
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Xinhua Winshare Publishing and Media Co., Ltd.*, you should at once hand this circular with the form of proxy and reply slip to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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新華文軒出版傳媒股份有限公司

XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD.*

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

(Stock Code: 811)

CONTINUING CONNECTED TRANSACTION

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 5 to 13 of this circular.

A letter from the Independent Board Committee is set out on page 14 of this circular.

A letter from Halcyon Capital Limited, the Independent Financial Adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 32 of this circular.

The notice for convening the annual general meeting (the “AGM”) of the Company to be held at 10:00 a.m. on Wednesday, 30 May 2018 at Sichuan Xinhua International Hotel, No. 8 Guzhongshi Street, Chengdu, Sichuan, the People's Republic of China (the “PRC”), a form of proxy and a reply slip have been issued to the Shareholders of H Shares on 13 April 2018.

Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. The proxy form shall be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the AGM (10:00 a.m. on Tuesday, 29 May 2018) (or any adjournment thereof) or before the time appointed for taking the poll. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

* For identification purposes only

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DEFINITIONS

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

“A Share(s)”	ordinary shares of the Company with a par value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the Shanghai Stock Exchange (stock code: 601811)
“AGM”	the annual general meeting of the Company to be held at 10:00 a.m. on 30 May 2018 (Wednesday) at Sichuan Xinhua International Hotel, No.8 Guzhongshi Street, Qingyang District, Chengdu, Sichuan, the PRC, for, among other things, the Independent Shareholders to consider and, if thought fit, approve the Publications Purchase Framework Agreement and the transactions contemplated thereunder
“Announcement”	the announcement of the Company dated 26 March 2018 in relation to, among other things, the Publications Purchase Framework Agreement
“associate(s)”	has the same meaning as ascribed to this term under the Listing Rules
“Board”	the board of Directors
“business day”	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”	Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange and A Share of which are listed the Shanghai Stock Exchange
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“controlling shareholder(s)”	has the same meaning as ascribed to this term under the Listing Rules
“Directors”	the directors of the Company

DEFINITIONS

“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) with a nominal value of RMB1.00 each in the ordinary share capital of the Company, all of which are listed on the Main Board of the Stock Exchange (stock code: 00811)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Sheng Group”	Chengdu Hua Sheng (Group) Industry Co., Ltd.
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Mr. Chan Yuk Tong, Ms. Xiao Liping and Mr. Fang Bingxi
“Independent Financial Adviser”	Halcyon Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Publications Purchase Framework Agreement and the transactions contemplated thereunder, being a corporation licensed by Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	Shareholders other than Sichuan Xinhua Publishing Group and its associates
“Independent Third Party(ies)”	person(s) or company(ies) which is (are) independent of the Directors, supervisors, substantial shareholders and chief executive (as defined under the Listing Rules) of the Group
“Latest Practicable Date”	2 May 2018, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the same meaning as ascribed to this term under the Listing Rules

DEFINITIONS

“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Publications”	publications purchased by the Company and its subsidiaries (excluding Winshare Online) from Winshare Online under the Publications Purchase Framework Agreement
“Publications Purchase Framework Agreement”	a framework agreement dated 26 March 2018 entered into between the Company and Winshare Online in connection with the purchase of the Publications by the Company and its subsidiaries (excluding Winshare Online) from Winshare Online for the period from 20 April 2018 to 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“sales value”	the list price of books printed at the back of each book
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	A Shares and H Shares
“Sichuan Development”	Sichuan Development Holding Co., Ltd.* (四川發展(控股)有限責任公司), a state-owned entity established in the PRC and the controlling shareholder of Sichuan Xinhua Publishing Group and SPG
“Sichuan Xinhua Publishing Group”	Sichuan Xinhua Publishing Group Co., Ltd.* (四川新華發行集團有限公司), a state-owned company established in the PRC which is the controlling shareholder of the Company and a wholly-owned subsidiary of Sichuan Development
“SPG”	Sichuan Publication Group Co., Ltd.* (四川出版集團有限公司), a state-owned company established in the PRC and a wholly-owned subsidiary of Sichuan Development
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Winshare Online”	Sichuan Winshare Online E-commerce Co., Ltd.* (四川文軒在線電子商務有限公司), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company which is owned as to 75% and 25% by the Company and Sichuan Xinhua Publishing Group respectively as at the date of this circular
“%”	per cent

For the purpose of this circular, the exchange rate of RMB1.00 = HK\$0.81 has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts have been, could have been or may be exchanged, at this or any other rates.

LETTER FROM THE BOARD



新華文軒出版傳媒股份有限公司

XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD.*

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

(Stock Code: 811)

Executive Directors:

Mr. He Zhiyong (*Chairman*)

Mr. Chen Yunhua (*Vice chairman*)

Mr. Yang Miao

Non-executive Directors:

Mr. Luo Jun

Mr. Zhang Peng

Mr. Han Xiaoming

Independent non-executive Directors:

Mr. Chan Yuk Tong

Ms. Xiao Liping

Mr. Fang Bingxi

Registered office in the PRC:

Unit 1, 1/F, Block 4

No. 239 Jinshi Road

Jinjiang District

Chengdu, Sichuan

the PRC

Head office in the PRC:

No. 6 Wenxuan Road

Shang Mao Avenue, Rong Bei

Jinniu District

Chengdu, Sichuan 610081

the PRC

Principal place of business in Hong Kong:

18th Floor

Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

4 May 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the Announcement regarding, among other things, the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

* for identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) details of the Publications Purchase Framework Agreement; (ii) a letter setting out the opinions and recommendations from the Independent Board Committee to the Independent Shareholders regarding the Publications Purchase Framework Agreement; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Publications Purchase Framework Agreement.

Principal terms of the Publications Purchase Framework Agreement are set out below.

THE PUBLICATIONS PURCHASE FRAMEWORK AGREEMENT

Date:	26 March 2018
Term:	20 April 2018 to 31 December 2020 (both dates inclusive)
Parties:	(1) The Company (on behalf of the Group (excluding Winshare Online) as purchaser) (2) Winshare Online (as supplier)
Nature of transaction:	The Company and its subsidiaries (excluding Winshare Online) shall purchase the Publications sold via the Group's physical retail channels from Winshare Online.
Means of transaction:	The means of transaction of the Publications is by wholesale where Winshare Online shall deliver the Publications ordered by the Company and its subsidiaries (excluding Winshare Online) to the places as designated by the Company and its subsidiaries (excluding Winshare Online).
Price:	The Company and its subsidiaries (excluding Winshare Online) shall purchase the Publications through specific purchase contracts or orders. Details of which are set out in, among others, the pricing and payment terms of the Publications.
Payment term:	The settlement of payment shall be agreed between the Company and its subsidiaries (excluding Winshare Online) and Winshare Online having regard to the type and quantity of the Publications under each purchase contract or order and the actual sales conditions. Unless otherwise agreed by the parties, the settlement of payment for each purchase contract or order shall be made by cash or bank drafts within one month upon actual business engagement between the parties.

LETTER FROM THE BOARD

Option to renew:	Subject to the Listing Rules and the approvals of the Stock Exchange, the Board and/or the Independent Shareholders (if required), the Company may separately enter into a newly written publications purchase framework agreement upon serving a written notice to Winshare Online prior to the expiry of the Publications Purchase Framework Agreement.
Condition precedent:	The Publications Purchase Framework Agreement and the transactions contemplated thereunder is conditional upon the Company having obtained its Independent Shareholders' approval.

