THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in 四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

WIN SHARE

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

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

(Stock code: 811)

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 51% EQUITY INTERESTS IN SICHUAN XINHUA SHANG PAPER CO., LTD.

Independent financial adviser to
the independent board committee and the independent shareholders of
Sichuan Xinhua Winshare Chainstore Co., Ltd.*

VC CAPITAL LIMITED
滙盈融資有限公司

A notice convening an extraordinary general meeting of 四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*) to be held at Sichuan Xinhua International Hotel, No. 8 Guzhongsi Street, Chengdu, Sichuan, the People's Republic of China (the "PRC") on Thursday, 16 October 2008 at 9:30 a.m. or any adjournment thereof is set out on pages 26 to 28 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same, for holders of H shares of the Company, to the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares of the Company, to the head office in the PRC of the Company as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting or any adjourned meeting(s) if they so wish.

* *For identification purposes only*

29 August 2008

CONTENTS

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

"1% Acquisition"	the proposed acquisition of 1% of equity interests in Xinhua Shang Paper by the Company from Shantou Packaging pursuant to the terms and conditions of the 1% Acquisition Agreement
"1% Acquisition Agreement"	a conditional agreement dated 26 August 2008 and entered into between Shantou Packaging and the Company in connection with the 1% Acquisition
"50% Acquisition"	the proposed acquisition of 50% of equity interests in Xinhua Shang Paper by the Company from the Parent pursuant to the terms and conditions of the 50% Acquisition Agreement
"50% Acquisition Agreement"	a conditional agreement dated 26 August 2008 and entered into between the Parent and the Company in connection with the 50% Acquisition
"Acquisition Agreements"	the 1% Acquisition Agreement and the 50% Acquisition Agreement
"Acquisitions"	the 1% Acquisition and the 50% Acquisition
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Company"	四川新華文軒連鎖股份有限公司 (Sichuan Xinhua Winshare Chainstore Co., Ltd.*), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange
"Directors"	the director(s) of the Company
"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and credited as fully paid up in RMB by PRC nationals and/or PRC incorporated entities
"EGM"	an extraordinary general meeting of the Company to be convened on 16 October 2008 to approve the Acquisition Agreements and the Acquisitions
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong
"Independent Shareholders"	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the shareholders of the Company other than the Parent and its associates
"Independent Third Party(ies)"	third party(ies) independent of the Company and connected person(s) (as defined under the Listing Rules) of the Company and are not connected person(s) (as defined under the Listing Rules) of the Company
"Latest Practicable Date"	26 August 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Parent"	四川新華發行集團有限公司 (Sichuan Xinhua Publishing Group Co. Ltd.*), a wholly State-owned company established in the PRC, and a promoter and controlling shareholder of the Company as at the Latest Practicable Date. The Parent is a connected person of the Company under the Listing Rules.
"Parent Group"	the Parent and its subsidiaries (excluding the Company)
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region and Taiwan)
"Prospectus"	the prospectus of the Company dated 16 May 2007
"Sanzhou Xinhua Bookstores"	certain Xinhua Bookstores located within the three autonomous prefectures of A Ba (阿壩), Gan Zi (甘孜) and Liang Shan (涼山) in the Sichuan Province, the PRC, the businesses of which were retained by the Parent after the reorganisation of the Company as described in the Prospectus
"SASAC of Sichuan"	四川省政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Sichuan Provincial Government of the PRC)

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shantou Packaging"	汕頭市廣商包裝有限公司 (Shantou Guang Shang Packaging Co., Ltd.*), is a limited liability company established in the PRC on 1 September 1997 and is owned as to 90% by Mr. Xie Jiqing (謝繼青) and as to 10% by Mr. Huang Jirong (黃繼榮). As at the Latest Practicable Date, the sole director of Shantou Packaging was Mr. Xie Jiqing (謝繼青)
"Shareholder(s)"	shareholder(s) of the Company
"Shares"	ordinary shares of the Company with a nominal value of RMB1.00 each, comprising both Domestic Shares and H Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"VC Capital"	VC Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions
"Xinhua Bookstores"	新華書店, any or all of the members of China Xinhua Bookstore Association established at the administrative level in the PRC which are operated or managed under the nationwide Xinhua Bookstore system
"Xinhua Shang Paper"	四川新華商紙業有限公司 (Sichuan Xinhua Shang Paper Co., Ltd.*), is a limited liability company established in the PRC on 10 November 2004 and was owned as to 50% by the Parent and as to 50% by Shantou Packaging, an Independent Third Party, respectively as at the Latest Practicable Date
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

In this circular, amounts denominated in RMB have been translated into HK$ at a rate of approximately HK$1 to RMB0.879 for purposes of illustration only.

