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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 accompanying 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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**winshare** 文軒

## **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)**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: (1) PRODUCTS SALES AND COOPERATION FRAMEWORK AGREEMENT; AND (2) PUBLICATIONS PURCHASE FRAMEWORK AGREEMENT**

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



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A letter from the Board is set out on pages 5 to 23 of this circular.

A letter from the Independent Board Committee is set out on pages 24 to 25 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 26 to 53 of this circular.

The notice (the "EGM Notice") for convening the extraordinary general meeting (the "EGM") of the Company to be held at Sichuan Xinhua International Hotel, No. 8 Guzhongshi Street, Qingyang District, Chengdu, Sichuan, the People's Republic of China (the "PRC") at 10:00 a.m. on Thursday, 21 January 2021 was despatched on Monday, 7 December 2020 and published on the website of the Stock Exchange (<http://www.hkexnews.hk>).

A form of proxy for use at the EGM was despatched on Monday, 7 December 2020 and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to 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 EGM (i.e. 10:00 a.m. on Wednesday, 20 January 2021) or not less than 24 hours before the time for the holding of any adjournment thereof or not less than 24 hours 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 EGM or any adjournment thereof should you so wish.

#### **PRECAUTIONARY MEASURES FOR THE EGM**

To safeguard the health and safety of Shareholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM of the Company:

- (1) Compulsory temperature screening/checks;
- (2) Submission of Health and Travel Declaration Form;
- (3) Wearing of surgical face mask; and
- (4) No provision of refreshments or drinks.

**Attendees who do not comply with the precautionary measures referred to in (1) to (4) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.**

\* For identification purposes only

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 19 November 2020 in relation to, among other things, the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement
“Articles of Association”	the articles of association of the Company (as revised from time to time)
“associate(s)”	has the meaning as ascribed to this term under the Listing Rules
“Board”	the board of Directors of the Company
“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
“Chengdu Hua Sheng”	Chengdu Hua Sheng (Group) Industry Co., Ltd.* (成都市華盛(集團)實業有限公司)
“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 A shares and H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange, respectively
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Digital Reading Contents”	copyright works produced and uploaded by Winshare Online to a platform for end users to read via PCs, e-book readers or mobile phones, which are based on the e-book contents and the online novels with legitimate rights that are delivered to Winshare Online by the Group under the Products Sales and Cooperation Framework Agreement
“Directors”	the directors of the Company

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## DEFINITIONS

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“EGM”	the annual general meeting of the Company to be held at 10:00 a.m. on 21 January 2021 (Thursday) 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries (for the purpose of the Products Sales and Cooperation Framework Agreement, the Publications Purchase Framework Agreement, the 2018 Products Sales and Cooperation Framework Agreement and the 2018 Publications Purchase Framework Agreement, excluding Winshare Online)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Independent Financial Adviser”	Halcyon Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Products Sales and Cooperation Framework Agreement and 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 and Distribution Group and its associates
“Independent Third Party(ies)”	persons(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