Pricing policy

Under the industry market practices, publications suppliers generally determine the selling price of a publication based on the list price of a publication (being the “**Retail Price**”) (which is printed at the back of a publication) at a specified discount (the “**Discount**”) offered to the distributors. The relevant cost ratio of such publications is calculated according to: $(\text{Retail Price} - \text{Discount}) / \text{Retail Price} \times 100\%$ (the “**Purchase Cost Ratio**”). The integrated cost ratio of a book category refers to the overall average Purchase Cost Ratio of the relevant publications during a particular financial year, which is calculated at $(\text{total Retail Price of a book category} - \text{total Discount of a book category}) / \text{total Retail Price of a book category} \times 100\%$.

With respect to the publications purchased by Winshare Online from external suppliers, the transaction price of the Publications shall be determined by the parties through arm's length negotiation and on normal commercial terms with reference to Winshare Online's integrated purchase costs during the relevant financial year and the integrated market price at which the same type of publications are offered to the Independent Third Parties by Winshare Online with respect to the Publications on the same conditions, which shall be basically the same as that of the transactions entered into between the parties and the market players who are Independent Third Parties. Upon satisfaction of the conditions above, Winshare Online may increase 1.5 to 3.5 percentage points, with reference to the publications organisation and management (labour costs and expenses), losses incurred in publications transportation and management and marketing costs etc. of the Group in addition to its purchase cost ratio with respect to the transaction price at which the single publications are sold to the Company (other than special products).

With respect to the publications purchased by Winshare Online from the Company and the publishing house of the Company, the transaction price of the publications shall be the purchase price of Winshare Online, i.e. its selling price = its purchase price. Since Winshare Online as a seller of e-commerce sales channels has a stronger bargaining power, which can obtain a more favourable product purchase price from suppliers on publications. The Company decided to change the purchasing model on publications from Winshare Online centralising the purchase from the Group (excluding Winshare Online) to Winshare Online purchasing from suppliers (including external suppliers and our publishing houses). Also, after considering that (i) separate procurement departments/units have to be set up and more procurement staff have to be hired if the Company's physical retail channels purchasing

LETTER FROM THE BOARD

publications from our own publishing houses; and (ii) to reduce the overall procurement cost on the Group's publications and labour costs and improve work efficiency, the procurement of publications of the Company's physical bookstores from the publishing houses of the Company is entrusted to Winshare Online. The publications published by our own publishing houses are sent directly to the Company's physical retail channels, in accordance with the specific demand. The Company and Winshare Online consider that the arrangement will not generate significant additional purchase cost from both sides, therefore, it is decided that Winshare Online shall purchase the publications from the Group's publishing houses and sell the publications back to the Company at its purchase price (i.e. the parity price).

Winshare Online also undertakes that the integrated price of the Publications offered to the Company shall, under no circumstances, be higher than the price of any similar type of publications offered to the Independent Third Parties with the same type of sales channels and sales size. In the event the purchase price offered by such Independent Third Parties for the same type of publications is more favourable than the integrated price offered to the Company for the same type of publications or is unable to satisfy the selling requirements for the publications of the Company, the Company has the right to purchase such type of publications from other Independent Third Parties.

In addition, the Company's relevant professional departments will regularly review the purchase costs of the Company to ensure that the purchase costs of the Publications purchased from Winshare Online are not higher than the purchase costs incurred from external suppliers.

Annual caps and basis for determining the annual caps

In considering the annual caps under the Publications Purchase Framework Agreement, the Directors have considered a number of factors including:

- (i) the historical purchase amounts of the Publications to be purchased from Winshare Online^(Note 1);
- (ii) the growth rate of the historical purchase amounts of the Publications to be purchased from Winshare Online^(Note 2);
- (iii) the estimated average growth rate of approximately 5%-10% per annum in the coming three years based on the strategic plans of the Company for future business development after taking into account the above factors^(Note 3); and
- (iv) the possible increase of market price of the publications from time to time as a result of (i) the ongoing increase in the labour costs and expenses; and (ii) commodity price level such as raw materials, paper and ink used in the production of publications, which paper price has increased by 40-50% and ink price has increased by 10% according to an industry authority data report "China Publishing Media Business Daily" (中國出版傳媒商報) in 2017.

LETTER FROM THE BOARD

Notes:

1. The Group (excluding Winshare Online) had not purchased any publications from Winshare Online in the previous year and therefore no direct historical transaction figure is available in respect of this category of transactions. The historical purchase amounts are derived from the sales cost (deemed as the purchase cost) of the Company in purchasing the same scope of publications in 2015, 2016 and 2017, which accounted for approximately RMB512 million, RMB533 million and RMB576 million, respectively, for the three years ended 31 December 2017.
2. Based on note 1 above, the historical amounts increased by approximately 4% from 2015 to 2016 and approximately 8% from 2016 to 2017.
3. Through setting up and transforming physical bookstores and implementing multi-brand development of physical bookstores, the sales value of publications via the retail channels the Company increased by 5.48% in 2017 as compared with that in 2016. For 2018 and onwards, the Company will continue the implementation of the strategy “rejuvenating the physical bookstores” and focus on sales of publications to continue to enhance the Company’s sales capabilities of its publications in order to meet the needs of large cultural consumers. At the same time, the Group will strengthen the transformation of its physical retail channels, build an online and offline channel integration development model, and enhance consumers’ shopping experience. Based on the implementation of the above strategic plans, the Company is confident that the average growth rate of publication sales is estimated to be 5%-10% per annum.

Having considered the above factors, the Directors propose that the annual cap for the Publications Purchase Framework Agreement for each of the three years ending 31 December 2020 shall be as follows:

	For the year ending 31 December 2018 (RMB'000)	For the year ending 31 December 2019 (RMB'000)	For the year ending 31 December 2020 (RMB'000)
Annual cap	610,000	760,000	860,000

INTERNAL CONTROL POLICY

The price at which the Publications are purchased by the Company from Winshare Online shall be determined by Winshare Online and the Company’s physical sales channels, further discussed and reviewed by the relevant functional administrative departments of the Company, and the pricing proposals will be made with reference to the prevailing market price upon entering into the proposed transaction, which will be further submitted to the management of the Company for approval and confirmation. During the review of the price offered by other Independent Third Parties, the relevant administrative departments of the Company shall generally request quotation from no less than two publications suppliers who are Independent Third Parties to determine the market price. The relevant administrative departments of the Company shall regularly review the market price at the end of the financial year to ensure the publications transaction is executed in accordance with the pricing policy, including but not limited to requesting from Winshare Online the purchase price offered to the Independent Third Parties for similar type of publications.

LETTER FROM THE BOARD

The Company has in place a system for the management of connected transactions which clearly states that the relevant administrative departments shall trace, monitor and evaluate the payment arrangements and transaction amounts under the agreement on connected transactions on a monthly basis, to ensure that the annual caps for the connected transactions will not be exceeded.

The Group shall engage the Company's auditor to conduct annual review on the continuing connected transactions (including but not limited to the pricing policy and annual cap) every year pursuant to Rule 14A.56 of the Listing Rules.

The Group shall disclose in the annual reports and accounts the transactions with Winshare Online under the Publications Purchase Framework Agreement for each financial period, together with the conclusions drawn by the independent non-executive Directors as to whether the transactions are on normal commercial terms, fair and reasonable, and in line with the interest of the Company and shareholders as a whole.

The Board will ensure that the transaction amounts of the Publications Purchase Framework Agreement during its validity period shall not exceed the estimated cap amounts approved under the authorisation of the Board prior to the taking effect of the Independent Shareholders' approval, and the transactions are entered into in accordance with the relevant principles under the Publications Purchase Framework Agreement.