* *For identification purposes only*

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

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

(Stock code: 811)

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

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

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

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

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

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

29 August 2008

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 51% EQUITY INTERESTS IN SICHUAN XINHUA SHANG PAPER CO., LTD.

INTRODUCTION

On 26 August 2008, the Board announced that the Company entered into:

(1) the 50% Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and the Parent has conditionally agreed to dispose of 50% of the equity interests in Xinhua Shang Paper, at an aggregate consideration of RMB12,153,100 (approximately HK$13,826,000); and

* *For identification purposes only*

(2) the 1% Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and Shantou Packaging has conditionally agreed to dispose of 1% of the equity interests in Xinhua Shang Paper, at an aggregate consideration of RMB243,062 (approximately HK$276,521).

As the revenue ratio calculated under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%, the Acquisitions constitute a discloseable transaction for the Company under the Listing Rules. As the Parent is a promoter and controlling shareholder of the Company, the Acquisitions also constitute a connected transaction for the Company under the Listing Rules.

The purpose of this circular is to provide the Shareholders with, among other things, (i) further details of the Acquisitions; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisitions; (iii) the letter of advice from VC Capital to the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions; and (iv) a notice of the EGM.

THE ACQUISITION AGREEMENTS

The 50% Acquisition Agreement

Principal terms

The principal terms of the 50% Acquisition Agreement are as follows:

Date : 26 August 2008

Parties:

(1) The Parent as vendor. The Parent is a wholly State-owned company established in the PRC, and a promoter and controlling shareholder of the Company. The Parent is therefore a connected person of the Company under the Listing Rules. The Parent is principally engaged in the business of wholesaling and retailing, leasing of properties, real estate, project investment, computer software and hotel services.

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

Particulars

Pursuant to the 50% Acquisition Agreement, the Company has conditionally agreed to acquire and the Parent has conditionally agreed to dispose of 50% of the equity interests in Xinhua Shang Paper. Any subsequent transfer of the equity interests in Xinhua Shang Paper by the Company will be subject to the relevant laws, rules and regulations in the PRC.

Consideration

The 50% Acquisition constitutes a transfer of State-owned assets in the PRC. On 20 December 2007, SASAC of Sichuan preliminarily approved the 50% Acquisition. Formal approval for the 50% Acquisition was granted by SASAC of Sichuan on 31 March 2008. Pursuant to the said formal approval, the consideration for the 50% Acquisition shall not be less than the valuation of 50% of the equity interests in Xinhua Shang Paper filed with SASAC of Sichuan. The consideration for the 50% Acquisition is RMB12,153,100 (equivalent to approximately HK$13,826,000) which is based upon the valuation of Xinhua Shang Paper at RMB24,306,200 (equivalent to approximately HK$27,652,100) as at 31 May 2008 by a qualified PRC valuer, an Independent Third Party, appointed by the Parent as agreed by the Parent, Shantou Packaging and the Company. The valuation of Xinhua Shang Paper has been filed with SASAC of Sichuan.

The entire registered capital of Xinhua Shang Paper is RMB15,000,000 (equivalent to approximately HK$17,064,800) which has been fully paid up. Upon establishment of Xinhua Shang Paper in November 2004, the Parent was interested in 10% of the equity interests in Xinhua Shang Paper by contributing RMB1,500,000 (equivalent to approximately HK$1,706,500) to the registered capital of Xinhua Shang Paper. In December 2005, the Parent acquired 40% of the equity interests in Xinhua Shang Paper from a former shareholder of Xinhua Shang Paper, which has been dissolved under the PRC laws, at a consideration of RMB6,000,000 (equivalent to approximately HK$6,825,900). As at the Latest Practicable Date, the Parent was interested in 50% of the equity interests in Xinhua Shang Paper.

Payment terms

The consideration for the 50% Acquisition Agreement will be payable by the Company to the Parent in full in cash within 30 days from the day when the conditions mentioned below are satisfied, or such later day as agreed by both parties. The 50% Acquisition will be funded by the proceeds raised in the Company's initial public offering in May 2007 and the Directors confirm that the use of such proceeds to finance the Acquisitions is in line with the use of proceeds as set out in the Prospectus.

Conditions

Completion of the 50% Acquisition Agreement is conditional upon:

(1) the Independent Shareholders' having approved the Acquisitions in accordance with the Listing Rules (if necessary); and

(2) all necessary approvals and consent in connection with the 50% Acquisition having been obtained, and all necessary filing requirements having been fulfilled.

If either or both of the above conditions shall not have been fulfilled on or before 31 December 2008, either party is entitled to terminate the 50% Acquisition Agreement by giving written notice to the other party and no party shall have any claim against the other.