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## DEFINITIONS

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“Latest Practicable Date”	31 December 2020, 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
“Non-self-owned Publications”	Publications not published by the publishers under the Group (for the purpose of transactions under the Products Sales and Cooperation Framework Agreement, all of which are publications that Winshare Online cannot purchase from third parties)
“Own Publications”	publications published by the publishers under the Group
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Products Sales and Cooperation Framework Agreement”	a framework agreement dated 19 November 2020 entered into between the Company and Winshare Online in connection with (i) the sales of the Publications For Sale and the Digital Reading Contents to Winshare Online by the Group; and (ii) the joint operation of the sales business of the online bookstore via the e-commerce platform between the Group and Winshare Online for the period from 1 January 2021 to 31 December 2023
“Publications For Sale”	Own Publications and Non-self-owned Publications sold by the Group to Winshare Online under the Products Sales and Cooperation Framework Agreement
“Publications Purchase Framework Agreement”	the framework agreement dated 19 November 2020 to be entered into between the Company and Winshare Online in connection with the purchase of the Purchased Publications by the Group from Winshare Online for the period from 1 January 2021 to 31 December 2023
“Purchased Publications”	the publications purchased from Winshare Online by the Group under the Publications Purchase Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Shareholder(s)”	shareholder(s) of the Company
“Sichuan Xinhua Publishing and Distribution Group”	Sichuan Xinhua Publishing and Distribution Group Co., Ltd.* (四川新華出版發行集團有限公司), a state-owned entity established in the PRC which is the controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 subsidiary of the Company which is owned as to 75% and 25% by the Company and Sichuan Xinhua Publishing and Distribution Group as at the Latest Practicable Date
“2018 Products Sales and Cooperation Framework Agreement”	the framework agreement dated 26 March 2018 entered into between the Company and Winshare Online (as supplemented and amended by the 2018 Products Sales and Cooperation Framework supplementary Agreement) in connection with (i) the sales of the Publications For Sale and the Digital Reading Contents to Winshare Online from the Group; and (ii) the joint operation of the sales business of the online bookstore via the e-commerce platform between the Group and Winshare Online for the period between 30 May 2018 and 31 December 2020, details of which are set out in the announcement of the Company dated 26 March 2018
“2018 Products Sales and Cooperation Framework Supplementary Agreement”	the supplementary agreement dated 6 November 2019 entered into between the Company and Winshare Online pursuant to the amendments of certain terms listed in the 2018 Products Sales and Cooperation Framework Agreement, details of which are as set out in the announcement of the Company dated 6 November 2019
“2018 Publications Purchase Framework Agreement”	the framework agreement dated 26 March 2018 entered into between the Company and Winshare Online in connection with the purchase of the Purchased Publications by the Group from Winshare Online for the period from 20 April 2018 to 31 December 2020, details of which are set out in the announcement of the Company dated 26 March 2018
“%”	per cent

**winshare** 文軒

**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*)

*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

*Principal Place of Business*

*in Hong Kong:*

40th Floor

Sunlight Tower

248 Queen's Road East

Wanchai

Hong Kong

4 January 2021

*To the Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS:**

**(1) PRODUCTS SALES AND COOPERATION FRAMEWORK  
AGREEMENT; AND**

**(2) PUBLICATIONS PURCHASE FRAMEWORK AGREEMENT**

**INTRODUCTION**

Reference is made to the Announcement in relation to, among other things, the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

\* For identification purposes only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with (i) further details of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the transactions contemplated thereunder; (ii) a letter setting out the opinions and recommendations from the Independent Board Committee to the Independent Shareholders regarding the Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement.

The major terms of the Products Sales and Cooperation Framework Agreement are set out below.

### **Products Sales and Cooperation Framework Agreement**

The Company and Winshare Online entered into the Products Sales and Cooperation Framework Agreement on 19 November 2020, pursuant to which the Group shall sell the Publications For Sale and the Digital Reading Contents to Winshare Online, and the Group shall cooperate with Winshare Online to engage in the sales business of the online bookstore via the e-commerce platform during the period from 1 January 2021 to 31 December 2023.

### **Major Terms of the Products Sales and Cooperation Framework Agreement:**

Date:	19 November 2020
Term:	1 January 2021 to 31 December 2023 (both days inclusive)
Parties:	(1) the Company (on behalf of the Group) as supplier (2) Winshare Online as purchaser
Nature of transaction:	(1) The Group shall sell the Publications For Sale and the Digital Reading Contents to Winshare Online, which will be used for wholesale and retailing by Winshare Online; and (2) Winshare Online shall cooperate with the Group to engage in the sales business of the online bookstore via the e-commerce platform.
Means of transaction:	(1) The means of transaction of the Publications For Sale is by way of a combination of wholesale and retail, and the Group shall deliver the Publications For Sale ordered by Winshare Online to the place as designated by Winshare Online.

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## LETTER FROM THE BOARD

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- (2) The means of transaction for the Digital Reading Contents is that the Group shall deliver the Digital Reading Contents to Winshare Online, which will be produced and uploaded to a platform by Winshare Online for reading by users. At the same time, the Group shall obtain a photocopy or scanned copy of the contract regarding the copyrights of authorised works and issue a written authorisation of authorised works to Winshare Online.
- (3) The Group shall establish an online bookstore via the e-commerce platform and shall engage Winshare Online to operate and manage the same.

- Price and payment term:
- (1) The Group shall sell the Publications For Sale and the Digital Reading Contents to Winshare Online through sale contracts or orders. Details of which shall set out, among others, the pricing and payment terms of the Publications For Sale and the Digital Reading Contents.
  - (2) Regarding the cooperation between Winshare Online and the Group to engage in the sales business of the online bookstore via the e-commerce platform, matters including the means of cooperation, sharing of shop expenses, cooperation fee and means of settlement shall be agreed between Winshare Online and the Company by entering into cooperation agreements.