REASONS FOR AND BENEFITS OF THE PUBLICATIONS PURCHASE FRAMEWORK AGREEMENT

Winshare Online has grown substantially in terms of sales size in the recent five years and is positioned to set up a product mix model that is more suitable for e-commerce development. In the book industry, as the product mix and logistics such as genre requirements and delivery requirements for the e-commerce business are quite different from traditional physical bookstores (physical channel), the suppliers have implemented two different pricing systems for the e-commerce channel and the physical channel where the purchase cost for the e-commerce channel are less than that for the physical channel. Based on its current sales size, Winshare Online has a strong independent bargaining power and can obtain a more favourable product purchase price via the e-commerce channel than the traditional channel to achieve independent purchase. Moreover, the other sales channels of the Company rely on Winshare Online to carry out synergistic purchase, which is conducive to lowering the overall product purchase costs of the Group. Under the Publications Purchase Framework Agreement, the Company enjoys cost advantages from Winshare Online's lower purchase costs through Winshare Online's synergistic purchase and obtain a more favourable purchase price than the Company's traditional channels. As a result, the overall profitability of the Group is enhanced, which is in line with the interest of the Company, including shareholders, as a whole.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the Publications Purchase Framework Agreement are entered into in the ordinary and usual course of business of the Group and the terms as contained in the Publications Purchase Framework Agreement are normal commercial terms, which are arrived at after arm's length negotiations between the parties, the annual caps stated above in this circular and the terms of the Publications Purchase Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

INFORMATION OF THE GROUP, WINSHARE ONLINE AND XINHUA PUBLISHING GROUP

The Group is principally engaged in the wholesale and retails of publications and electronic publications, wholesale of audio and visual products, production and distribution of electronic publications and audio and visual products and publication business, etc.

Winshare Online is primarily engaged in the provision of online transactions related services in relation to the publications and cultural products.

Sichuan Xinhua Publishing Group is principally engaged in the business of wholesaling and retailing, leasing of properties, real estate, project investment, computer software and hotel services.

RELATIONSHIP BETWEEN PARTIES AND LISTING RULES IMPLICATIONS

As at the date of this circular, Winshare Online is a non wholly-owned subsidiary of the Company whilst Sichuan Xinhua Publishing Group, which controls over 10% of the voting power of Winshare Online, is the controlling shareholder of the Company. Accordingly, Winshare Online is a connected subsidiary of the Company under Rule 14A.07(5) of the Listing Rules and therefore the transactions contemplated under the Publications Purchase Framework Agreement shall constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As various applicable percentage ratios (other than the profits ratio) for the Publications Purchase Framework Agreement are, on an annual basis, over 5%, the Publications Purchase Framework Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.70(11) of the Listing Rules and the articles of association of the Company, Mr. He Zhiyong, being the director and president of Sichuan Xinhua Publishing Group; Mr. Luo Jun, being the director and deputy president of Sichuan Xinhua Publishing Group; Mr. Chen Yunhua, being the president of SPG; and Mr. Zhang Peng, being the assistant to the president and the manager of human resources department of SPG, may be regarded as having interests in the Publications Purchase Framework Agreement. As such, they have abstained from voting on the Board resolution for approving the Publications Purchase Framework Agreement and the proposed annual cap amounts for each of the three years ending 31 December 2020. Save for the aforementioned Directors, none of the Directors has any material interests in the Publications Purchase Framework Agreement.

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In view of the interest of Sichuan Xinhua Publishing Group in the Publications Purchase Framework Agreement, Sichuan Xinhua Publishing Group and its associates holding 623,382,418 A Shares and 18,050,000 H Shares, approximately representing 51.98% of the total issued Shares as at the Latest Practicable Date, will abstain from voting at the AGM on the ordinary resolution in relation to the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

An Independent Board Committee (comprising all independent non-executive Directors) has been appointed to advise the Independent Shareholders as to whether the terms of the Publications Purchase Framework Agreement and the transactions contemplated thereunder are fair and reasonable, and whether the transactions are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

AGM

The AGM will be held at 10:00 a.m. on 30 May 2018 (Wednesday) at Sichuan Xinhua International Hotel, No.8 Guzhongshi Street, Qingyang District, Chengdu, Sichuan, the PRC, for, among other things, the Independent Shareholders to consider and, if thought fit, approve the Publications Purchase Framework Agreement and the transactions contemplated thereunder. At the AGM, the votes will be taken by poll.

A form of proxy for use at the AGM has been despatched to H Shareholders on 13 April 2018. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon. In case of H Shares, the proxy form shall be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the AGM (10:00 a.m. on Tuesday, 29 May 2018) or any adjournment thereof or before the time appointed for taking the poll. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

RECOMMENDATIONS

The Company has appointed Halcyon Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Publications Purchase Framework Agreement. The text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 32 of this circular.

LETTER FROM THE BOARD

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Yuk Tong, Ms. Xiao Liping and Mr. Fang Bingxi, has been established to give advice to the Independent Shareholders in respect of the Publications Purchase Framework Agreement. The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Publications Purchase Framework Agreement, is set out on page 14 of this circular.

The Board considers that the Publications Purchase Framework Agreement and the transaction contemplated are within the ordinary and usual course of business of the Company and are on normal and commercial terms. The Publications Purchase Framework Agreement is in the interests of the Company and the Shareholders, and the terms and conditions of the Publications Purchase Framework Agreement are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the AGM for approving the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the Appendix to this circular.

Yours faithfully,

For and on behalf of

Xinhua Winshare Publishing and Media Co., Ltd.

He Zhiyong

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



新華文軒出版傳媒股份有限公司

XINHUA WINSHARE PUBLISHING AND MEDIA CO., LTD.*

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

(Stock Code: 811)

4 May 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to give our advice on the Publications Purchase Framework Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 4 May 2018 (the “**Circular**”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise us on the Publications Purchase Framework Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 15 to 32 of the Circular.

Having considered the terms and conditions of the Publications Purchase Framework Agreement, the advice given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Publications Purchase Framework Agreement and the transactions contemplated thereunder are within the ordinary and usual course of business of the Company and are on normal and commercial terms. The Publications Purchase Framework Agreement is in the interests of the Company and the Shareholders taken as a whole, and the terms and conditions of the Publications Purchase Framework Agreement are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM for approving the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chan Yuk Tong
*Independent non-executive
Director*

Ms. Xiao Liping
*Independent non-executive
Director*

Mr. Fang Bingxi
*Independent non-executive
Director*

LETTER FROM HALCYON CAPITAL LIMITED

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders relating to the terms of the Publications Purchase Framework Agreement and the transactions contemplated thereunder, prepared for the purpose of incorporation in this circular:



HALCYON CAPITAL LIMITED

HALCYON CAPITAL LIMITED

11TH FLOOR

8 WYNDHAM STREET

CENTRAL

HONG KONG

4 May 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the terms of the Publications Purchase Framework Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular issued by the Company (the “**Circular**”) to the Shareholders dated 4 May 2018, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular and Letter from the Board unless the context otherwise requires.

Pursuant to the Publications Purchase Framework Agreement, the Company agreed to purchase and Winshare Online agreed to sell the Publications from Winshare Online for the period from 20 April 2018 to 31 December 2020 (both dates inclusive). The Letter from the Board further sets out the annual caps (the “**Annual Caps**”) for the sale of the Publications by the Company from Winshare Online for each of the three years ending 31 December 2020.