The 1% Acquisition Agreement

Principal terms

The principal terms of the 1% Acquisition Agreement are as follows:

Date : 26 August 2008

Parties:

(1) Shantou Packaging as vendor. Shantou Packaging is a limited liability company established in the PRC and is principally engaged in the business of sale of paper and paper products. The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiry, each of Shantou Packaging and its ultimate beneficial owners is an Independent Third Party.

(2) The Company as purchaser.

Particulars

Pursuant to the 1% Acquisition Agreement, the Company has conditionally agreed to acquire and Shantou Packaging has conditionally agreed to dispose of 1% of the equity interests in Xinhua Shang Paper. Any subsequent transfer of the equity interests in Xinhua Shang Paper by the Company will be subject to the relevant laws, rules and regulations in the PRC.

Consideration

The consideration for the 1% Acquisition is RMB243,062 (equivalent to approximately HK$276,521) which is based upon the valuation of Xinhua Shang Paper at RMB24,306,200 (equivalent to approximately HK$27,652,100) as at 31 May 2008 by a qualified PRC valuer, an Independent Third Party, appointed by the Parent as agreed by the Parent, Shantou Packaging and the Company.

Payment terms

The consideration for the 1% Acquisition Agreement will be payable by the Company to Shantou Packaging in full in cash within 30 days from the day when the conditions mentioned below are satisfied, or such later day as agreed by both parties. The 1% Acquisition will be funded by the proceeds raised in the Company's initial public offering in May 2007 and the Directors confirm that the use of such proceeds to finance the Acquisitions is in line with the use of proceeds as set out in the Prospectus.

Board representation

Upon completion of the Acquisitions, the Company shall have the right to appoint three representatives to the board of directors of Xinhua Shang Paper, while Shantou Packaging shall have the right to appoint two representatives to the board of directors of Xinhua Shang Paper.

Conditions

Completion of the 1% Acquisition Agreement is conditional upon:

(1) the Independent Shareholders' having approved the Acquisitions in accordance with the Listing Rules (if necessary); and

(2) all necessary approvals and consent in connection with the 1% Acquisition having been obtained, and all necessary filing requirements having been fulfilled.

If either or both of the above conditions shall not have been fulfilled on or before 31 December 2008, either party is entitled to terminate the 1% Acquisition Agreement by giving written notice to the other party and no party shall have any claim against the other.

INFORMATION ON XINHUA SHANG PAPER

Xinhua Shang Paper is a limited liability company established in the PRC in November 2004 with a registered capital of RMB15,000,000 (equivalent to approximately HK$17,064,800). As at the Latest Practicable Date, Xinhua Shang Paper was owned as to 50% by the Parent and as to 50% by Shantou Packaging.

Upon completion of the Acquisitions, Xinhua Shang Paper will be owned as to 51% by the Company and 49% by Shantou Packaging. As such, Xinhua Shang Paper will become a subsidiary of the Company and the accounts of Xinhua Shang Paper will be consolidated into the accounts of the Company upon completion of the Acquisitions.

For the year ended 31 December 2006, the audited net profits both before and after taxation and extraordinary items of Xinhua Shang Paper were approximately RMB1,923,700 (equivalent to approximately HK$2,188,500) and RMB1,805,000 (equivalent to approximately HK$2,053,500) respectively prepared in accordance with the PRC generally accepted accounting principles.

For the year ended 31 December 2007, the audited net profits both before and after taxation and extraordinary items of Xinhua Shang Paper were approximately RMB1,312,200 (equivalent to approximately HK$1,492,800) and RMB869,600 (equivalent to approximately HK$989,300) respectively prepared in accordance with the PRC generally accepted accounting principles.

For the five months ended 31 May 2008, the audited net profits both before and after taxation and extraordinary items of Xinhua Shang Paper were approximately RMB4,313,300 (equivalent to approximately HK$4,907,000) and RMB3,212,800 (equivalent to approximately HK$3,655,000) respectively prepared in accordance with the PRC generally accepted accounting principles.

As at 31 December 2006, 31 December 2007 and 31 May 2008, the audited net asset value of Xinhua Shang Paper were approximately RMB17,544,000 (equivalent to approximately HK$19,959,000), RMB18,413,700 (equivalent to approximately HK$20,948,500) and RMB21,626,600 (equivalent to approximately HK$24,603,600) respectively prepared in accordance with the PRC generally accepted accounting principles.

EFFECT OF THE ACQUISITIONS

Upon completion of the Acquisitions, the financial accounts of Xinhua Shang Paper will be consolidated into that of the Group. The consolidated total assets and total liabilities of the Group will both increase. In view of the historical financial performances of Xinhua Shang Paper for the five months ended 31 May 2008, the Directors anticipate that the Acquisitions will contribute to the earnings of the Group upon completion of the Acquisitions.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Company has provided ancillary support and services to publishers of books of general interest, textbooks and supplementary materials since 2003. The Company's ancillary support and services include selecting appropriate authors and topics, printing and delivery of finished products, including co-operative products, to its customers.