The settlement of payment for the Publications For Sale and the Digital Reading Contents shall be agreed between the Group and Winshare Online having regard to transaction prices or pricing for different types and quantities of the Publications For Sale and the Digital Reading Contents under each sales contract or order and the actual sales conditions. Unless otherwise agreed by the parties, the settlement of payment for each sales contract or order shall be made by cash or bank drafts within one month upon actual business engagement between the parties.

The settlement of payment for the sales business of the online bookstore shall be agreed between the Group and Winshare Online having regard to the means of cooperation, sharing of shop expenses, cooperation fee and means of settlement.

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## LETTER FROM THE BOARD

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Option to renew: Subject to the applicable Listing Rules and the approval(s) of the Board and/or Independent Shareholders (if required), the Company may separately enter into a written products sales and cooperation framework agreement upon serving a written notice to Winshare Online prior to the expiry of the Products Sales and Cooperation Framework Agreement.

Condition precedent: The Products Sales and Cooperation Framework Agreement is conditional upon, among others, the Company having obtained the Independent Shareholders' approval of the Products Sales and Cooperation Framework Agreement and the transactions contemplated thereunder.

### *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. In determining the Discount, the publishers will take into account the integrated production costs of the books (including compilation costs, printing costs, copyrights licensing fees, etc.) and the reasonable profits. The cost ratio of the relevant publications is determined with reference to the formula:  $(\text{Retail Price} - \text{Discount}) / \text{Retail Price} \times 100\%$ . The integrated purchase costs of a book category refer to the overall average purchase cost ratio of the relevant publications during a particular financial year, which is calculated with reference to the formula:  $(\text{Total retail price of a book category} - \text{Total discount of a book category}) / \text{Total retail price of a book category} \times 100\%$ .

The transaction price of the Own Publications shall be determined by the parties on normal commercial terms through arm's length negotiation with reference to the integrated production costs of the Own Publications and the integrated market price of the Own Publications, which shall be basically the same as the agreed transaction price and the integrated transaction price for transactions between the parties and Independent Third Parties.

The transaction price of the Non-self-owned Publications shall be determined by the parties on normal commercial terms through arm's length negotiation with reference to the integrated purchase cost and reasonable profits of the Non-self-owned Publications. Upon satisfaction of the conditions above, the transaction price at which the single publications are sold by the Group to Winshare Online may be set by adding 1.5 to 3.5 percentage points to the purchase cost ratio, with reference to historical organization and management costs of publications incurred and depletion and marketing expenses in commodity transportation and management incurred from the transactions with the Group (other than special products).

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## LETTER FROM THE BOARD

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The transaction price of the Digital Reading Contents shall be determined by the parties on normal commercial terms through arm's length negotiation based on the proportion of reading revenue or the formula of fixed unit price times actual quantity on shelf. The revenue arising therefrom is shared among Winshare Online and the Group pursuant to the specific purchase agreement. The proportion of the agreed revenue sharing and the revenue-sharing between the parties and the Independent Third Parties shall be basically the same. There are two mechanisms in determining the settlement price of the Digital Reading Contents: (i) based on the total revenue arising from purchases and/or rental of the Digital Reading Contents made by end users of the online sales platform according to a specified revenue sharing ratio between Winshare Online and the Group; or (ii) based on the types of the Digital Reading Contents made available on the online sales platform, calculated according to: the actual quantity of the types of the Digital Reading Contents made available x the agreed fixed unit price. The selection of either settlement mechanism with respect to the Digital Reading Contents shall be determined after negotiation between the parties with reference to the prevailing market demands (which are primarily divided into general categories and best-selling categories) and the settlement mechanism which is estimated to be more favourable to the Group shall be selected. The Digital Reading Contents of general categories adopt a settlement mechanism based on reading revenue sharing, and the Digital Reading Contents of best-selling categories adopt a settlement mechanism with a fixed unit price. Generally, (i) the revenue-sharing ratio between Winshare Online and the Group lies between 30%:70% and 40%:60%; and (ii) the fixed unit lies between RMB30 and RMB100 per unit, which are in line with the prevailing market practice.

The pricing offered by the Group to Winshare Online in respect of the provision of the Publications For Sale and the Digital Reading Contents shall be no less favourable to the average pricing offered to no less than two Independent Third Parties who are engaged in similar business to ensure that the final pricing for the Publications For Sale and the Digital Reading Contents is fair and reasonable.

