



# 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)

## 2008 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Period”), prepared in accordance with relevant provisions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), together with the comparative figures for the same period of 2007.

### INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

|                                                                          |       | For the six months ended<br>30 June |                                |
|--------------------------------------------------------------------------|-------|-------------------------------------|--------------------------------|
|                                                                          |       | 2008<br>(Unaudited)<br>RMB'000      | 2007<br>(Unaudited)<br>RMB'000 |
|                                                                          | Notes |                                     |                                |
| Revenue                                                                  |       | 1,267,373                           | 997,441                        |
| Cost of sales                                                            |       | (758,852)                           | (569,234)                      |
| Gross profit                                                             |       | 508,521                             | 428,207                        |
| Other income and gains                                                   |       | 22,220                              | 14,441                         |
| Selling and distribution costs                                           |       | (247,276)                           | (187,455)                      |
| Administrative expenses                                                  |       | (82,509)                            | (77,897)                       |
| Other expenses                                                           |       | (34,358)                            | (37,174)                       |
| Earthquake related expenses                                              |       | (23,133)                            | —                              |
| Finance income, net                                                      | 5     | 18,052                              | 28,917                         |
| Share of losses of associates                                            |       | (2,331)                             | (2,305)                        |
| Profit before tax                                                        | 4     | 159,186                             | 166,734                        |
| Tax                                                                      | 6     | 1,864                               | 173                            |
| Profit for the period                                                    |       | 161,050                             | 166,907                        |
| Attributable to:                                                         |       |                                     |                                |
| Equity holders of the parent                                             |       | 158,873                             | 167,613                        |
| Minority interests                                                       |       | 2,177                               | (706)                          |
|                                                                          |       | 161,050                             | 166,907                        |
| Dividend                                                                 | 7     | —                                   | —                              |
| Earnings per share attributable to ordinary equity holders of the parent |       |                                     |                                |
| — Basic (RMB)                                                            | 8     | 0.14                                | 0.21                           |

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

|                                                  |              | <b>30 June<br/>2008<br/>(Unaudited)<br/>RMB'000</b> | <b>31 December<br/>2007<br/>(Audited)<br/>RMB'000</b> |
|--------------------------------------------------|--------------|-----------------------------------------------------|-------------------------------------------------------|
|                                                  | <i>Notes</i> |                                                     |                                                       |
| <b>Non-current assets</b>                        |              |                                                     |                                                       |
| Property, plant and equipment                    |              | <b>512,374</b>                                      | 494,119                                               |
| Lease prepayments for land use rights            |              | <b>70,167</b>                                       | 72,051                                                |
| Investment properties                            |              | <b>5,863</b>                                        | 6,066                                                 |
| Intangible assets                                |              | <b>27,907</b>                                       | 26,901                                                |
| Goodwill                                         |              | <b>1,503</b>                                        | —                                                     |
| Investments in associates                        |              | <b>44,978</b>                                       | 47,308                                                |
| Available-for-sale equity investments            |              | <b>188,835</b>                                      | 188,835                                               |
| Deferred tax assets                              |              | <b>49,447</b>                                       | 47,090                                                |
| Property under development                       |              | <b>126,067</b>                                      | 126,025                                               |
| Prepayment for investment                        | 9            | <b><u>258,650</u></b>                               | <u>160,000</u>                                        |
| Total non-current assets                         |              | <b><u>1,285,791</u></b>                             | <u>1,168,395</u>                                      |
| <b>Current assets</b>                            |              |                                                     |                                                       |
| Inventories                                      |              | <b>582,249</b>                                      | 576,218                                               |
| Trade receivables                                | 10           | <b>351,081</b>                                      | 289,745                                               |
| Prepayments, deposits and other receivables      |              | <b>251,106</b>                                      | 156,293                                               |
| Held-to-maturity investments                     |              | <b>221,750</b>                                      | 330,000                                               |
| Investments at fair value through profit or loss |              | <b>495,231</b>                                      | 868,180                                               |
| Pledged deposits                                 |              | <b>26,000</b>                                       | 10,000                                                |
| Cash and short-term deposits                     |              | <b><u>1,583,785</u></b>                             | <u>1,536,434</u>                                      |
| Total current assets                             |              | <b><u>3,511,202</u></b>                             | <u>3,766,870</u>                                      |
| <b>Current liabilities</b>                       |              |                                                     |                                                       |
| Other borrowings                                 | 11           | <b>9,600</b>                                        | —                                                     |
| Trade and bills payables                         | 12           | <b>1,015,449</b>                                    | 1,021,007                                             |
| Deposits received, other payables and accruals   |              | <b>209,530</b>                                      | 171,007                                               |
| Dividend payable                                 |              | <b>9,897</b>                                        | —                                                     |
| Tax payable                                      |              | <b><u>5,545</u></b>                                 | <u>6,130</u>                                          |
| Total current liabilities                        |              | <b><u>1,250,021</u></b>                             | <u>1,198,144</u>                                      |