Paper is a major raw material used in the production and processing of the publications of the Group. Xinhua Shang Paper is one of the largest paper suppliers in Sichuan, PRC. The Company continuously seeks development opportunities and cooperation with enterprises in closely related industries to further strengthen the Company's market competitiveness in the ancillary support and services provision. Through the Acquisitions, the Directors believe that the Group will be able to ensure a stable supply of paper for the Company in providing ancillary printing services to its customers and control the cost of paper used in its operation.

The terms of the Acquisition Agreements have been negotiated on an arm's length basis and are on normal commercial terms. The Directors (excluding the Independent Board Committee comprising all independent non-executive Directors and whose opinion is set out on page 11 of this circular after taking into account the independent financial adviser's advice which is set out on pages 12 to 20 of this circular) consider that the terms of the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

SHAREHOLDERS' APPROVAL FOR THE ACQUISITIONS

As the revenue ratio calculated under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%, the Acquisitions constitute a discloseable transaction for the Company under the Listing Rules. As the Parent is a promoter and controlling shareholder of the Company, the Acquisitions also constitute a connected transaction for the Company under the Listing Rules.

The transactions contemplated under the Acquisition Agreements are subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM under Chapter 14A of the Listing Rules. Any Shareholder who have a material interest in the Acquisitions will be required to abstain from voting at the EGM. The Parent and its associates will be required to abstain from voting at the EGM as the Parent is materially interested in the Acquisitions. Shantou Packaging, its associates and ultimate beneficial owners will also be required to abstain from voting at the EGM.

GENERAL

An Independent Board Committee has been formed to consider the Acquisitions, and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisitions are fair and reasonable and whether the Acquisitions are in the interests of the Company and the Shareholders as a whole.

EXTRAORDINARY GENERAL MEETING

The notice convening the EGM is set out on pages 26 to 28 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same, for holders of H Shares, to the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of Domestic Shares, to the head office in the PRC of the Company as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting(s) thereof should you so wish.

Pursuant to the Articles of Association, at any general meeting a resolution shall be decided on a show on hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;
- by at least two Shareholders entitled to vote present in person or by proxy; or
- by one or more Shareholders present in person or by proxy and representing 10% or more of all Shares carrying the right to vote at the meeting.

RECOMMENDATION

The Board considers that the Acquisition Agreements and the Acquisitions are in the interests of the Company and the Shareholders as a whole, the terms of which are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Directors recommend all the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the appendix headed "General Information" to this circular.

Yours faithfully,
By order of the Board
SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.
Gong Cimin
Chairman

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

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

(Stock code: 811)

29 August 2008

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 51% EQUITY INTERESTS IN SICHUAN XINHUA SHANG PAPER CO., LTD.

We refer to the circular of the Company dated 29 August 2008 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise you as to the fairness and reasonableness of the terms of the Acquisition Agreements and whether the Acquisitions are in the interests of the Company and the Shareholders as a whole. VC Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of the recommendations from VC Capital are set out in its letter of advice on pages 12 to 20 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 10 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Acquisition Agreements, and taken into account the advice from VC Capital and in particular the principal factors and reasons considered by VC Capital as set out in its letter of advice, we are of the view that the Acquisitions are in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition Agreements are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisitions.

Yours faithfully,
Mr. Han Xiaoming
Mr. Cheng Sanguo
Mr. Chan Yuk Tong
Independent Board Committee

* *For identification purposes only*

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from VC Capital dated 29 August 2008 for inclusion in this circular:

VC CAPITAL LIMITED
滙盈融資有限公司

29 August 2008

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF 51% EQUITY INTERESTS IN
SICHUAN XINHUA SHANG PAPER CO., LTD.

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed transactions contemplated under the Acquisition Agreements entered into between the Parent and Shantou Packaging and the Company respectively, details of which are set out in the letter from the Board contained in the circular of the Company dated 29 August 2008 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Parent is a promoter and controlling shareholder of the Company and therefore is a connected person of the Company for the purpose of the Listing Rules. The Acquisitions constitute a connected transaction under Chapter 14A of the Listing Rules and is subject to reporting, announcement and approval by the Independent Shareholders by way of poll at the EGM. At the EGM, the Parent and its respective associates will abstain from voting on the ordinary resolution to approve the Acquisition Agreements. The Independent Board Committee has been formed, comprising Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong, being all the independent non-executive Directors who are considered independent in respect of the Acquisitions, to advise the Independent Shareholders on the Acquisitions and the action(s) they should take in response to it.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the Acquisitions are on normal commercial terms and are in the ordinary course of business of the Group and whether the Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole.