As at the Latest Practicable Date, Winshare Online was a non-wholly owned subsidiary of the Company and Sichuan Xinhua Publishing Group controlled over 10% of the voting power of Winshare Online. Since Sichuan Xinhua Publishing Group is the controlling shareholder of the Company, Winshare Online is considered as a connected person under Rules 14A.07(5) and 14A.16(1) of the Listing Rules. By virtue of the aforesaid relationship, the sale of the Publications by Winshare Online to the Company under the Publications Purchase Framework Agreement constitutes continuing connected transactions of the Company pursuant to Rule 14A.25 of the Listing Rules.

LETTER FROM HALCYON CAPITAL LIMITED

Given the relevant percentage ratios, using the Annual Caps as the numerator, exceed 5% and the Annual Caps is more than HK\$10,000,000, the Company has to comply with the announcement and shareholders' approval requirements under Rule 14A.53 of the Listing Rules.

The Independent Board Committee, comprising Mr. Chan Yuk Tong, Ms. Xiao Liping and Mr. Fang Bingxi, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Publications Purchase Framework Agreement and the transactions contemplated thereunder and the basis for determining the Annual Caps are fair and reasonable, and the entering into of the Publications Purchase Framework Agreement is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the AGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Publications Purchase Framework Agreement and the transactions contemplated thereunder and the Annual Caps thereof, is to (i) provide the Independent Board Committee and the Independent Shareholders an independent opinion and recommendation as to whether the Publications Purchase Framework Agreement is entered into on normal and commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and whether the terms thereof and the basis for determining Annual Caps are fair and reasonable as far as the Company and the Shareholders are concerned; and (ii) advise the Independent Shareholders on how to vote at the AGM.

BASIS OF OUR OPINION

Given there was no engagement between the Group and Halcyon Capital Limited in last two years from the date of this letter and we have no relationships or interests with the Company and any other parties that could reasonably be regarded as relevant to our independence, we are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to

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doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Publications Purchase Framework Agreement, the annual reports of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”) and 31 December 2017 (the “**2017 Annual Report**”), the audited consolidated financial statements of Winshare Online for the years ended 31 December 2016 and 2017 prepared under generally acceptable accounting principles in the PRC, the Circular and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Publications Purchase Framework Agreement and the basis of determining the Annual Caps, and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, Sichuan Xinhua Publishing Group, Winshare Online or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Publications Purchase Framework Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information of the Group and Winshare Online

1.1 Principal business and background information of the Group

The Group is principally engaged in the publishing and trading of publications and related products in the PRC. The business of the Group can be further divided into three segments, namely the publication segment, distribution segment and others segment. The publication segment refers to the publishing of publications including books, periodicals, audio-visual products and digital products; provision of printing services and supply of printing materials; and the distribution segment refers to the distribution of textbooks and supplementary materials to schools and students; retailing, distribution and online sales of publications.

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Growth in revenue

Set out below is the revenue recorded by the Group for the three years ended 31 December 2017 as extracted from the 2016 Annual Report and 2017 Annual Report.

	For the year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	5,732,693	6,356,168	7,345,883

The Group experienced increases in revenue during the three years ended 31 December 2017. The growth rate during the period amounted to approximately 28.1%.

As stated in the 2016 Annual Report, the increase in revenue for the year ended 31 December 2016 was mainly attributable to the steady growth in the traditional publishing business of the Group and the further expansion of the sales of education service business and online sales business. In particular, the Group recorded moderate growth in revenue in each of the publication segment and distribution segment, which amounted to approximately RMB1,740.7 million and RMB5,703.1 million, respectively, for the year ended 31 December 2016.

As stated in the 2017 Annual Report, the increase in revenue for the year ended 31 December 2017 was mainly attributable to the growth of sales from the education service business, online sales business, general book publication business and third-party logistics business. During the year, the sales revenue from general books under the publication segment amounted to RMB576 million (including domestic sales), up by 94.20% as compared with that in 2016. The substantial growth in sales revenue was mainly attributable to the Company's efforts to vigorously strengthen the general book publication business under its guiding concept of "revitalising the publishing industry in Sichuan".

As further stated in the 2017 Annual Report, holding on to its principal business of publishing and media, the Company will capitalise on the growth trends of the international cultural industry and centre around the big culture consumption service as driven by the "Internet+capital" transformation. With the goal of becoming an internationally influential comprehensive cultural service group, the Company will, through adopting the all-variety, all-customer service and all-channel coverage, endeavour to refine the development of its content resources product line, enhance the integrated education service industry chain and build a big culture consumption eco-circle to develop itself into the most innovative and fast growing publishing and media enterprise in China. In 2018, the Group will accelerate the pace of industry upgrade and push ahead the steady growth of operating results with focus on the following areas:

- (i) Continue to "revitalise the publishing sector in Sichuan" as its core and principal business, encourage the publishing community to seize content resources, plan key publishing projects and build a famous publishing

brand. At the same time, it will step up the external investment in publishing resources, enhance the publishing resource utilisation rate and improve the incentive system and talent training system to ensure the high quality development of the book publishing business. It will promote the integrated development between traditional publishing and emerging publishing to build a modern publishing system.

- (ii) Optimise the integration between new outlets and existing network, continue to set up a layout as a multi-brand operator and implement key projects including the reform and upgrade of Tian Fu Book City and the development of Kids Winshare global centre outlet; continue to improve the development of the e-commerce platform and supply chain synergistic platform to better enhance user shopping experience and industry information exchange service; continue to expand the digitalised development of channels and build an online-offline integrated development system based on the Internet and Internet of Things.
- (iii) Strengthen the publication and distribution business of textbooks and supplementary materials to consolidate the traditional principal business; accelerate the development of digitalised education and promote co-development and sharing of education resources by capitalising on the development trends of the education service industry after the 19th National Congress; step up efforts to develop new businesses including education equipment and subject classroom and innovate the product dynamics and service model of online education.
- (iv) Continue enhance the internal logistics service capabilities and support the rapid development of the publication business and channel business; further improve the third-party logistics operation system, adjust the third-party business structure, focus on key industries to steadily commence the third-party business.
- (v) Adjust the supply chain structure of printing and supplies, avoid systematic risks of paper platform and minimise the cost risks associated with rising paper price; and
- (vi) Fully capitalise on the capital operations platform to seek social resources and promote development of principal businesses by grafting and integration of the external resources and business segments; build a fund base and nurture cultural industry projects with comparative advantages to achieve synergistic development between industrial operations and capital operations.

In addition to the capturing of growth in the industry, we noted that parts of the above plans were targeted at the optimisation of operating costs of the Group.

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1.2 Principal business and background information of Winshare Online

As stated in the Letter from the Board, Winshare Online is a joint venture company established for the purposes of carrying out the Group's development strategies, in particular for the expansion of the Group's publications e-commerce, and forms a part of the Group's business chain. As at the Latest Practicable Date, Winshare Online was a non-wholly owned subsidiary of the Company and owned as to 75% by the Company and as to 25% by Sichuan Xinhua Publishing Group, being the controlling shareholder of the Company. As at the Latest Practicable Date, the Company is the sole supplier to Winshare Online in respect of publication products.

Growth in revenue

As Winshare Online is a non-wholly owned subsidiary of the Company, the results of Winshare Online were consolidated into the consolidated financial statements of the Company. Set out below is the revenue recorded by Winshare Online for the three years ended 31 December 2017 as extracted from the audited financial statement of Winshare Online and the unaudited management accounts of Winshare Online for the year ended 31 December 2017, each of which were prepared under generally accepted accounting principles in the PRC.