|                                                     |              | <b>30 June<br/>2008<br/>(Unaudited)<br/>RMB'000</b> | <b>31 December<br/>2007<br/>(Audited)<br/>RMB'000</b> |
|-----------------------------------------------------|--------------|-----------------------------------------------------|-------------------------------------------------------|
|                                                     | <i>Notes</i> |                                                     |                                                       |
| <b>Net current assets</b>                           |              | <u><b>2,261,181</b></u>                             | <u>2,568,726</u>                                      |
| <b>Total assets less current liabilities</b>        |              | <u><b>3,546,972</b></u>                             | <u>3,737,121</u>                                      |
| <b>Non-current liabilities</b>                      |              |                                                     |                                                       |
| Other borrowings                                    | <i>11</i>    | <u><b>3,525</b></u>                                 | <u>13,125</u>                                         |
| Total non-current liabilities                       |              | <u><b>3,525</b></u>                                 | <u>13,125</u>                                         |
| <b>Net assets</b>                                   |              | <u><u><b>3,543,447</b></u></u>                      | <u><u>3,723,996</u></u>                               |
| <b>Equity</b>                                       |              |                                                     |                                                       |
| Equity attributable to equity holders of the parent |              |                                                     |                                                       |
| Issued capital                                      |              | <b>1,135,131</b>                                    | 1,135,131                                             |
| Reserves                                            |              | <b>2,361,841</b>                                    | 2,202,968                                             |
| Proposed final dividend                             |              | <u>—</u>                                            | <u>340,539</u>                                        |
|                                                     |              | <u><b>3,496,972</b></u>                             | <u>3,678,638</u>                                      |
| <b>Minority interests</b>                           |              | <u><b>46,475</b></u>                                | <u>45,358</u>                                         |
| <b>Total equity</b>                                 |              | <u><u><b>3,543,447</b></u></u>                      | <u><u>3,723,996</u></u>                               |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2008*

## 1. CORPORATE INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 11 June 2005 as a joint stock limited company as part of the reorganisation of Sichuan Xinhua Publishing Group Co., Ltd. ("Xinhua"). Details of the formation of the Company are set out in the Company's prospectus dated 16 May 2007 (the "Prospectus").

On 30 May 2007, the Company's H shares were listed on the Stock Exchange 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 Group is principally engaged in the production and trading of publications and related products in the PRC. The registered office of the Company is located at 12/F, No.86 Section One, People's South Road, Qingyang District, Chengdu, Sichuan, the PRC.

In the opinion of the directors of the Company, the parent and ultimate holding company of the Company was Xinhua, a state-owned enterprise established in the PRC.

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of the Listing Rules. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

### 2.1 Impact of new and revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of the new and revised International Financial Reporting Standards and interpretations as noted below:

|          |                                                                                                   |
|----------|---------------------------------------------------------------------------------------------------|
| IFRIC 11 | IFRS 2 — Group and Treasury Share Transactions                                                    |
| IFRIC 12 | Service Concession Arrangements                                                                   |
| IFRIC 14 | IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of the above new and revised standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as all of the Group's revenue is derived from customers based in the PRC, and most of its assets are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and rewards that are different from those of the other business segments.

The Company restructured its operating activities in 2007. A summary of the business segments before the restructuring (the "Old Segments") is as follows:

- Distribution: Distribution of textbooks and supplementary materials to schools and students
- Retailing: Retailing of books and audio-visual products
- Others: Provision of ancillary support and services to publishers and others

A summary of the business segments pursuant to the restructuring in 2007 (the "New Segments") is as follows:

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

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

In the opinion of the directors of the Company, it is impracticable to restate the comparative information for the six months ended 30 June 2007 under the New Segments. As a result, the Old Segments information for the six months ended 30 June 2008 is presented for comparative purpose.

The following table presents revenue and operating results by the New Segments of the Group for the six months ended 30 June 2008.

**For the six months ended 30 June 2008**

|                                 | <b>Product</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Zhongpan</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Subscription</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Retailing</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Others</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Eliminations</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Consolidated</b><br><i>RMB'000</i><br><i>(Unaudited)</i> |
|---------------------------------|--------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| <b>Revenue and other income</b> |                                                        |                                                         |                                                             |                                                          |                                                       |                                                             |                                                             |
| Sales to external customers     | 3,324                                                  | 74,713                                                  | 997,448                                                     | 190,187                                                  | 1,701                                                 | —                                                           | 1,267,373                                                   |
| Intersegment sales              | 169,529                                                | 647,651                                                 | —                                                           | —                                                        | 338                                                   | (817,518)                                                   | —                                                           |
| Other income                    | 9,059                                                  | 7,818                                                   | 2,339                                                       | 6,202                                                    | 293                                                   | (8,711)                                                     | 17,000                                                      |
|                                 | <u>181,912</u>                                         | <u>730,182</u>                                          | <u>999,787</u>                                              | <u>196,389</u>                                           | <u>2,332</u>                                          | <u>(826,229)</u>                                            | <u>1,284,373</u>                                            |
| <b>Results</b>                  |                                                        |                                                         |                                                             |                                                          |                                                       |                                                             |                                                             |
| Segment results                 | <u>36,032</u>                                          | <u>(5,654)</u>                                          | <u>173,393</u>                                              | <u>(20,228)</u>                                          | <u>(1,670)</u>                                        | <u>4,811</u>                                                | <u>186,684</u>                                              |

The following tables present revenue and operating results by the Old Segments of the Group for the six months ended 30 June 2008 and six months ended 30 June 2007.