VC Capital Limited ("VC Capital") is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the terms of the Acquisition

Agreements. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors and senior management of the Group. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were prepared or made and will continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors and senior management of the Group. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Acquisition Agreements and transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Acquisitions are in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

1. Background information

The Acquisition Agreements were entered into between the Parent and Shantou Packaging and the Company respectively. As stated in the letter from the Board, Xinhua Shang Paper is owned as to 50% by the Parent and as to 50% by Shantou Packaging before the Acquisitions. Upon completion of the Acquisitions, Xinhua Shang Paper will be owned as to 51% by the Company and 49% by Shantou Packaging, where Xinhua Shang Paper will become a subsidiary of the Company and the accounts of Xinhua Shang Paper will be consolidated into the accounts of the Company upon completion of the Acquisitions.

Business overview of the Group

As stated in the letter from the Board, the Company has provided ancillary support and services to publishers of books of general interest, textbooks and supplementary materials since 2003. The Company's ancillary support and services include selecting appropriate authors and topics, printing and delivery of finished products, including co-operative products, to its customers.

Information on Xinhua Shang Paper

As disclosed in the letter from the Board, Xinhua Shang Paper is a limited liability company established in the PRC in November 2004 with a registered capital of RMB15,000,000 (equivalent to approximately HK$17,064,800). Xinhua Shang Paper is principally engaged in the sale of paper pulp, paper and paper products, wholesale of printed paper products, as well as import and export businesses.

The following table summarises the audited financial information of Xinhua Shang Paper:

RMB	**For the 5 months ended 31 May 2008** *(audited)*	**For the year ended 31 December 2007** *(audited)*	**For the year ended 31 December 2006** *(audited)*
Revenue	65,374,000	158,954,400	97,625,300
Net profit before tax	4,313,300	1,312,200	1,923,700
Net profit after tax	3,212,800	869,600	1,805,000
Net assets value ("NAV")	21,626,600	18,413,700	17,544,000

Given the fact that Xinhua Shang Paper possesses a solid business foundation and operation in the PRC for more than 3 years, the Directors are confident that the Company can take advantage of the existing resources and network of Xinhua Shang Paper to strengthen its ancillary support and services and control the cost of paper used in its operation in the PRC in order to improve the Group's profitability and at the same time, secure a stable paper supply for its ancillary support and services to its customers.

Having considered that: (i) Xinhua Shang Paper is an established company with more than 3-year operating history in the paper industry in the PRC; and (ii) Xinhua Shang Paper is principally engaged in the sale of paper pulp, paper and paper products, which is in line with the existing principal businesses of the Group, we consider that the Acquisitions are in the normal and ordinary course of business of the Group.

Reasons for entering into the Acquisition Agreements

As mentioned in the letter from the Board, Xinhua Shang Paper is one of the largest paper suppliers in Sichuan, PRC. The Company continuously seeks development opportunities and cooperation with enterprises in closely related industries to further strengthen the Company's market competitiveness in the ancillary support and services provision. Given the fact that (i) the Company also provides printing services as part of its ancillary support to its customers; and (ii) paper is a major raw material used in the production and processing of the publications of the Group, and the Acquisitions would ensure a stable supply of paper for the Company in providing ancillary services to its customers and control the cost of paper used in its operation. Accordingly, we concur with the Directors' view that the Acquisitions are in the interests of the Company and the Shareholders as a whole.

Overview of the paper industry in the PRC

According to a report published by the 中國造紙協會 (the China Paper Association) in June 2008, the total paper and paper pulp production and consumption in 2007 were approximately 73 million tons and 72.90 million tons respectively, representing increases of 13.08% and 10.45% over that of 2006 respectively. The paper and paper pulp production has increased dramatically by 140.98% over the years from 2000 to 2007, with an average of 13.39% increase per year. In 2007, paper products that achieved the highest growth in production were mainly newspaper, coated paper, household paper, coated duplex board, carton board and corrugating board.

The cost of paper has also increased significantly over the years as a result of the increasing cost of raw materials. The increasing cost of raw materials has exerted pressure on the production cost of paper and thus the overall paper production and/or publishing cost. According to《新京報》(the Beijing News), the cost of paper for household, cultural and packaging has increased by approximately 10%, 30% and 30% respectively, of which the cost of newspaper has surged from RMB4,850/ton to RMB5,450/ton in the first quarter of 2008, representing an increase of 12.37%, which is the highest increase in the past five years. Moreover, the prices of various papers have increased at various rates from January to April 2008, for example, the price of light weight coated paper has increased from RMB5,800 – RMB6,100/ton in January to a price of RMB6,900 – RMB7,100/ton in April.

