244,931
Non-current receivable	210		174,400,000	247,200,000
Fixed assets	220		51,594,717,971	34,360,592,252
Long-term financial investment	250		28,089,984,910	28,853,910,635
Other long-term assets	260	5.7	9,589,387,112	7,064,855,221
TOTAL ASSETS	270		290,158,982,781	218,036,898,436
B. LIABILITY				
ACCOUNTS PAYABLE	300		168,944,005,198	91,887,048,134
Current payable	310		155,883,345,012	89,252,186,437
Non-current payable	330		13,060,660,186	2,634,861,697
EQUITY	400		121,214,977,583	126,149,850,302
Equity	410	5.14	121,947,748,035	125,894,441,002
Funding source and other reserves	430		(732,770,452)	255,409,300
TOTAL LIABILITY	440		290,158,982,781	218,036,898,436

3. Conclusion of business results and financial targets**3.1 Revenue of the whole company is VND310 billion reaching to 95% of projected target**

- Implementation for investment projects was about 30% of the plan. (see detail in the report of implementation of the Meeting of Shareholders' resolution of 2008)
- Sales of some member companies did not meet the target due to the impact of economic recession (Phuong Nam Print Company, Phuong Nam Brand Joint Stock Company)

3.2 Gross profit:

Business of retail systems and member companies did not reach the goal. The gross profit only reached 26.5% vs. 27.65% as planned because the selling and processing service rates did not increase while the pricing of commodities and materials input was going up.

3.3 Operating expense: operating expense was successfully controlled

- Highlight in year 2008 was the very high financial cost. VND 9.63 billion of actual cost comparing to VND 1.63 as planned. This seriously affected the company's profit :
 - + Not mobilized capital for investment projects, so company uses loan (interest expense was VND 5 billion)
 - + Established the reserve of financial allowance (VND 4.6 billion)

3.4 Operating profit

- Pre-tax profit was VND 5.85 billion reaching 29.13% of 2008's plan and 54.43% of 2007's actual.

II. MAIN ACTIVITIES

1. Retailing (Branches)

- Revenue from the retail system was still considered the main one of the whole company in 2008. Sales of the whole retail systems reached 95% of the plan, occupying 71% in the total revenue of the company, showing 30% growth compared to 2007. Total pre-tax profit of the retail system achieved 93% of plan, rising 14% compared to 2007. Especially, HCMC branch with more than 13 stores contributed VND 138 billion of revenue, exceeding 8% over the plan (current revenue), reaching 30% growth compared to 2007 with pre-tax profit exceeding 19% over the plan.
- Network development: opened only 5 new bookstores (of 10 as plan), of which Nguyen Oanh and Nha Trang are 2 big bookstores (over 2,000 sqm), invested modernly and professionally following the standards of identification series of PNC bookstore network, making the big difference and affirming PNC's position in those localities against competitors.
- Sales training courses are conducted regularly during the year
- Exchange programs introducing authors and their works at PNC's book café created the diversity and made big difference for PNC's bookstores system.

2. Phuong Nam Book One Member Limited Company (PNB)

- After one year of PNB establishment, through various media programs, exchanges, events and especially with the wide range of new books of good quality, beautiful images, PNB made its image and brand remarked on the publishing market and on the media. Social activities of PNB like "Ước mơ của Thúy" (Thuy's wishes) cooperated with Tiếp thị newspaper (Marketing newspaper), "nối vòng tay lớn vì người nghèo" (big hands' connection for the poor) (by VTV), charity campaigns to offer books, etc. helps to position the trade name of PNB.
- Because of inflation, the price of materials such as paper increased to the 'out of control' level. To deal with this situation, PNB quickly searched new supply resources, expanded and built up relationship with printing and publishing customers, turned difficulties into opportunities by changing the type of paper, resulted in PNB's books to have an idiosyncrasy thanks to those specific types of paper and being loved very much by the readers.
- Economic crisis seriously affected all areas of the economy and caused low buying power. However, PNB's products still remain good consumption rate and there are book titles reprinted right after release.
- In addition, PNB also has strategic cooperation contracts to develop products widely together with the development of PNB's publishing network.

- Although there are many personnel changes this year, PNB still maintains a close-knit and friendly working environment to motivate PNB's working spirit.

3. Phuong Nam Film Company (PNF)

- PNF has a proper strategy which is focus on investment in release area, promote copyright business. These activities maintain the growth and ensure meeting the planned targets.
- PNF created and maintained reputation of the brand in the market, attracted many partners for production and release cooperation.
- PNF has a stable and orderly personnel structure , saving cost properly
- Big influence of massive expansion of entertainment television channels, internet, illegal disk market and economic depression weakened consumers' purchasing power.