**For the six months ended 30 June 2008**

|                                 | <b>Distribution</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Retailing</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Others</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Eliminations</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Consolidated</b><br><i>RMB'000</i><br><i>(Unaudited)</i> |
|---------------------------------|-------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| <b>Revenue and other income</b> |                                                             |                                                          |                                                       |                                                             |                                                             |
| Sales to external customers     | 993,910                                                     | 192,649                                                  | 80,814                                                | —                                                           | 1,267,373                                                   |
| Intersegment sales              | 408                                                         | —                                                        | 51,759                                                | (52,167)                                                    | —                                                           |
| Other income                    | 10,148                                                      | 6,504                                                    | 348                                                   | —                                                           | 17,000                                                      |
|                                 | <u>1,004,466</u>                                            | <u>199,153</u>                                           | <u>132,921</u>                                        | <u>(52,167)</u>                                             | <u>1,284,373</u>                                            |
| <b>Results</b>                  |                                                             |                                                          |                                                       |                                                             |                                                             |
| Segment results                 | <u>212,549</u>                                              | <u>(6,378)</u>                                           | <u>(12,775)</u>                                       | <u>(6,712)</u>                                              | <u>186,684</u>                                              |

**For the six months ended 30 June 2007**

|                                 | <b>Distribution</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Retailing</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Others</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Eliminations</b><br><i>RMB'000</i><br><i>(Unaudited)</i> | <b>Consolidated</b><br><i>RMB'000</i><br><i>(Unaudited)</i> |
|---------------------------------|-------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| <b>Revenue and other income</b> |                                                             |                                                          |                                                       |                                                             |                                                             |
| Sales to external customers     | 799,137                                                     | 175,015                                                  | 23,289                                                | —                                                           | 997,441                                                     |
| Intersegment sales              | —                                                           | 4,434                                                    | 72,510                                                | (76,944)                                                    | —                                                           |
| Other income                    | 5,143                                                       | 8,873                                                    | 425                                                   | —                                                           | 14,441                                                      |
|                                 | <u>804,280</u>                                              | <u>188,322</u>                                           | <u>96,224</u>                                         | <u>(76,944)</u>                                             | <u>1,011,882</u>                                            |
| <b>Results</b>                  |                                                             |                                                          |                                                       |                                                             |                                                             |
| Segment results                 | <u>190,054</u>                                              | <u>4,427</u>                                             | <u>(7,591)</u>                                        | <u>(2,244)</u>                                              | <u>184,646</u>                                              |

#### 4. PROFIT BEFORE TAX

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

|                                                                | <b>For the six months ended</b> |                    |
|----------------------------------------------------------------|---------------------------------|--------------------|
|                                                                | <b>30 June</b>                  |                    |
|                                                                | <b>2008</b>                     | <b>2007</b>        |
|                                                                | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
|                                                                | <b>RMB'000</b>                  | <b>RMB'000</b>     |
| Depreciation and amortisation                                  | 22,116                          | 18,865             |
| Loss on disposal of items of property, plant and equipment     | 36                              | 450                |
| Minimum lease payments under operating leases on properties    | 26,130                          | 20,907             |
| Staff costs (including directors' and supervisors' emoluments) |                                 |                    |
| Wages, salaries and other employee benefits                    | 93,146                          | 76,861             |
| Post-employment pension scheme contributions                   | 8,270                           | 6,953              |
|                                                                | <u>101,416</u>                  | <u>83,814</u>      |
| Impairment of trade and other receivables                      | 15,310                          | 11,326             |
| Write-down of inventories to net realisable value              | <u>11,086</u>                   | <u>1,759</u>       |

#### 5. FINANCE INCOME, NET

|                                                                          | <b>For the six months ended</b> |                    |
|--------------------------------------------------------------------------|---------------------------------|--------------------|
|                                                                          | <b>30 June</b>                  |                    |
|                                                                          | <b>2008</b>                     | <b>2007</b>        |
|                                                                          | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
|                                                                          | <b>RMB'000</b>                  | <b>RMB'000</b>     |
| Bank interest income                                                     | 18,471                          | 29,205             |
| Interest expense on other borrowings, wholly repayable within five years | <u>(419)</u>                    | <u>(288)</u>       |
|                                                                          | <u>18,052</u>                   | <u>28,917</u>      |

## 6. TAX

Pursuant to the relevant PRC income tax regulations and the approval from the relevant PRC tax authority, the Company and certain subsidiaries were granted an income tax exemption from 2006 to 2008. Some of the subsidiaries of the Group and its associates are subject to corporate income tax at a rate of 25% (2007: 33%) on their respective taxable income. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong.

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

|                     | <b>For the six months ended</b> |                    |
|---------------------|---------------------------------|--------------------|
|                     | <b>30 June</b>                  |                    |
|                     | <b>2008</b>                     | 2007               |
|                     | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
|                     | <b>RMB'000</b>                  | <b>RMB'000</b>     |
| Current income tax  | (527)                           | (804)              |
| Deferred income tax | <u>2,391</u>                    | <u>977</u>         |
|                     | <u><b>1,864</b></u>             | <u><b>173</b></u>  |

## 7. DIVIDEND

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (for the six months ended 30 June 2007: Nil).

## 8. EARNINGS PER SHARE

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

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the net profit attributable to equity holders of the parent for the period of approximately RMB167,613,000 and the weighted average number of approximately 802,969,000 ordinary shares in issue during the period, as adjusted to reflect the issue of 369,400,000 H shares and 32,361,000 H shares as a result of the listing of the Company's H shares on the Stock Exchange on 30 May 2007 and the partial exercise of the over-allotment option by the international underwriters on 7 June 2007, respectively.