In light of (i) the significant increase in the production cost of paper in the PRC; (ii) the Acquisitions will enable the Group to secure a stable paper supply and hence help in stabilizing its production cost for its ancillary printing services, so as to facilitate and reinforce the Group's operations and profitability; and (iii) the synergic effect of the Acquisitions on the Group's current and future business and operations, we consider that the Acquisitions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Acquisition Agreements

Pursuant to the 50% Acquisition Agreement, the Company has conditionally agreed to acquire and the Parent has conditionally agreed to dispose of 50% of the equity interests in Xinhua Shang Paper, at a consideration of RMB12,153,100 (equivalent to approximately HK$13,826,000) which is payable in full in cash.

Pursuant to the 1% Acquisition Agreement, the Company has conditionally agreed to acquire and Shantou Packaging has conditionally agreed to dispose of 1% of the equity interests in Xinhua Shang Paper, at a consideration of RMB243,062 (equivalent to approximately HK$276,521) which is also payable in full in cash.

All the considerations will be funded by the proceeds raised in the Company's initial public offering in May 2007.

Upon completion of the Acquisitions, the Company and Shantou Packaging shall have the right to appoint three and two representatives to the board of directors of Xinhua Shang Paper respectively.

Basis of the considerations

As disclosed in the letter from the Board, the considerations were determined based on the valuation of Xinhua Shang Paper at RMB24,306,200 (equivalent to approximately HK$27,652,100) as at 31 May 2008 by a qualified PRC valuer who is an independent third party appointed by the Parent as agreed by the Parent, Shantou Packaging and the Company in compliance with the relevant rules and regulations regarding state-owned assets as set out by the PRC government. According to the valuation report, Xinhua Shang Paper is valued at RMB24,306,200 (equivalent to approximately HK$27,652,100) by the costing method, and the valuation of Xinhua Shang Paper is higher than its NAV of RMB21,626,600 (equivalent to approximately HK$24,603,600) as at 31 May 2008. This is mainly because of the higher estimated unit prices of the inventories of Xinhua Shang Paper resulting from increases in prices of various types of papers.

We have reviewed the valuation report and discussed the basis and method of valuation of Xinhua Shang Paper with the independent PRC valuer which, we understand, is based on the costing method with reference to the audited financial accounts of Xinhua Shang Paper for the two years ended 31 December 2007 and for the five months ended 31 May 2008 and purchase costs of such assets in the market as at the date of valuation, being 31 May 2008, and consider that the valuation is reasonably made.

Trading comparable analysis

In order to further assess whether the considerations are fair and reasonable, we have performed a trading comparable analysis which summarises the price to earnings ratio ("P/E") of comparable companies. We have searched for companies listed on the Stock Exchange which are in similar fields of businesses to Xinhua Shang Paper, i.e. the manufacture and/or retail of paper pulp and/or paper products (the "Comparables"). To the best of our knowledge and endeavor, we have identified 8 companies which met the said criteria. Set out below are the details of the Comparables:

No.	Company	Stock code	Principal business	P/E (times)
1	China Sunshine Paper Holdings Company Limited	2002	Production and sale of white top linerboard, light-coated linerboard and core board	3.25
2	Lee & Man Paper Manufacturing Limited	2314	Manufacture and sale of paper and pulp	5.82

No.	Company	Stock code	Principal business	P/E (times)
3	New Island Printing Holdings Limited	377	Printing and manufacturing of high quality, multi-colour packaging products and carton boxes; printing of books, brochures and other paper products	11.84
4	Qunxing Paper Holdings Company Limited	3868	Manufacture and trading of decorative base paper products and printing paper product	5.95
5	Nine Dragons Paper (Holdings) Limited	2689	Manufacture and sale of linerboard, high performance corrugating medium and coated duplex board with grey back and unbleached kraft pulp	14.00
6	Hop Fung Group Holdings Limited	2320	Manufacture (through processing arrangements) and sale of corrugated paper-ware products including corrugated paper boards and corrugated carton boxes	5.15
7	Starlite Holdings Limited	403	Printing and manufacturing of packaging materials, labels, paper products and environmental friendly products	3.55

No.	Company	Stock code	Principal business	P/E (times)
8	Shandong Chenming Paper Holdings Limited — H Shares	1812	Manufacture of paper products including art paper, light weight coated paper, white paper board, duplex press paper, writing paper, news press paper and paperboard	N/A
	Maximum			**14.00**
	Minimum			**3.25**
	Median			**5.82**
	Average			**7.08**
	The Acquisitions			**7.57**

Source: Latest published annual/interim reports of the Comparables and the website of the Stock Exchange

From the above table, we note that the average P/E as represented by the Comparables was approximately 7.08 times and the median P/E is approximately 5.82 times, with a range of approximately 3.25 times to 14.00 times.