With respect to the sales business of the online bookstore, the Company shall determine the cooperation fee based on the integrated market price of the services provided to the Independent Third Parties with respect to the cooperation in accordance with the principle of market pricing for online shop operations. The transaction price agreed under the cooperation agreement and the transaction price between the parties and the market players who are Independent Third Parties shall be basically the same.

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## LETTER FROM THE BOARD

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### *Historical caps and transaction amounts*

The following table summarises the historical cap amounts for the 2018 Products Sales and Cooperation Framework Agreement for each of the three years ended 31 December 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the year ended 31 December 2020 (RMB'000)</b>
<b>Annual cap</b>			
Own Publications, Non-self-owned Publications and Digital Reading Contents	138,500	198,200	277,600
Online bookstore cooperation business	1,500	1,800	2,400
<b>Total</b>	<b><u>140,000</u></b>	<b><u>200,000</u></b>	<b><u>280,000</u></b>

The following table summarises the relevant historical transaction amounts for the 2018 Products Sales and Cooperation Framework Agreement for each of the two years ended 31 December 2019 and the eleven months ended 30 November 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the eleven months ended 30 November 2020 (RMB'000)</b>
<b>Historical transaction amounts</b>			
Own Publications, Non-self-owned Publications and Digital Reading Contents	9,698	125,869	121,367
Online bookstore cooperation business	330	330	330
<b>Total</b>	<b><u>10,028</u></b>	<b><u>126,199</u></b>	<b><u>121,697</u></b>

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## LETTER FROM THE BOARD

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### *Annual caps and basis for determining the annual caps*

In considering the annual caps under the Products Sales and Cooperation Framework Agreement, the Board has considered a number of factors including:

- (i) the historical transaction amounts of the Own Publications, Non-self-owned Publications and Digital Reading Contents sold and the online bookstore cooperation business under the 2018 Products Sales and Cooperation Framework Agreement during the last three years;
- (ii) the significant progress of the Group's efforts to revitalise publishing in recent years, the increasing market influence and market share of the Own Publications and the revenue growth of 36.43% and 12.96% in the sales of own general books published by the Group in 2018 and 2019, respectively. The Group's future development plans in respect of its publication segment and the synergic development strategies among business segments will facilitate the sales growth of the Own Publications through various channels;
- (iii) the rapid growth trend in the PRC e-commerce market and the favourable policies introduced by the PRC government on the cultural and publication industries in recent years, contributing to Winshare Online's positive expectation for its future business development and the expected additional demand for the publications derived therefrom;

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

<b>Title</b>	<b>Issued on</b>	<b>Published by</b>	<b>Relevant contents</b>
「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.

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## LETTER FROM THE BOARD

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<b>Title</b>	<b>Issued on</b>	<b>Published by</b>	<b>Relevant contents</b>
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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## LETTER FROM THE BOARD

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Title	Issued on	Published by	Relevant contents
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.

- (iv) under the strategic background of the Group's continuous and deepening progress towards "Revitalising the publishing industry in Sichuan", the Group will accomplish the synergic development among the publication segment and various sales channels in the future through increasing its sales efforts for Own Publications and utilizing the massive user base and years of user data owned by Winshare Online to design market-oriented products in collaboration with publication segment, and hence improve sales contribution of the Own Publications with diversified marketing approaches. Taking into account factors described in (ii), (iii) and this paragraph, the average sales growth of the Own Publications through the Group's internet channels is estimated to be approximately 30%-40% per annum in the upcoming three years;
- (v) the possible increment of purchase costs of publications from time to time under the effect of inflation. According to the national consumer price index published on the website of the National Bureau of Statistics, the annual growth rate of the national consumer price index has been in the range of 1.4%-2.9% over the recent 5 years; and
- (vi) the existing 7 online bookstores and the estimated 5 to 10 additional online bookstores to be opened by the Group in next three years and the annual fee standards set by each online bookstore.