Diluted earnings per share for the six months ended 30 June 2008 and six months ended 30 June 2007 have not been calculated because no diluting events existed during the two periods.

## 9. PREPAYMENT FOR INVESTMENTS

Prepayment for investments mainly comprise of investment deposit of RMB 240,000,000 for the acquisition of 2.46% equity interest in Chengdu City Commercial Bank Co., Ltd. (“Chengdu CCB”). As at 30 June 2008, related share registration procedures was not completed yet, thus the balance of RMB240,000,000 was stated as prepayment for investments. On July 2008, the Company has obtained the share rights certificate of Chengdu CCB.

## 10. TRADE RECEIVABLES

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

An aged analysis of the trade receivables of the Group as at the balance sheet date, based on invoice date and net of impairment, is as follows:

|                    | <b>30 June<br/>2008<br/>(Unaudited)<br/>RMB'000</b> | <b>31 December<br/>2007<br/>(Audited)<br/>RMB'000</b> |
|--------------------|-----------------------------------------------------|-------------------------------------------------------|
| Within 3 months    | <b>123,706</b>                                      | 82,749                                                |
| 3 to 6 months      | <b>142,066</b>                                      | 147,966                                               |
| 6 months to 1 year | <b>80,382</b>                                       | 49,103                                                |
| 1 to 2 years       | <b>4,927</b>                                        | 9,927                                                 |
|                    | <b><u>351,081</u></b>                               | <b><u>289,745</u></b>                                 |

## 11. OTHER BORROWINGS

As at 30 June 2008 and 31 December 2007, other borrowings represented the entrusted loans granted by Xinhua to Chengdu Xin Hui Industrial Co., Ltd. (“Chengdu Xin Hui”), a subsidiary of the Company. On 28 April 2007 and 2 July 2007, two entrusted loan agreements were entered into among Chengdu Xin Hui, Xinhua and China Construction Bank Company Limited (“CCB”) respectively, pursuant to which Xinhua agreed to entrust CCB to grant loans of RMB9,600,000 and RMB3,525,000, respectively, to Chengdu Xin Hui and these entrusted loan agreements bore interest rate of 5.91% and 6.08% per annum and were repayable on 27 April 2009 and 1 July 2010, respectively.

## 12. TRADE AND BILLS PAYABLES

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

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

|                    | <b>30 June<br/>2008<br/>(Unaudited)<br/>RMB'000</b> | <b>31 December<br/>2007<br/>(Audited)<br/>RMB'000</b> |
|--------------------|-----------------------------------------------------|-------------------------------------------------------|
| Within 3 months    | <b>416,513</b>                                      | 376,011                                               |
| 3 to 6 months      | <b>138,660</b>                                      | 306,531                                               |
| 6 months to 1 year | <b>194,461</b>                                      | 125,170                                               |
| 1 to 2 years       | <b>182,327</b>                                      | 135,594                                               |
| Over 2 years       | <b>83,488</b>                                       | 77,701                                                |
|                    | <b><u>1,015,449</u></b>                             | <b><u>1,021,007</u></b>                               |

## INDUSTRY OVERVIEW

In the first half of 2008, the PRC still managed to attain steady growth in its book distribution market notwithstanding the storms of severe snowfall and rainfall accompanying the cold winter in southern China at the beginning of the year and the severe earthquake occurring in Wenchuan County, Sichuan Province of the PRC on 12 May 2008 (the “5.12 Wenchuan Earthquake”).

In respect of distribution of textbooks and supplementary materials, since the spring term in 2008, textbooks have been centrally purchased by the government and provided free of charge to students under obligatory education in rural areas. In addition, tuition fee and miscellaneous fee in respect of urban obligatory education are to be fully exempted with effect from the autumn term this year. The change in the mode of distribution of textbooks together with the change into a completely market-driven mode of distribution of supplementary materials, which is a correlated segment with the distribution of textbooks, has fuelled competition in the markets of distribution of both items. However, wholly or partially state-owned distribution enterprises were in an exceedingly favourable position amidst market competition with their years of extensive experience and service quality as well as their market-oriented approaches to operations.

In respect of book retailing, the book retailing industry faced an increasingly immense pressure in view of the upsurge of general prices this year, which had caused costs of operations including staff costs and rental costs to keep going up. Adjustments were made by those wholly or partially state-owned enterprises to adapt to the market, thereby forming a scientific, sound system of logistics and inventory management, and a modern system of business management, to maximize the values of their channel resources. This put them in an obviously better position in the book retailing market.

In respect of textbooks for use in tertiary and vocational education, the expanded student recruitment exercises by tertiary institutions and vocational schools have swelled the capacity of the market. In addition, as it has become a popular practice to select textbooks by bidding processes, the crucial factors of selection, including discounts, quality of business, scale of operations, creditworthiness, have put wholly or partially state-owned enterprises in an obviously advantageous position to compete in the market.

In addition, the segment of book distribution to libraries was on a steadily rising track, as the entry barrier had been lowered with the state's actions in stepping up the investment of resources to public cultural services, and readers' demand had gone up. The continual refinement of the market further called for large-scale Zhongpan, which have strong capability in purchasing, logistics, information support and marketing, to deliver refined services to the market to cater to the specialized needs of customers.