	For the year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Revenue	859,753	1,066,262	1,182,365

The revenue of Winshare Online recorded a compound annual growth rate ("CAGR") of approximately 17.3% during the three years ended 31 December 2017. For the year ended 31 December 2017, Winshare Online already accounted for approximately 16.1% of the total revenue of the Group.

2. Background and reasons for the entering into of the Publications Purchase Framework Agreement

As stated in the Letter from the Board, Winshare Online is a joint venture company established for the purposes of carrying out the Group's development strategies, in particular for the expansion of the Group's publications business, and forms a part of the Group's publishing and distribution chain.

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Winshare Online has grown substantially in terms of sales size in the recent five years and is positioned to set up a product mix model that is more suitable for e-commerce development. In the book industry, as the product mix and logistics such as genre requirements and delivery requirements for the e-commerce business are quite different from traditional physical bookstores (physical channel), the suppliers have implemented two different pricing systems for the e-commerce channel and the physical channel where the purchase cost for the e-commerce channel are less than that for the physical channel. Based on its current sales size, Winshare Online has a strong independent bargaining power and can obtain a more favourable product purchase price via the e-commerce channel than the traditional channel to achieve independent purchase. Moreover, the other sales channels of the Company rely on Winshare Online to carry out synergistic purchase, which is conducive to lowering the overall product purchase costs of the Group. Under the Publications Purchase Framework Agreement, the Company enjoys cost advantages from Winshare Online's lower purchase costs through Winshare Online's synergistic purchase and obtain a more favourable purchase price than the Company's traditional channels. As a result, the overall profitability of the Group is enhanced, which is in line with the interest of the Company, including shareholders, as a whole.

Meanwhile, as advised by the Company, the Group, as one of the largest publishers in the region, generally offers better terms to online stores than physical stores.

Having considered the aforesaid and, in particular, the increase in bargaining power of Winshare Online as a result of continuous growth in its business size, and the fact that Winshare Online undertakes that the integrated price of the Publications offered to the Company shall, under no circumstances, be higher than the price of any similar type of publications offered to the Independent Third Parties with the same type of sales channels and sales size. In the event the purchase price offered by such Independent Third Parties for the same type of publications is more favourable than the integrated price offered to the Company for the same type of publications or is unable to satisfy the selling requirements for the publications of the Company, the Company has the right to purchase such type of publications from other Independent Third Parties, we concur with the view of the management of the Company that the entering into of the Publications Purchase Framework Agreement, in connection with the purchase of Publications by the Company from Winshare Online for the period from 20 April 2018 to 31 December 2020, and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Publications Purchase Framework Agreement and pricing policy

The principal terms of the Publications Purchase Framework Agreement are summarized in the following.

The Company and its subsidiaries (excluding Winshare Online) shall purchase the Publications sold via the Group's physical retail channel from Winshare Online.

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Given the recurring nature of the transactions contemplated under the Publications Purchase Framework Agreement, the Publications Purchase Framework Agreement only sets out the general terms and conditions governing the continuing connected transactions contemplated thereunder. The Company may place its purchase orders to Winshare Online or enter into purchase contracts with Winshare Online for publications for each of the continuing connected transactions and from time to time, while the relevant purchase order or contract shall contain the detail terms and conditions including, among other things, the quantity, unit price, and payment terms.

The settlement of payment shall be agreed between the Company and its subsidiaries (excluding Winshare Online) and Winshare Online having regard to the type and quantity of the Publications under each purchase contract or order and the actual sales conditions. Unless otherwise agreed by the parties, the settlement of payment for each purchase contract or order shall be made by cash or bank drafts within one month upon actual business engagement between the parties.

The selling price of the publications sold under the Publications Purchase Framework Agreement shall be determined by the parties through arm's length negotiation and on normal commercial terms with reference to the integrated purchase costs of the Company and the prevailing market price of the relevant publications, which shall be basically the same as that of the transactions entered into between the parties and the market players who are Independent Third Parties.

Winshare Online also undertakes that the integrated price of the Publications offered to the Company shall, under no circumstances, be higher than the price of any similar type of publications offered to the Independent Third Parties with the same type of sales channels and sales size. In the event the purchase price offered by such Independent Third Parties for the same type of publications is more favourable than the integrated price offered to the Company for the same type of publications or is unable to satisfy the selling requirements for the publications of the Company, the Company has the right to purchase such type of publications from other Independent Third Parties. In addition, the Company's relevant professional departments will regularly review the purchase costs of the Company to ensure that the purchase costs of the Publications purchased from Winshare Online are not higher than the purchase costs incurred from external suppliers.

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Pricing policies and internal control measures regarding price determination for the continuing connected transactions under the Publications Purchase Framework Agreement

Based on our discussions with the management of the Company and as disclosed in the Letter from the Board, we understand that in addition to the pricing terms under the Publications Purchase Framework Agreement, the Group has adopted the pricing policies and internal control measures (the “**Pricing Policies and Internal Control Measures**”) and will apply the following pricing policies and measures when determining the price of products in respect of the continuing connected transactions under the Publications Purchase Framework Agreement:

Pricing policy

Under the industry market practices, publications suppliers generally determine the selling price of a publication based on the list price of a publication (being the “**Retail Price**”) (which is printed at the back of a publication) at a specified discount (the “**Discount**”) offered to the distributors. The relevant cost ratio of such publications is calculated according to: $(\text{Retail Price} - \text{Discount}) / \text{Retail Price} \times 100\%$ (the “**purchase cost ratio**”). The integrated cost ratio of a book category refers to the overall average purchase cost ratio of the relevant publications during a particular financial year, which is calculated at $(\text{Total Retail Price of a book category} - \text{Total Discount of a book category}) / \text{Total Retail Price of a book category} \times 100\%$.

With respect to the publications purchased by Winshare Online from external suppliers, the transaction price of the Publications shall be determined by the parties through arm’s length negotiation and on normal commercial terms with reference to Winshare Online’s integrated purchase costs during the relevant financial year and the integrated market price at which the same type of publications are offered to the Independent Third Parties by Winshare Online with respect to the Publications on the same conditions, which shall be basically the same as that of the transactions entered into between the parties and the market players who are Independent Third Parties. Upon satisfaction of the conditions above, Winshare Online may increase 1.5 to 3.5 percentage points, with reference to the publications organisation and management (labour costs and expenses), losses incurred in publications transportation and management and marketing costs etc. of the Group in addition to its purchase cost ratio with respect to the transaction price at which the single publications are sold to the Company (other than special products).

With respect to the publications purchased by Winshare Online from the publishing house of the Company, the transaction price of the publications shall be the purchase price of Winshare Online, i.e. its selling price = its purchase price. Since Winshare Online as a seller of e-commerce sales channels has a stronger bargaining power, which can obtain a more favourable product purchase price

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from suppliers on publications. The Company decided to change the purchasing model on publications from Winshare Online centralising the purchase from the Group (excluding Winshare Online) to Winshare Online purchasing from suppliers (including external suppliers and the Group's publishing houses). Also, after considering that (i) separate procurement departments/units have to be set up and more procurement staff have to be hired if the Company's physical retail channels purchasing publications from the Group's own publishing houses; and (ii) to reduce the overall procurement cost on the Group's publications and labour costs and improve work efficiency, the procurement of publications of the Company's physical bookstores from the publishing houses of the Company is entrusted to Winshare Online. The publications published by the Group's own publishing houses are sent directly to the Company's physical retail channels, in accordance with the specific demand. The Company and Winshare Online consider that the arrangement will not generate significant additional purchase cost from both sides, therefore, it is decided that Winshare Online shall purchase the publications from the Group's publishing houses and sell the publications back to the Company at its purchase price (i.e. the parity price).