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## LETTER FROM THE BOARD

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Having considered the above factors, the Board proposes that the annual cap for the Products Sales and Cooperation Framework Agreement for each of the three years ending 31 December 2023 shall be as follows:

	For the year ending 31 December 2021 <i>(RMB'000)</i>	For the year ending 31 December 2022 <i>(RMB'000)</i>	For the year ending 31 December 2023 <i>(RMB'000)</i>
<b>Annual cap</b>			
Own Publications, Non-self-owned Publications and Digital Reading Contents	319,250	469,000	689,000
Online bookstore cooperation business	<u>750</u>	<u>1,000</u>	<u>1,000</u>
<b>Total</b>	<b><u>320,000</u></b>	<b><u>470,000</u></b>	<b><u>690,000</u></b>

### **Publications Purchase Framework Agreement**

On 19 November 2020, the Company has entered into the Publications Purchase Framework Agreement with Winshare Online, pursuant to which the Group shall purchase the Purchased Publications from Winshare Online for the period from 1 January 2021 to 31 December 2023.

### **Major Terms of the Publications Purchase Framework Agreement:**

Date:	19 November 2020
Term:	1 January 2021 to 31 December 2023 (both days inclusive)
Parties:	(1) the Company (on behalf of the Group) as purchaser (2) Winshare Online as supplier
Nature of transaction:	The Group shall purchase the Purchased Publications from Winshare Online for sales by the Group.
Means of transaction:	The means of transaction of the Purchased Publications is by wholesale where Winshare Online shall deliver the Purchased Publications ordered by the Group to the place as designated by the Group.

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## LETTER FROM THE BOARD

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Price and payment term: The Group shall purchase the Purchased Publications through purchase contracts or orders. Details of which shall set out, among others, the pricing and payment terms of the Purchased Publications.

The settlement of payment shall be agreed between the Group and Winshare Online having regard to the types and quantities of the Purchased 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.

Option to renew: Subject to the applicable Listing Rules and the approvals of the Board and/or the Independent Shareholders (if required), the Company may separately enter into a written publications purchase framework agreement upon serving a written notice to Winshare Online prior to the expiry of the Publications Purchase Framework Agreement.

Conditions precedent: The Publications Purchase Framework Agreement is conditional upon, among others, the Company having obtained the Independent Shareholders' approval of the Publications Purchase Framework Agreement and the transactions contemplated thereunder.

### *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 with reference to the formula:  $(\text{Retail Price} - \text{Discount}) / \text{Retail Price} \times 100\%$  (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 with reference to the formula:  $(\text{Total retail price of a book category} - \text{Total discount of a book category}) / \text{Total retail price of a book category} \times 100\%$ .

With respect to the Non-self-owned 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 and reasonable profits during the relevant financial year and the integrated market price at which the same type of products are offered to the Independent Third Parties by Winshare Online with respect to the Purchased Publications on the same

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## LETTER FROM THE BOARD

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conditions. The transaction price so agreed shall be basically the same as that of the transactions entered into between the parties and Independent Third Parties of similar scale. Upon satisfaction of the conditions above, the transaction price at which the single publications are sold by Winshare Online to the Company may be set by adding 1.5 to 3.5 percentage points to the purchase cost ratio, with reference to historical organization and management costs of publications incurred and depletion and marketing expenses in commodity transportation and management incurred from the transactions with the Group (other than special products).

With respect to the Own Publications purchased by Winshare Online from the Group, the transaction price of the Own Publications shall be the purchase price of Winshare Online, i.e. its selling price = its purchase price.

Winshare Online undertakes that the integrated price of the Purchased Publications supplied to the Group shall, under no circumstances, be higher than the price of the same type of publications offered to the Independent Third Parties of the Company with the same type of sales channels and sales scale. In the event the integrated 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 Group, the Group has the right to purchase such type of publications from another Independent Third Party. In addition, the Company's relevant professional departments will regularly review the purchase costs of the Company to ensure that the integrated purchase costs of the Purchased Publications purchased from Winshare Online are not higher than the external purchase costs and ensure that the price is reasonable.

### *Historical caps and transaction amounts*

The following table summarises the historical cap amounts and their relevant historical transaction amounts for the 2018 Publications Purchase Framework Agreement for each of the two years ended 31 December 2019 and the eleven months ended 30 November 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the eleven months ended 30 November 2020 (RMB'000)</b>
Annual cap	610,000	760,000	860,000
Historical transaction amounts	<u>319,204</u>	<u>626,923</u>	<u>472,085</u>

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## LETTER FROM THE BOARD

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### *Annual caps and basis for determining the annual caps*

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

- (i) the historical transaction amounts and the growth rate of the Purchased Publications under the 2018 Publications Purchase Framework Agreement during the last three years;
- (ii) the expected average annual growth rate of approximately 5%-10% for each of the sales channels of the Group in the upcoming three years based on the Group's future business development plan of implementing strategies of "rejuvenating physical bookstores" and "rejuvenating the publishing industry in Sichuan", which aim to dig deeper into publication market segments, further promote online and offline channel integration and synergic development among business segments and enhance the overall sales capabilities of the Group, resulting in the expected additional demand for the publications in anticipation of the Group's business development; and
- (iii) the possible increase in purchase costs of the publications from time to time due to inflation. According to the national consumer price index published on the website of the National Bureau of Statistics, the annual growth rate of the national consumer price index has been in the range of 1.4%-2.9% over the recent 5 years.