In 2008, with the enhanced efforts of the government to reform the nation's cultural framework, the publishing and distribution industry, which represents a forerunning sector in the reform, underwent the process in an accelerated pace. A series of administrative regulations have been issued by the General Administration of Press and Publication since April 2008, safeguarding the reform of the publishing sector's framework. Resources integration, adjustments of structure, cross-regional and cross-industry acquisition and restructuring activities also proceeded along the vertical dimension of the industry. The restructuring and formation of Shenzhen Publishing and Distribution Group (深圳出版發行集團) by Shenzhen Distribution Group (深圳發行集團) and Haitian Publisher (海天出版社) and the establishment of China Heping Publisher Company Limited (中國和平出版社有限責任公司) in Beijing signified further progress in cross-regional restructuring and resources integration of PRC entities engaged in publishing and distribution. The formation of Hainan Phoenix Xinhua Distribution Company Limited (海南鳳凰新華發行有限責任公司) upon the restructuring of Hainan Xinhua Bookstore Group Company Limited (海南省新華書店集團有限公司) and Jiangsu Xinhua Bookstore Group Company Limited (江蘇省新華書店集團有限公司) represented a breakthrough against the existing framework under which the market was segregated in terms of business segments and geographical locations. The integration of capital, markets and business operations and the resulting mutual complementation and joint development are a natural trend in the process of business chain development and cross-regional and cross-ownership development for the publishing industry.

The Group believes that there will be ample opportunities for its development as the enhancement in the reform of the nation's cultural framework, the full-scale progress in the reform of the publishing and distribution industry and consequently the ability to surpass limitations in terms of geographical locations and business segments, will favour the growth of large-scale corporations with a high concentration of industry assets and resources and enable them to attain the role of strategic investors in the industry.

## **BUSINESS REVIEW**

During the Period, the Group's sales revenue amounted to RMB1,267 million, representing a year-on-year increase of approximately 27.1% over the same period of last year. Despite unfavorable factors including natural disasters in particular the 5.12 Wenchuan Earthquake and the increase of general prices, the Company's sales turnover still sustained a certain level of growth. The sustainable growth of our business was primarily attributable to the government's efforts in fostering the reform of the publishing and distribution industry of the PRC, the growth of business of supplementary materials and the expansion of our Zhongpan business on a nationwide basis.

### **Product**

The Company provides ancillary support and services to publishers of books. During the Period, the selection of topics for publishing not only took into account the features of our channels of distribution but also catered to market segments and readerships. The effectiveness in organizing our publishing work and the coordination with the Company's distribution channels (especially the nationwide Zhongpan channel) was enhanced, covering planning of product publishing, product sales and marketing, feedback on sales and supply of merchandise etc. During the Period, our capability of providing ancillary support and services expanded well, producing on a cooperative basis 478 kinds of products of general interest, representing an increase of 13.2 times from the same period of last year, and 488 kinds of products of culture and education, representing an increase of 2.0 times from the same period of last year. During the Period, sales revenue of the segment amounted to RMB173 million (including intersegment revenue).

### **Zhongpan**

During the Period, building upon the enhanced and optimized network of its distribution channels, our Zhongpan business experienced a breakthrough in its development of a multi-channel network. Through the development in the markets of book distribution to libraries and textbooks for tertiary institutions and vocational schools, a sales model with multiple channels and levels was formed. Leveraging on its involvement in organizing the national fair for the demonstration and procurement of new books for nationwide libraries under the Beijing Book Ordering Fair 2008, we successfully extended our presence to the markets of book distribution to libraries and textbooks for tertiary institutions and vocational schools across the nation in an innovative manner. It fortified the horizontal linkage with other segments, including the Product segment, in respect of marketing, and the establishment of a coordinated exchange mechanism to align planning with sales. Customer needs in respect of book distribution to libraries were analyzed in details and streamlined, and category subscription was identified as the core concept in marketing strategy, sales and merchandise organization for our business of book distribution to libraries. The procedures and systems of book distribution to libraries were also established. During the Period, sales revenue of the segment amounted to RMB722 million (including intersegment revenue).

## **Retailing**

During the Period, adjustments to the positioning of our outlets and hypermarkets were gradually put to practice, maintaining our efforts in renovating our network of outlets. Adjustments were also made to the structure of the existing affiliation of hypermarkets to introduce new items of affiliation, including periodicals and cultural items, as well as new media of sales, development of value-added businesses in our channels in order to enhance the profitability of our network. Enhanced coordination was achieved between our retailing channel and Zhongpan channel in the businesses of book distribution to libraries and the businesses of books for tertiary and vocational education, which contributed to our sales growth. During the Period, sales revenue of the segment amounted to RMB190 million (including intersegment revenue).

## **Subscription**

The enhancement and implementation of the obligatory education funding protection mechanism for rural areas across the nation in early 2008 generated positive effects on the subscription business of the Company, driving up our sales of textbooks and supplementary materials in Sichuan Province. During the Period, the year-on-year growth in respect of textbooks (in Sichuan Province) was 20.4% over the same period of last year, whereas the year-on-year growth in respect supplementary materials (in Sichuan Province) was 31.4% over the same period of last year. This translates into a year-on-year growth in respect of both categories (in Sichuan Province) of 19.9% over the same period of last year. In addition, in pursuance of the development trend of the market, we implemented a corporate marketing campaign to step up promotion and our ability to harness the market. During the Period, sales revenue of the segment amounted to RMB997 million (including intersegment revenue).