Internal control policy

In order to safeguard the interests of the Company and the Shareholders as a whole, the Company has adopted the following measures in monitoring the transactions between the Group and Winshare Online, namely:

- (i) The price at which the Publications are purchased by the Company from Winshare Online shall be determined by Winshare Online and the Company's physical sales channels, further discussed and reviewed by the relevant functional administrative department of the Company, and the pricing proposals will be made with reference to the prevailing market price upon entering into the proposed transaction, which will be further submitted to the management of the Company for approval and confirmation.
- (ii) During the review of the price offered by other Independent Third Parties, the relevant administrative departments of the Company shall generally request quotation from no less than two publications suppliers who are Independent Third Parties to determine the market price. The relevant administrative departments of the Company shall regularly review the market price at the end of the financial year to ensure the publications transaction is executed in accordance with the pricing policy, including but not limited to requesting from Winshare Online the purchase price offered to the Independent Third Parties for similar type of publications.

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- (iii) According to the relevant system for the management of connected transactions of the Company, the relevant administrative department shall trace, monitor and evaluate the payment arrangements and transaction amounts under the agreement on connected transactions on a monthly basis, to ensure that the annual caps of the connected transactions will not be exceeded.
- (iv) The Group shall engage the Company's auditor to conduct annual review on the continuing connected transaction (including but not limited to the pricing and annual caps) every year in accordance with Rule 14A.56 of the Listing Rules.
- (v) The Group shall disclose in annual reports and accounts the transactions with Winshare Online under the Publications Purchase Framework Agreement for each financial period, together with the conclusions drawn by the independent non-executive Directors as to whether the transactions are on normal commercial terms, fair and reasonable, and in line with the interests of the Company and the Shareholders as a whole.

The Board considers that the above internal control measures adopted by the Company in respect of the Publications Purchase Framework Agreement are appropriate and that the measures will give sufficient assurance that the continuing connected transactions under the Publications Purchase Framework Agreement will be appropriately monitored by the Company.

As stated in the pricing policy, Winshare Online may increase 1.5 to 3.5 percentage points in addition to its purchase cost ratio with respect to the transaction price at which the single publications are sold to the Company (other than special products). As advised by the Company, it has taken into account of (i) the potential reduction in inventory costs of the Group (other than Winshare Online) as a result of change in purchase model, including the operating and management costs of the warehouse; and (ii) the potential expenses due to inventory losses. Moreover, based on the information provided by the Company, such 1.5 to 3.5 percentage points were arrived with reference to the publications organisation and management (labour costs and expenses), losses incurred in publications transportation and management and marketing costs etc. of the Group. Taking into account the aforesaid and the fact that Winshare Online has undertaken to the Company that the integrated price of the Publications offered to the Company shall, under no circumstances, be higher than the price of any similar type of publications offered to the Independent Third Parties with the same type of sales channels and sales size, we consider that the pricing of the Publications to be purchased from Winshare Online are fair and reasonable.

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In addition, we understand that the Company will review and ensure that orders will be placed to third parties if the purchase price offered by such third party is more favourable to the Company than that offered by Winshare Online on the same publication, based on the record of the ERP system adopted by the Company. The purchase price of publications offered by third parties will be compared to the purchase record in the ERP system to ensure such publications are priced in accordance with the Pricing Policies and Internal Control Measures and the purchase prices offered by Winshare Online are not worse than that offered from the Independent Third Parties. Meanwhile, the Company has engaged an internal control consultant to carry out audit on its internal control for the year ended 31 December 2017. According to the report, the consultant was of the view that the Company has maintained an effective internal control on financial reporting for the year ended 31 December 2017 according to the Basic Internal Control Norms for Enterprises and related requirements in all material aspects.

Taking into account the fact that, among other things, the Company is able to monitor the purchase price attributable to each publication through the ERP system and the internal control policies as stated above, we concur with the view of the Company that the Pricing Policies and Internal Control Measures are sufficient to ensure that the purchase price of the publications to be purchased from Winshare Online will be no higher than those to be purchased from other independent third parties.

Although the Company historically did not purchase through Winshare Online, there were certain continuing connected transactions between the Company and Winshare Online in relation to the sale of publications to Winshare Online by the Company. We also note from the 2016 Annual Report and 2017 Annual Report that the auditors and the independent non-executive directors of the Company have reviewed the Group's continuing connected transactions and confirmed that, among other things, the relevant transactions carried out in the years ended 31 December 2016 and 2017 were carried out in the accordance with the terms of the relevant publications purchase agreement. Moreover, as stated in the 2016 Annual Report and 2017 Annual Report, the auditors of the Company confirmed that, among other things, the relevant continuing connected transactions carried out in the years ended 31 December 2016 and 2017 were carried out in the accordance with the terms of the relevant publications purchase agreement and the transactions were carried out in the years ended 31 December 2016 and 2017 were carried in accordance with the pricing policies of the Company.

In addition to the aforesaid, the Company has adopted the following internal control measures to ensure that the transactions with Winshare Online will be conducted on normal commercial terms:

- (i) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s);
- (ii) the Group shall use the best endeavour to comply with the relevant reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the continuing connected transactions;
- (iii) the Group will engage the Company's auditor to report on the continuing connected transactions every year in accordance with Rule 14A.56 of the Listing Rules; and

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- (iv) the Group will duly disclose in the annual reports and accounts the transactions under the Publications Purchase Framework Agreement with Winshare Online during each financial period, together with the conclusions drawn by the independent non-executive Directors whether the transactions are conducted on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

Based on the above, we are satisfied with the internal control measures in respect of the Publications Purchase Framework Agreement even there were no historical transaction with Winshare Online to demonstrate its effectiveness and concur with the Directors' view that the Publications Purchase Framework Agreement is entered into on normal and commercial terms and the terms thereof are fair and reasonable.

4. Rationale for determining the Annual Caps

Pursuant to Rule 14A.35 of the Listing Rules, the proposed purchase of the Subject Publications as outlined in section headed "Principal Terms of the Publications Purchase Framework Agreement and pricing policy" above are required to be subject to an Annual Caps for each financial year of the Company up to 31 December 2020.

The table below further sets out the respective proposed Annual Caps of the transactions under the Publications Purchase Framework Agreement for the three financial years ending 31 December 2018, 2019 and 2020:

	For the year ending 31 December			CAGR
	2018	2019	2020	from 2018
	RMB'000	RMB'000	RMB'000	to 2020
Annual Caps	610,000	760,000	860,000	18.7%

As stated in the Letter from the Board, the Annual Caps stated above have been determined by reference to a number of factors including: As stated in the Letter from the Board, in considering the annual caps under the Publications Purchase Framework Agreement, the Directors have considered a number of factors including:

- (i) the historical transaction amounts of the Publications proposed to be purchased from Winshare Online (*Note 1*);
- (ii) the growth rate of the historical purchase amounts of the Publications proposed to be purchased from Winshare Online (*Note 2*);
- (iii) the estimated average growth rate of approximately 5%-10% per annum in the coming three years based on the strategic plans of the Company for future business development after taking into account the factors stated in the Letter from the Board (*Note 3*); and

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- (iv) the possible increase of market price of the publications from time to time as a result of (a) the ongoing increase in the labour costs and expenses; and (b) commodity price level such as raw materials, paper and ink used in the production of publications, which paper price has increased by 40-50% and ink price has increased by 10% according to an industry authority data report “China Publishing Media Business Daily” (中國出版傳媒商報) in 2017.