4. Phuong Nam Stationery Company (PNSC)

- Impacts of economic crisis, high inflation, uncontrollability of input materials and price of some processes such as printing, packaging, etc. increased influence to gross profit ratio
- PNSC with some improvements in packing, packaging, design supplementing, product development partially contributed to the value of products and increased sales in this difficult period.
- As a new-established company, brand PNSC is just in the first stage to be known by business units and distributors, still unfamiliar to and lack of necessary interests of consumers to this kind of product.
- Space for production and warehousing could not meet the current business condition
- Paid attention to cost reduction and had a rather stable labor force

5. Phuong Nam Print Company (PNP)

- Revenue plan for 2008 was based on the bid outcome of big calendar orders with Bao Viet, Tax Department, State Treasury, accounted for 20% of the total revenue, but these bids and contracts were not actually secured in reality.
- Several key customers opened printing houses by themselves to serve their own needs
- Effect of economic crisis, high inflation, input materials' uncontrollable price increase resulted in low gross profit ratio and far lower than plan.
- Changed managing director, unstable personnel in the first 6 month of the year and inefficient labor productivity influenced the company's business.

6. Phuong Nam Brand Company (PNBC)

- Global economic crisis and high inflation in Vietnam lessened purchasing power and company's business opportunities.
- More and more imitated and illegally imported goods on the market affected company's brand reputation as well as caused company big pressure on retail pricing and distribution market competition.
- Company has no longer had the partner to support business since partner EMHI was liquidated by Disney in July 2008.
- The network of Disney shops spreads relatively from the North to the South (with 19 shops), however, its revenue contribution is still low thanks to only the shops in high-grade trade centers (the chain of Parkson supermarkets) in the two big city Hanoi and Ho Chi Minh city. Clients of Disney brand are mainly the group of high-income ones who always demand high quality and new items.

7. Functional departments' operations

Human Resource Department

- Applied the new salary policy for sales.
- Set up salary policy for white-collar workers: complete employees' evaluation, put forth salary grades for each position for management team and restructure personnel
- Working on salary control software. Personnel management software was implemented.
- Carried out management innovation program
- Set up management syllabuses, evaluated achievement gained in 2008.

Marketing Department

- All promotional programs totally complied with the marketing plan set up for 2008. In comparison with year 2007, the programs were conducted more adequately and harmoniously. In general, promotional programs in bookstores system were still sparse without significant outcome. Conversely, season-end discount programs gained positive results in term of popularization and revenue. The most highlight of company's marketing activities in 2008 was the participation on the 5th Ho Chi Minh book trade in Le Van Tam Park. This activity attracted a huge number of visitors and achieved high PR effect.
- Information about marketing programs, new discs and book publications were communicated to customers adequately and timely.
- Updated PR news on newspapers regularly. PR media activities affirmed the image of brand as well as the position of PNC in the market against competitors.
- Conducting "dear customer" program attracted a great deal of customers in both city area and provincial branches.

IT Department

- Upgraded ERP system, regularly renewed reporting systems to meet departments' demands
- Information website: website of PNC was finished; PNC's and PNB's are in progress of setting up. PNBC, PNF, PNP are working on supplier selection.
- Set up internal management information website
- Standardized categories' codifying and classifying system,

Finance and Accounting Department

- Perfected accounting data transfer to subsidiaries
- Set up the procedures for project management, audit and payment program
- Looked for and dealt with some banks to exploit source of capital for business

Administration Department

- Controlled costs and expenses to cut down overheads: gasoline fee, management fee, etc.
- Build some regulations such as vehicle usage and purchasing process for Administration Department
- Coordinated with other departments in the company to conduct new bookstore' launching program
- Executed legal procedures to meet subordinate disisions' business demands
- Restructured personnel and assigned jobs to departments, renovated administrative procedures to well-perform supporting services for subordinate disisions according to their business demands

Purchasing Center

Operations of Purchasing Center have not yet fully functioned of goods exploitation and goods supply for the company's demands (meet only 70% of goods categories). Goods are still lack of specificity and diversity.