## **Capability Building**

During the Period, optimization and enhancement continued to be made to the Company's information system to set up a BI Warehouse to monitor our operating activities and also analyze our operations and key performance indicators. The enhancement to the system of business development for our retail operations, on the other hand, strengthened the system's prompt support to the business development in other retail regions. In addition, procedures in respect of our business of book distribution to libraries were established, and preparation for optimizing our respective SBU procedures was underway, clearly defining the functions and operating processes of the logistics centers under our logistics network and strengthening the coordination between the operations of various logistics centers and sub-centers. Our logistics centers located in Beijing, Guangyuan and Guizhou underwent researches in respect of the deployment of their logistics operations information systems (SAP + WMS) as well as the selection of models of equipment and systems, which were all meant to prepare for the implementation of the logistics centers and the development and launch of their information systems.

## **Impact of the 5.12 Wenchuan Earthquake**

On 12 May 2008, an earthquake measuring 8.0 on the Richter scale occurred in Wenchuan County, Sichuan Province, causing serious damage to some regions in the province. The Group is principally based in Sichuan and its operating facilities including outlets and treasury premises located in the respective earthquake regions were under varying degrees of destructions. The earthquake caused losses to some stocks but did not have a material adverse effect on the business and assets of the Group. For our retail operations, other than 3 outlets located in the seriously-affected regions, all are currently back to normal business operations. In July and August 2008, daily sales turnover for our retail outlets exceeded the corresponding figures in the same period of 2007. For our subscription operations, the distribution of textbooks and supplementary materials in respect of the spring term 2008 was completed before the occurrence of the earthquake. As of the end of July 2008, subscription level for respect of textbooks and supplementary materials for the autumn term 2008 was higher than that for autumn 2007. During the Period, the Group wrote off property, plant and equipment and inventory destroyed in the earthquake, which had a total net book value of RMB1,220,000.

To duly carry out its corporate and social responsibilities, the Company responded promptly to the occurrence of the earthquake. As of 30 June 2008, textbooks, schoolbags, learning tools and other materials amounting to RMB1,910,000 in aggregate had been donated to primary and secondary school students affected by the earthquake. In addition, the Company made a donation of RMB20 million to Sichuan Province Education Foundation for the re-construction of the schools destroyed by the earthquake.

Saved as aforesaid, the earthquake did not have a material adverse effect on the business and assets of the Group.

## **Future Prospects**

With the stepping up of the reform of the cultural framework in the PRC, the publishing and distribution industry will see a high pace of growth driven by the huge demand for cultural products which in turn is attributable to the burgeoning market of cultural industry and the rising level of consumer spending.

In the second half of 2008, it will be the intention of the Company to strengthen its existing core competence to further expand its business outside of Sichuan Province. Meanwhile, to leverage upon the opportunity brought by the change and integration of the industry, it will seek to develop a complete chain of publishing and distribution businesses by forging cooperation and development with industries that are closely related to our core business. Cross-regional integration of industry resources and capital is intended to be explored and realised, so that our core competitiveness in the market and ability of sustainable development will be further consolidated. Further, the Company will take an industry-leading pace and level of soundness in developing its business scale.

## FINANCIAL REVIEW

### Revenue

Segment revenue of the Group presented based on the old business segments for this Period and the same period of 2007 are as follows:

|                                               | Six months ended 30 June |              |                |          |
|-----------------------------------------------|--------------------------|--------------|----------------|----------|
|                                               | 2008                     |              | 2007           |          |
|                                               | <i>RMB'000</i>           | <i>%</i>     | <i>RMB'000</i> | <i>%</i> |
| Retailing (including intersegment revenue)    | <b>192,649</b>           | <b>15.2</b>  | 179,449        | 18.0     |
| Distribution (including intersegment revenue) |                          |              |                |          |
| — Textbooks                                   | <b>594,773</b>           | <b>46.9</b>  | 494,160        | 49.5     |
| — Supplementary materials                     | <b>399,545</b>           | <b>31.5</b>  | 304,977        | 30.6     |
| Sub-total                                     | <b>994,318</b>           | <b>78.4</b>  | 799,137        | 80.1     |
| Others (including intersegment revenue)       | <b>132,573</b>           | <b>10.5</b>  | 95,799         | 9.6      |
| Intersegment revenue eliminated               | <b>(52,167)</b>          | <b>(4.1)</b> | (76,944)       | (7.7)    |
| Total                                         | <b>1,267,373</b>         | <b>100.0</b> | 997,441        | 100.0    |

Sales revenue for the Period grew substantially by 27.1%, which was primarily driven by the strong sales growth of the distribution segment.

### Retailing

Revenue of the retailing segment recorded steady growth at 7.4% for the Period.

### Distribution

#### *Textbook*

Benefiting from the government's stepped-up support for students under obligatory education in rural areas, sales of government-subsidized textbooks recorded remarkable growth for the Period, causing overall sales of textbooks to increase substantially by 20.4% year on year.