The audited net profit after tax of Xinhua Shang Paper for the 5 months ended 31 May 2008 was approximately RMB3,212,800 (equivalent to approximately HK$3,655,000), the P/E of the Acquisitions is approximately 7.57 times (being the total consideration divided by 51% of the audited net profit after tax of Xinhua Shang Paper for the 5 months ended 31 May 2008), which falls within the P/E range of the Comparables and is slightly higher than the average and the median P/Es of the Comparables.

After taking into account that (i) the P/E of the Acquisitions of approximately 7.57 times falls within the P/E range of the Comparables and is slightly higher than the average and median P/Es of the Comparables; (ii) the strategic benefits for the Company arising from the Acquisitions; and (iii) the Company will become the controlling shareholder of Xinhua Shang Paper upon completion of the Acquisitions, we are of the opinion that the considerations are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We have also reviewed the other terms of the Acquisition Agreements and are not aware of any terms which are uncommon to normal market practice. Based on the above, we consider that the terms of the Acquisition Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Financial effects of the Acquisition Agreements

Upon completion of the Acquisitions, Xinhua Shang Paper will become a subsidiary of the Company and the accounts of Xinhua Shang Paper will be consolidated into the accounts of the Company upon completion of the Acquisitions.

(i) *Working capital/liquidity*

As stated in the letter from the Board, the Company will satisfy the considerations of RMB12,153,100 (equivalent to approximately HK$13,826,000) and RMB243,062 (equivalent to approximately HK$276,521) to the Parent and Shantou Packaging respectively by the proceeds raised in the Company's initial public offering in May 2007. From the 2007 annual report of the Company, the balance of cash and cash equivalents of the Group as at 31 December 2007 amounted to approximately RMB1,536 million (equivalent to approximately HK$1,747 million). The Group's current ratio (calculated as the total current assets divided by the total current liabilities) was approximately 3.14. Based on the balance of cash and cash equivalents of the Group as at 31 December 2007, the Group should have sufficient financial resources to satisfy the considerations in the Acquisitions. There will be a slight decrease in the current ratio as a result of the Acquisitions, but it is expected to have no material adverse effect on the liquidity of the Group.

(ii) *Assets and liabilities*

Upon completion of the Acquisitions, the financial accounts of Xinhua Shang Paper will be consolidated into those of the Group. The consolidated total assets and total liabilities of the Group will both increase. It is expected that the Acquisitions would result in an increase in the non-current assets and the net assets of the Group.

(iii) *Earnings*

As aforementioned, upon completion of the Acquisitions, the accounts of Xinhua Shang Paper will be consolidated into the accounts of the Company. In light of the expected positive future business prospects of the paper industry in the PRC, the Acquisitions are expected to improve the income base and profitability of the Group.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the terms of the Acquisition Agreements are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and that the Acquisitions are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreements and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
VC Capital Limited
Keith Lou
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

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

Name of Director	Company Name	Nature of interest	Number of Shares/amount of equity interest	Approximate % of the total issued share capital
Wu Qiang	Chengdu Hua Sheng (Group) Industry Co. Ltd.	Corporate *(Note)*	53,336,000	4.70%

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

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

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

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

Name of shareholder	Number of Shares directly or indirectly held	Capacity	Class of Shares	Approximate % in the relevant class of Shares	Approximate % of the total issued share capital
The Parent	592,809,525	Beneficial owner	State-owned Shares	92.65%	52.22%
Chengdu Hua Sheng (Group) Industry Co. Ltd.	53,336,000	Beneficial owner	Social Legal Person Shares	100%	4.70%
Atlantis Investment Management Ltd	23,000,000	Investment manager	H Shares	5.20%	2.03%
National Council for the Social Security Fund	40,176,100	Beneficial owner	H Shares	9.09%	3.54%

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

4. COMPETING BUSINESS

So far as is known to the Directors, as at the Latest Practicable Date, the Parent Group did not carry on any business activities that compete or are likely to compete, either directly or indirectly, with the activities of the Group other than Sanzhou Xinhua Bookstores which were retained by the Parent Group due to the policy considerations as disclosed in the Prospectus. Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business which competed or may compete with the business of the Group.

5. SERVICE CONTRACTS OF THE DIRECTORS

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

6. LITIGATION

As disclosed in the Prospectus, the Group is engaged in a legal proceeding relating to its South-western Book City located in Chengdu, PRC. On 7 July 2008, an order was made by the Intermediate People's Court of Chengdu, Sichuan Province in PRC by which the Company was required to pay a sum of RMB3,885,000 to the applicant. As at the Latest Practicable Date, the Company had filed an application for appeal and the said legal proceeding was still pending.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any pending or threatened litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Company were made up).

9. QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
VC Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

10. EXPERT'S INTEREST IN ACQUISITIONS

As at the Latest Practicable Date, VC Capital had no shareholding interests in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribed for securities of any member of the Group. As at the Latest Practicable Date, VC Capital had no direct or indirect interests in any assets which had since 31 December 2007 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

11. CONSENT OF EXPERT

VC Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name included in this circular in the form and context in which it appears. The letter from VC Capital is given as at the date of this circular for incorporation therein.

12. GENERAL

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

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

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

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

(e) The qualified accountant of the Company is Mr. Mak Ming Fai. Mr. Mak is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

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

13. DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) the Acquisition Agreements;

(b) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;

(c) the letter from VC Capital, the text of which is set out on pages 12 to 20 of this circular; and

(d) the written consent of VC Capital referred to in paragraph 11 headed "Consent of Expert" of this appendix.

四川新華文軒連鎖股份有限公司
SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.*
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 811)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") will be held at Sichuan Xinhua International Hotel, No. 8 Guzhongsi Street, Chengdu, Sichuan, the People's Republic of China (the "PRC") on Thursday, 16 October 2008 at 9:30 a.m. for the following purposes:

AS ORDINARY RESOLUTIONS

"**THAT**

(i) the conditional agreement (the "50% Acquisition Agreement") dated 26 August 2008 entered into between 四川新華發行集團有限公司 (Sichuan Xinhua Publishing Group Co. Ltd.*), a wholly State-owned company established in the PRC, and a promoter and controlling shareholder of the Company, and the Company in connection with the proposed acquisition of the 50% of the equity interests in Sichuan Xinhua Shang Paper Co., Ltd. for a consideration of RMB12,153,100 (equivalent to approximately HK$13,826,000), which will be payable by the Company in full in cash, a copy of which has been produced at the EGM marked "A" and signed by the chairman of the EGM for identification purpose, be and is hereby approved, confirmed and ratified, the transactions contemplated in the 50% Acquisition Agreement be and are hereby approved, and the directors of the Company be and are hereby authorised to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the 50% Acquisition Agreement; and

(ii) the conditional agreement (the "1% Acquisition Agreement") dated 26 August 2008 entered into between 汕頭市廣商包裝有限公司 (Shantou Guang Shang Packaging Co., Ltd.*), and the Company in connection with the proposed acquisition of the 1% of the equity interests in Sichuan Xinhua Shang Paper Co., Ltd. for a consideration of RMB243,062 (equivalent to approximately HK$276,521), which will be payable by the Company in full in cash, a copy of which has been produced at the EGM marked "B" and signed by the chairman of the

* *For identification purposes only*

EGM for identification purpose, be and is hereby approved, confirmed and ratified, the transactions contemplated in the 1% Acquisition Agreement be and are hereby approved, and the directors of the Company be and are hereby authorised to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the 1% Acquisition Agreement."

By order of the Board
SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.*
Gong Cimin
Chairman

Sichuan, the PRC, 29 August 2008

Notes:

1. The register of members of the Company will be closed from 17 September 2008 to 16 October 2008 (both days inclusive), during which period no transfer of shares of the Company can be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares of the Company) or the head office in the PRC of the Company (for holders of domestic shares of the Company), no later than 4:30 p.m. on 16 September 2008.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and, in the event of a poll, vote on their behalves. A proxy need not be a member of the Company.

3. In order to be valid, the proxy form must be deposited by hand or post, for holders of H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares of the Company, to the head office in the PRC of the Company not less than 24 hours before the time for holding the EGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the EGM or any adjourned meetings should you so wish.

4. Shareholders or their proxies shall produce their identity documents when attending the EGM.

5. Shareholders who intend to attend the EGM should complete the reply slip and return it by hand or by post to the H share registrar of the Company (for holders of H shares of the Company) or to the head office in the PRC of the Company (for holders of the domestic shares of the Company) on or before 26 September 2008.

6. The EGM is expected to take one hour. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.

7. The head office in the PRC of the Company is as follows:

No. 6 Wenxuan Road
Shang Mao Avenue, Cheng Bei
Chengdu, Sichuan 610081
PRC

As at the date of this notice, the board of directors of the Company comprises (a) Mr. Gong Cimin and Mr. Zhang Bangkai as executive directors; (b) Ms. Wang Jianping, Mr. Zhang Chengxing, Mr. Li Jiawei, Mr. Luo Jun, Mr. Yu Changjiu, Mr. Wu Qiang, Mr. Mo Shixing and Mr. Zhao Junhuai as non-executive directors; and (c) Mr. Han Xiaoming, Mr. Cheng Sanguo and Mr. Chan Yuk Tong as independent non-executive directors.

* *For identification purposes only*