Notes:

1. The Group (excluding Winshare Online) had not purchased any publications from Winshare Online in the previous year and therefore no direct historical transaction figure is available in respect of this category of transactions. The historical purchase amounts are derived from the sales cost (deemed as the purchase cost) of the Company in purchasing the same scope of publications in 2015, 2016 and 2017, which accounted for approximately RMB512 million, RMB533 million and RMB576 million, respectively, for the three years ended 31 December 2017.
2. Based on note 1 above, the historical amounts increased by approximately 4% from 2015 to 2016 and approximately 8% from 2016 to 2017.
3. Through setting up and transforming physical bookstores and implementing multi-brand development of physical bookstores, the sales value of publications via the retail channels of the Company increased by 5.48% in 2017 as compared with that in 2016. For 2018 and onwards, the Company will continue the implementation of the strategy “rejuvenating the physical bookstores” and focus on sales of publications to continue to enhance the Company’s sales capabilities of its publications in order to meet the needs of large cultural consumers. At the same time, the Group will strengthen the transformation of its physical retail channels, build an online and offline channel integration development model, and enhance consumers’ shopping experience. Based on the implementation of the above strategic plans, the Company is confident that the average growth rate of publication sales is estimated to be 5%-10% per annum.

In assessing the reasonableness of the Annual Caps, we have reviewed, and discussed with the management of the Company regarding the basis in determining the Annual Caps as stated above. We have also reviewed the historical financial information of Winshare Online and the Group, which are set out above. We noted that the annual cap for the year ending 31 December 2018 represented approximately 105.9% of the sales cost (deemed as the purchase cost) of the Company in purchasing the same scope of publications for the year ended 31 December 2017.

We have further reviewed an article issued by the State Administration of Press, Publication, Radio, Film and Television of The People’s Republic of China regarding 2016年新聞出版產業分析報告 (2016 News and Publication Industry Report*) (the “**Report**”). According to the Report, the operating revenue of the publication, printing and distribution services in 2016 amounted to approximately RMB2,359.6 billion, representing a growth of approximately RMB194.0 billion or 9.0% as compared to that in 2015. Digital publications led in both the growth rate and growth contribution among all different industry sectors of the news and publication, followed by printing and reproduction, and publication distribution. According to statistics, the 120 book publisher, news and magazine publication, distribution and printing group in the PRC had recorded operating revenue of approximately RMB347.6 billion in 2016 representing a growth of approximately 15.8%, with total assets of approximately RMB654.2 billion, representing a growth of approximately 8.7%, and profit of approximately RMB29.7 billion, representing a growth of approximately 20.0%. Meanwhile, according to 第十四次全國國民閱讀調查 (The Fourteenth China Nationals Reading Survey*)

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conducted in 2016 by the Chinese Academy of Press and Publication, the integrated national reading rate through all media in the PRC in 2016 was approximately 79.9%, representing a slight increase from approximately 79.6% in 2015. The rate of access to digital reading methods was approximately 68.2%, representing an increase of approximately 4.2% as compared to approximately 64.0% in 2015; the book reading rate was approximately 58.8%, representing an increase of approximately 0.4% as compared to approximately 58.4% in 2015. The number of books read by the adults in the PRC was approximately 7.86 in 2016, representing an increase of approximately 0.02 units as compared to 2015. The cell phone reading rate reached 66.1% in 2016, representing an increase in the eighth consecutive years.

As stated above, according to the Report, the operating revenue of the publication, printing and distribution services in 2016 amounted to approximately RMB2,359.6 billion, representing a growth of approximately RMB194.0 billion or 9.0% as compared to that in 2015 and the 120 book publisher, news and magazine publication, distribution and printing group had recorded operating revenue of approximately RMB347.6 billion in 2016 representing a growth of approximately 15.8%, with total assets of approximately RMB654.2 billion, representing a growth of approximately 8.7%, and profit of approximately RMB29.7 billion, representing a growth of approximately 20.0%. We believe that in order to maintain the profitability, corporations must transfer part of its cost increments to its customers, and taking into account of the aforesaid and the expected increment in production costs by the Company, we concur with the Company's view that the market price of the Publications might grow in the coming years.

Favourable policies and measures

The PRC Government has also published the following policies and measures which were favourable to the publication industry in the PRC:

Title	Issue on	Published by	Relevant content
“十三五”國家重點圖書、音像、電子出版物出版規劃 (Thirteenth Five Year Plan on Publication on National Major Book, Video and Digital Publications*)	May 2016	State Administration of Press, Publication, Radio, Film and Television of the PRC	There will be around 3,000 national key publications during the period. According to the plan, there shall also be more enhanced leadership in organisations, completed protection system, enhanced quality control, strengthened reviews and assessments, completed dynamic monitoring and focused promotion.

LETTER FROM HALCYON CAPITAL LIMITED

Title	Issue on	Published by	Relevant content
關於支持實體書店發展的指導意見 (Opinion in Supporting the Development of Physical Book Stores*)	June 2016	Publicity Department, State Administration of Press, Publication, Radio, Film and Television, National Development and Reform Commission, Ministry of Education, Ministry of Finance, Ministry of Housing and Urban-Rural Development, Ministry of Commerce, Ministry of Culture, People's Bank of China, State Administration of Taxation and State Administration for Industry and Commerce	<p>To enhance the creativity and competitiveness of physical book stores continuously, and to enrich the product and service scope, so as to more adequately satisfy the continuously enhanced multicultural demands of the public, and to stimulate the consumption on cultural products.</p> <p>In particular, there are five policies and measures to encourage the reform and innovation of the physical book stores, which include perfecting the planning and land policies, strengthening the support on finance and taxation, providing entrepreneurship and training services, simplifying administrative approval management and regulating the market order of the publication industry.</p> <p>It is targeted to basically establish, by 2020, physical bookstore system centered on large cities with supporting in small and medium-sized cities, and also extending to rural and urban outlets to form rational layout and coordinated development pattern of large-scale bookstores, chain bookstores, small and medium-sized bookstores and community convenience bookstores, rural bookstores, campus bookstores, etc.</p>

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全民閱讀“十三五”時期發展規劃 (The Thirteenth Five-Year Development Plan on Nationwide Reading*)	December 2016	State Administration of Press, Publication, Radio, Film and Television	Clarified the guiding ideology, basic principles and main objectives of nationwide reading, and also clarified the major tasks, timetable, roadmap, etc. of the Thirteenth Five-Year, so as to further promote the normalisation and standardisation of nationwide reading, and to build a sound reading environment in the society.