III. OPERATIONS OF JOINT VENTURE COMPANIES AND FINANCIAL INVESTMENT

1. Megastar Joint Venture Company

1.1 Operations of 2008

- Most of targets in the business plan obtained and exceeded the plan
- Total revenue growth of tickets sold is estimated to reach 100%
- Total revenue of tickets sold on the market is estimated to reach USD 12,000,000, showing 100% increase, of which Megastar occupied 50% market share of the whole country with 2 new cinema group: Vinh Trung Plaza (Danang) group opened in July 2008 with 6 cinematheques and CT Plaza (HCMC) opened in December 2008 with 7 cinemas. At the same period, only Lotte Cinema opened a new cinema group in District 7 of 6 cinemas without any other new else from other competitors.
- Quantity of movie release increased: Interest of 6 movies MPA to this area are more and more increasing due to the high development of the market. The number of films released by these film manufacturers every year has increased rapidly during recent years and reached the average of more than 10 films for each film manufacturer in 2008, equivalent to the number of their films released in other Southeast Asia countries. The number of movies released by each film manufacturer in 2009 is estimated to be more, and a key factor in the MSM's strategy for 2009 is to have a significant number of these films released earlier than what was done in 2008 (within 1 - 2 weeks compared to its release time in the U.S.).
- State's policy is rather stable:
Except for a draft law on amendments and supplements of some articles of the current Acting Law which is being submitted to the National Assembly for approval, there is no significant change of state policies in the field of film last year. However, as a whole, State is keeping on showing promising signals for more improvements although these improvements may occur relatively slowly. In the business of MegaStar, one of the important tasks is conducting smoothly film censoring, which is currently executed following traditional methods. With the increase of number of movies released on the market, particularly with the plan to release the films in Vietnam earlier than what is performed currently after those films are released in the U.S., it is needed to give priority to coordinate with Film censoring board to find out the best method mutually agreed to make film censoring process done quickly and avoid the risk of release prohibition for imported films.

1.2 Operations' results of 2008 :*Unit : VND*

Item	Planned for 2008	Achieved of 2008
Revenue	148,238,000,000	154,700,000,000
Pre-tax profit	- 74,824,000,000	- 79,561,000,000

2. Bach Viet Phuong Nam Media Joint Stock Company (BVN)**2.1. Stock holding rate: 25%****2.2. Operations' results of 2008:**

In 2008, Bach Viet Media Joint Stock Company imported 07 film series (227 single films) in which there are 18 single films, 2 photographic film, 35 DVD films; Bach Viet also cooperated to produce "Nụ hôn thần chết" film (Kiss of the Death).

Operations' results of 2008 as follows:

Revenue	: VND 11.017.936.473
Gross profit	: VND 2.139.684.468
Net operating profit	: VND (1.672.287.646)
Pre-tax profit	: VND (1.672.287.646)

3. Soc Trang Books & School Equipment Company**3.1. Stock holding rate: 23.08%****3.2. Operations' results of 2008:**

Revenue	: VND 31,486,460,673
Gross profit	: VND 4,372,176,648
Net operating profit	: VND 453,591,936
Pre-tax profit	: VND 1,072,483,666
After-tax profit	: VND 974,145,648

3.3. Overall evaluation:

Under the economic recession situation, company's revenue in 2008 was still satisfactory ensuring a good business result.

In 2008, the company continued to increase its capital by VND 2.2 billion to expand its business operations.

Due to unforeseen fluctuation of the economy in 2009, revenue is estimated not being increased in 2009. However, the company is still trying to cut down costs to achieve the higher profit compared to 2008.

4. Investment operations:

4.1 Implementation of investment plan for 2008: see detail in the report of the Implementation of the 9th Meeting of Shareholders' resolution of 2008

4.2 Financial investment: Implementing the Resolution of Board of Directors since October 2007, the company has conducted surveys and made financial investments in same-industry companies to catch business opportunities in other provinces in the whole country. In 2008, the company continues to conduct surveys and financial investments into some listed companies. Although these companies have good business results (except VFMVF1), year

2008 is considered a year which both Vietnam and foreign Stock market will be "dropped down" seriously.

Market	Stock	Book volume	Volume available	Average price	MAR-KET PRICE	Average expense	MARKET VALUE	Gain/Loss	% Gain/Loss	EARNINGS PER SHARE (31/12/2008)
Portfolio:										
HO	KDC	14,017	14,017	65,000	30,100	911,105,000	421,911,700	(489,193,300)	-53.69%	3,282.45
HO	NKD	10,980	10,980	56,396	25,600	619,223,000	281,088,000	(338,135,000)	-54.61%	3,195.72
HA	PVS	5,000	5,000	47,500	31,000	237,500,000	155,000,000	(82,500,000)	-34.74%	5,213.00
HO	TDH	1,144	1,144	58,845	28,700	67,319,000	32,832,800	(34,486,200)	-51.23%	8,863.96
HO	VFMV F1	2,000	2,000	13,000	7,700	26,000,000	15,400,000	(10,600,000)	-40.77%	loss
HA	LBE	58,200	58,200	22,500	11,800	1,309,500,000	686,760,000	(622,740,000)	-47.56%	1,680.00
Total						3,170,647,000	1,592,992,500	(1,577,654,500)		

Note:

1/ Total investment capital:	(6,159,150,000)
- Money transferred to account for investing stock:	(6,159,150,000)
2/ Balance of account for investing stock as of 31/12/2008:	160,466,510
3/Market value until 31/12/2008 :	1,592,992,500
4/ Gain/(Loss) until 31/12/2008 :	(4,405,690,990)

Above are the contents of the company's annual business operation report for 2008 which are presented to the Meeting of Shareholders.

Sincerely,

**On behalf of the Board of Directors
Chairman**

Received:

- *PNC's Shareholders*
- *Filing*

PHAN THI LE