#### *Supplementary materials*

Affected by the change in government regulation on sales of supplementary materials, the supplementary materials market in Sichuan Province shrunk in the second half of 2006. Sales of supplementary materials was in a period of recovery in the first half of 2007. With its stepped-up marketing efforts in expanding the market of supplementary materials, the Group recorded a high rate of growth at 31.0% in the sales of supplementary materials, a sales level which was the same as before the change in government regulation on sales of supplementary materials.

## Gross Profit and Gross Profit Margin

The gross profit and the gross profit margin of each segment of the Group presented based on the old business segments for this Period and the same period of 2007 are as follows:

|                                               | Six months ended 30 June 2008 |                             | 2007                    |                             |
|-----------------------------------------------|-------------------------------|-----------------------------|-------------------------|-----------------------------|
|                                               | Gross profit<br>RMB'000       | Gross profit<br>margin<br>% | Gross profit<br>RMB'000 | Gross profit<br>margin<br>% |
| Retailing (including intersegment revenue)    | 66,511                        | 34.5                        | 64,685                  | 36.0                        |
| Distribution (including intersegment revenue) |                               |                             |                         |                             |
| — Textbooks                                   | 214,516                       | 36.1                        | 184,123                 | 37.3                        |
| — Supplementary materials                     | <u>207,182</u>                | <u>51.9</u>                 | <u>172,310</u>          | <u>56.5</u>                 |
| Sub-total                                     | <u>421,698</u>                | <u>42.4</u>                 | <u>356,433</u>          | <u>44.6</u>                 |
| Others (including intersegment revenue)       | 25,030                        | 18.9                        | 9,333                   | 9.7                         |
| Intersegment revenue eliminated               | <u>(4,718)</u>                | <u>N/A</u>                  | <u>(2,244)</u>          | <u>N/A</u>                  |
| Total                                         | <u><u>508,521</u></u>         | <u><u>40.1</u></u>          | <u><u>428,207</u></u>   | <u><u>42.9</u></u>          |

### Retailing

Affected by the change in regulation, a portion of sales of supplementary materials was directed to our retail outlets from our subscription channel in the first half of 2007. The higher gross profit margin of supplementary materials compared with other products of the Company contributed to higher gross profit margin in our retailing segment for the first half of 2007. Netting off this factor, the gross profit margin of the retailing segment basically remained stable.

### Distribution

#### *Textbooks*

Gross profit margin in respect of textbooks for the Period decreased by 1.2 percentage points from the same period of last year, primarily due to the drop in gross profit margin of government-subsidized textbooks. Despite the slight decrease in gross profit margin for the Period, gross profit for the Period grew at 16.5% year on year because of the substantial increase in sales turnover.

#### *Supplementary materials*

Cooperative products accounted for a substantial portion in the sales of supplementary materials for the first half of 2007, resulting in higher gross profit margin. During the Period, Cooperative supplementary materials recorded modest growth in sales figure. Given the even stronger growth of the

overall sales of supplementary materials, however, cooperative products accounted for a slightly smaller proportion for the Period, thereby reducing the gross profit margin of our business of supplementary materials.

In 2007, the Company restructured the segmentation of its business operations with respect to the production and procurement of its upstream business in accordance with the needs of our business development, in order to reflect our state of operations in an accurate and clear manner.

The revenue and gross profit of the Group based on the new business segments for the six months ended 30 June 2008 are as follows:

|                                               | <b>Six months ended 30 June 2008</b>  |                                     |                                      |
|-----------------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|
|                                               | <b>Sales<br/>turnover<br/>RMB'000</b> | <b>Gross<br/>profit<br/>RMB'000</b> | <b>Gross profit<br/>margin<br/>%</b> |
| Product (including intersegment revenue)      | <b>172,853</b>                        | <b>38,605</b>                       | <b>22.3</b>                          |
| Zhongpan (including intersegment revenue)     | <b>722,364</b>                        | <b>68,411</b>                       | <b>9.5</b>                           |
| Subscription (including intersegment revenue) | <b>997,448</b>                        | <b>333,227</b>                      | <b>33.4</b>                          |
| Retailing (including intersegment revenue)    | <b>190,187</b>                        | <b>51,560</b>                       | <b>27.1</b>                          |
| Others (including intersegment revenue)       | <b>2,039</b>                          | <b>1,201</b>                        | <b>58.9</b>                          |
| Intersegment revenue eliminated               | <b>(817,518)</b>                      | <b>15,517</b>                       | <b>N/A</b>                           |
| Total                                         | <b><u>1,267,373</u></b>               | <b><u>508,521</u></b>               | <b><u>40.1</u></b>                   |

### *Product*

The Product segment is primarily the provision of ancillary support and services to book publishers, whereas relevant products are sold through the channel of Zhongpan segment. During the Period, this segment recorded a gross profit margin of 22.3%.

### *Zhongpan*

The Zhongpan segment primarily handles the purchase of merchandise from publishers and related logistics business. The merchandise purchased by this segment are mainly sold to the Subscription and Retailing segments, while a small portion are sold directly to end customers at our outlets in various provinces. During the Period, this segment recorded a gross profit margin of 9.5%.

### *Subscription*

The Subscription segment purchases from our Zhongpan segment textbooks and supplementary materials, which will in turn be distributed to schools and students through our subscription channel. During the Period, this segment recorded a gross profit margin of 33.4%.

## *Retailing*

The Retailing segment purchases from our Zhongpan segment various books and audio-visual products, which will in turn be sold to our end customers through our retail outlets or under our group purchase schemes. During the Period, this segment recorded a gross profit margin of 27.1%.