We considered that the Opinion in Supporting the Development of Physical Book Stores* would provide more direct benefit and support to the development of the physical bookstores in the PRC which will potentially promote the reading of printed publications, which is cohering with the strategy of “rejuvenating the physical bookstore” implemented by the Company, while the other policies have demonstrated the intention of the PRC government in facilitating the growth and development of the overall publication industry and reading atmosphere in the PRC. In particular, we further noted that certain provinces and cities has released the implementation opinion in response to the Opinion in Supporting the Development of Physical Book Stores*. In October 2016, several governmental authorities of the Sichuan Province jointly published 關於推進實體書店發展的實施意見 (the Implementation Opinion in Promoting the Development of Physical Book Stores*) which stated that, among other things, it is targeted to achieve publication distribution network point of 0.16 per 1,000 people and have around 14,000 physical bookstores in Sichuan Province by 2020. In February 2017, several governmental authorities in Guangdong Province jointly published 關於支援實體書店發展的實施意見 (the Implementation Opinion in Supporting the Development of Physical Book Stores*) which stated that, among other things, the province strives to basically form a development pattern of physical bookstores with various forms, characteristics and extensive coverage by 2020 to meet the development of the city and the cultural needs of the residents. In April 2017, several governmental authorities jointly published 關於上海市支援實體書店發展的實施意見 (the Implementation Opinion in Supporting the Development of Physical Book Stores in Shanghai*) which stated that, among other things, the city will integrate the setting up of physical bookstore into its urban development layout. In the planning and layout of new districts, business districts, communities, school districts and villages and towns’ cultural facilities in Shanghai, there shall be a business site set aside for the physical bookstores (up to 80,000 people’s residential quarters, and reserve not less than 200 square meters of bookstores). These implementation opinions also set out certain policies in supporting the setting up of physical bookstores including governmental grants, awards, tax benefits, etc. Given the implementation opinions were published in late 2016 or 2017, we are of the view that aforesaid policies in supporting the opening of physical bookstores networks in coming years may drive the sales of physical books with a stronger growth rate as compared to the past few years.

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Moreover, the PRC government has announced in 2015 regarding the relaxation of the birth control policy that the number of children allowed for each couple will be increased to two, putting an end to the one-child policy, which was introduced in 1979 with a view to slow the population growth rate of the PRC. We concur with the view of the management that such policy may stimulate the population growth and potentially drive up the reading population and demand in the PRC given the integrated national reading rate through all media in the PRC in 2016 has already reached 79.9%.

Taking into account of the aforesaid and the fact that the business of the Group has maintained a growth momentum over the past years and recorded growth rate in revenue of approximately 28.1% from 2015 to 2017, we concur with the view of the management of the Company that the business of the Group (without taking into account of Winshare Online) is still expected to grow alongside with the industry in coming years. Accordingly, we concur with the Directors' view that the basis of determining the Annual Caps, including, among other things, the estimated average growth rate based on strategic plans of the Company and the possible growth of market price of the Publication, is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) entering into of the Publications Purchase Framework Agreement and the transactions contemplated thereunder falls within the ordinary and usual course of business of the Company; (ii) the entering into of the Publications Purchase Framework Agreement and transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole; (iii) the Publications Purchase Framework Agreement is entered into on normal and commercial terms and the terms thereof are fair and reasonable; and (iv) the basis of determining the Annual Caps is fair and reasonable in so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution at the AGM to approve the Publications Purchase Framework Agreement and the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited
Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 15 years of experience in corporate finance industry.

* *For identification purposes only*

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 INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

(a) Interests in the Company and its associated corporations

As at the Latest Practicable Date, the Directors, supervisors and chief executives of the Company who had an interest or short position in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executives of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules are as follows:

Name of Supervisor	Number of shares directly or indirectly held	Capacity	Class of shares	Approximate percentage in the relevant class of shares	Approximate percentage of total issued share capital of the Company	Long position/ short position
Chao Hsun	53,336,000	Spouse interest	A Shares	6.74%	4.32%	Long position

Note: Chao Hsun is the spouse of Wu Wenqian who is indirectly interested in 53,336,000 A Shares through Hua Sheng Group. Accordingly, Mr. Chao Hsun is deemed to be interested in 53,336,000 A Shares of the Company indirectly held by Wu Wenqian through Hua Sheng Group.

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

(b) Other interests

As at the Latest Practicable Date, so far is known to the Directors,

- (i) none of the Directors and supervisors of the Company had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statement of the Group was made up;
- (ii) none of the Directors and supervisors of the Company was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which was subsisting and significant in relation to the business of the Group taken as a whole; and
- (iii) save as disclosed in this circular, none of the Directors and their respective associates had any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other person had an interest or short position in the Shares and underlying Shares 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 were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, 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 members of the Group.

Name of Shareholder	Number of Shares	Capacity	Class of Shares	Approximate percentage of the relevant class of Shares	Approximate percentage of the total issued share capital of the Company
Sichuan Development (<i>Note 1</i>)	623,382,418 (L)	Interests in controlled corporation	A Shares	78.72%	50.52%
	18,050,000 (L)	Interests in controlled corporation	H Shares	4.08%	1.46%
Sichuan Xinhua Publishing Group (<i>Note 2</i>)	592,809,525 (L)	Beneficial owner	A Shares	74.86%	48.05%

Name of Shareholder	Number of Shares	Capacity	Class of Shares	Approximate percentage of the relevant class of Shares	Approximate percentage of the total issued share capital of the Company
	13,133,000 (L)	Interests in controlled corporation	H Shares	2.97%	1.06%
Hua Sheng Group (<i>Note 3</i>)	53,336,000 (L)	Beneficial owner	A Shares	6.74%	4.32%
Wu Wenqian (<i>Note 3</i>)	53,336,000 (L)	Interest in controlled corporation	A Shares	6.74%	4.32%
Edgbaston Investment Partners LLP	35,607,000 (L)	Investment manager	H Shares	8.06%	2.89%
Seafarer Capital Partners. LLC	31,200,500 (L)	Investment manager	H Shares	7.06%	2.53%
Edgbaston Asian Equity Trust	26,908,000 (L)	Beneficial owner	H Shares	6.09%	2.18%

The letter “L” represents the entities’ long positions in the Shares of the Company.

Notes:

1. Sichuan Development is the controlling shareholder of Sichuan Xinhua Publishing Group and SPG. According to the SFO, Sichuan Development is deemed to (i) indirectly hold 592,809,525 A Shares of the Company through Sichuan Xinhua Publishing Group and 30,572,893 A Shares of the Company through SPG, totalling 623,382,418 A Shares; and (ii) indirectly hold 13,133,000 H Shares of the Company through a wholly-owned subsidiary of Sichuan Xinhua Publishing Group and 4,917,000 H Shares of the Company through a wholly-owned subsidiary of SPG, totally 18,050,000 H Shares.
2. Shudian Investment Co., Ltd. is a wholly-owned subsidiary of Sichuan Xinhua Publishing Group. According to the SFO, Sichuan Xinhua Publishing Group is deemed to indirectly hold 13,133,000 H Shares through Shudian Investment Co., Ltd. Sichuan Xinhua Publishing Group is directly interested in 592,809,525 A Shares.
3. Wu Wenqian is directly interested in 96% equity interests in Hua Sheng Group. Accordingly, Wu Wenqian is deemed to hold 53,336,000 A Shares of the Company through Hua Sheng Group.

4. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or the Supervisors nor any of their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors and supervisors of the Company entered or proposed to enter into any service contract with the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim 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 Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following are the qualifications of the expert who has been named in this circular or has given opinion or advice contained in this circular:

Name	Qualification
Halcyon Capital Limited	a corporation licensed by Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Halcyon Capital Limited was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Halcyon Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its names in the form and context in which they appear.

The letter and recommendation given by Halcyon Capital Limited is given as at the date of this circular for incorporation herein.

Halcyon Capital Limited has not, or has not had, direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2017, the date to which the latest published audited financial statement of the Group was made up.

9. DOCUMENTS FOR INSPECTION

A copy of the Publications Purchase Framework Agreement will be available for inspection at the office of Messrs. Li & Partners at 22nd Floor, World-Wide House, Central, Hong Kong during normal business hours on any business day for a period of 14 business days from the date hereof.