## **Expenses and costs**

### *Selling and distribution costs*

Selling and distribution costs for the Period increased by 31.9% as compared to the corresponding period in the last year. This is mainly due to the sharp increase in sales revenue during the Period, which in turn caused the marketing promotion and transportation costs to rise. Besides, the Group has recruited new staffs to promote new business and raised staff salaries in the second half of 2007; these caused the staff costs for the Period to increase.

### *Administrative expenses*

Administrative expenses for the Period increased by 5.9% as compared to the corresponding period in the last year. This is due to the incurrence of related maintenance costs subsequent to the listing of the Company's H shares in Hong Kong on 30 May 2007.

### *Other expenses*

During the Period, exchange losses decreased by RMB9 million and share conversion expenses of RMB8 million for the last year did not recur. However, bad debt provisions and inventories impairment provisions for the Period increased by RMB13 million. As a result, other expenses for the Period slightly decreased by 7.6% to RMB34 million.

## **Finance income, net**

Finance income, net for the Period decreased by 37.6% as compared to the corresponding period in the last year. This is mainly due to the absence of interest income on application monies in connection with the H shares offering of the Company of RMB20 million during the Period, while this is partially offset by the increase in interest income during the Period.

## **Profit**

The Group's profit for the Period amounted to RMB161 million, which represented a decrease of 3.5% from RMB167 million in the corresponding period in last year.

The Group's profit for the Period and the corresponding period in last year were both affected by several non-operating factors. Non-operating factors for the Period included exchange losses of RMB1 million and earthquake related expenses of RMB23 million; while non-operating factors for the

corresponding period of last year included exchange losses of RMB10 million, share conversion expenses due to the listing of the state-owned shares of RMB8 million and the interest income on application monies in connection with the H shares offering of the Company of RMB20 million.

After adjusting for the above factors, the Group's profit for the Period amounted to RMB185 million, representing an increase of 13.0% from RMB164 million for the corresponding period of last year. The growth in profit during the Period is mainly driven by the strong growth in sales in supplementary materials.

## **EARNINGS PER SHARE**

Earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the period. Earnings per share of the Company for the Period was RMB0.14, representing a decrease of 33.0% from RMB0.21 for the corresponding period in last year. After adjusting for the non-operating factors in the section headed "Profit" above, earnings per share for the Period was RMB0.16, representing a decrease of 21.5% from RMB0.21 for the corresponding period in last year. The decrease in earnings per share is mainly due to the substantial increase in the weighted average number of ordinary shares in issue for the Period as a result of the issuance of H shares in the last year. Please refer to Note 8 to the interim condensed consolidated financial statements for the calculation of earnings per share.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Except for the other borrowings of Chengdu Xin Hui, a subsidiary of the Company, the Group did not have any bank and other borrowings. As at 30 June 2008, the Group had other borrowings of RMB13 million as fixed-interest financing. The stable and strong cash flow and robust financial conditions laid down a solid foundation for the continuing business development of the Group.

As at 30 June 2008, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 26.1% (31 December 2007: 24.5%). There is no significant change in the Group's capital structure during the Period.

As at 30 June 2008, the Group had cash and short-term deposits of approximately RMB1,584 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. 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 30 June 2008, the Group had cash and short-term deposits, pledged deposits and structured deposits totalling approximately RMB2,327 million.

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.

## **SIGNIFICANT INVESTMENTS**

The Company holds 7.79% equity interest in Anhui Xinhua Distribution Group Co., Ltd. The investment did not have any impact on the profit and loss of the Group during the Period. The Company treats the investment in Anhui Xinhua Distribution Group Co., Ltd. as long term strategic investment, and will continue to explore business development opportunities with the investee.

## **CONTINGENT LIABILITIES AND CHARGE ON ASSETS**

As at 30 June 2008, the Group did not have any material contingent liabilities or any charge or guarantee on its assets.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Directors of the Company are of the view that, during the six months ended 30 June 2008, the Company was in compliance with the provisions as set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors and supervisors of the Company, for the purpose of governing securities transactions by the Directors and supervisors. Having made specific enquiries of every Director and supervisor of the Company, all Directors and supervisors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2008.

## **INTERIM DIVIDEND**

The Board does not propose the distribution of any interim dividend for the six months ended 30 June 2008 (for the six months ended 30 June 2007: Nil).

## **AUDIT COMMITTEE**

The Company established its Audit Committee on 20 April 2006 in compliance with Appendix 14 to the Listing Rules. The Audit Committee has considered and reviewed the accounting principles adopted by the Group, and discussed with the management matters relating to internal control and financial reporting, including the review of the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2008 and the provision of advice and recommendations thereon.

## **PUBLICATION OF FINANCIAL INFORMATION**

The 2008 interim results announcement of the Group will be published on the Stock Exchange's website [www.hkex.com.hk](http://www.hkex.com.hk) and the Company's website [www.winshare.com.cn](http://www.winshare.com.cn). This interim results announcement includes all information required under the Listing Rules. The 2008 interim report will be despatched to Shareholders and will be made available on the Stock Exchange's website and the Company's website in due course.

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

Sichuan, the PRC, 25 August 2008

*As at the date of this announcement, 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. Mo Shixing 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.*

*\* For identification purposes only*