Having considered the above factors, the Board proposes that the annual cap for the Publications Purchase Framework Agreement for each of the three years ending 31 December 2023 shall be as follows:

	<b>For the year ending 31 December 2021 (RMB'000)</b>	<b>For the year ending 31 December 2022 (RMB'000)</b>	<b>For the year ending 31 December 2023 (RMB'000)</b>
Annual cap	<u>820,000</u>	<u>960,000</u>	<u>1,120,000</u>

### **INTERNAL CONTROL POLICY**

With regard to Winshare Online's purchase of Own Publications and Digital Reading Contents from the Group, the price shall be determined by the relevant publishing house under the Group and Winshare Online according to changes in market conditions. The relevant administrative departments of the Company shall annually review the integrated production cost and the market price of the Own Publications and the Digital Reading Content of the publishing house of the Group upon the end of each financial year, including but not limited to reviewing the integrated purchase price offered by the Group to the Independent Third Parties for similar type of publications, to ensure the prices of the Own Publications and the Digital Reading Contents are executed in accordance with the pricing policy and the price is fair and reasonable.

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## LETTER FROM THE BOARD

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The pricing for the sale of Non-self-owned Publications to Winshare Online by the Group shall be proposed by the relevant business department of the Company and Winshare Online with the integrated pricing proposals, which will be further discussed and reviewed by the relevant functional administrative department of the Company. The pricing proposals will be confirmed with reference to the integrated purchase cost and will be further submitted to the management of the Company for approval and confirmation. The relevant administrative departments of the Company shall regularly review the integrated purchase cost of the Non-self-owned Publications at the end of the financial year to ensure that the price of the Non-self-owned Publications is not lower than its integrated purchase cost and the additional ratio is fair and reasonable, so as to ensure that the Non-self-owned Publications transaction is executed in accordance with the pricing policy.

The price at which the Purchased Publications are purchased by the Group from Winshare Online shall be proposed by the Group's physical sales channels and Winshare Online with the integrated pricing proposals, which will be further discussed and reviewed by the relevant functional administrative department of the Company, and the integrated pricing proposals will be determined with reference to prevailing market prices, i.e. the prices offered by independent third-party suppliers to independent third-party physical bookstores, upon entering into the proposed transaction. The integrated pricing proposals for the Purchased Publications purchased by the Group from Winshare Online shall be basically the same as the prevailing market prices. The integrated pricing proposals initially determined 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 Group shall generally verify quotation from no less than two publication suppliers who are Independent Third Parties to determine the market price. The relevant administrative departments of the Group shall regularly review the market price at the end of the financial year to ensure the purchase of the Purchased Publications 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.

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 month basis, to ensure that the annual caps for the connected transactions will not be exceeded.

The Group will engage the auditor of the Company to carry out annual review on the continuing connected transactions (including but not limited to the pricing policies and annual caps) every year in accordance with the requirement of Rule 14A.56 of the Listing Rules.

The transactions under the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement with Winshare Online for each financial period, as well as the conclusion made by the independent non-executive Directors on whether

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## LETTER FROM THE BOARD

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the relevant transactions are conducted on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole will be disclosed in annual reports and accounts of the Group.

The Board will ensure that the transaction amounts of the Products Sales and Cooperation Framework Agreement and 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 upon Independent Shareholders' approval, and the transactions are entered into in accordance with the relevant principles under the aforesaid agreements.

### **Reasons for and benefits of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement**

The Group has achieved integrated operation in publishing and distribution industry chain and is equipped with a business supporting platform. As one of the largest publishers in the region, the Group is considered the best supplier of Own Publications and the Digital Reading Contents of Winshare Online. As certain external suppliers of Non-self-owned Publications request to enter into cooperative agreements only with the Company (as a printed publications seller) to supply products, Winshare Online (as an online seller) is, therefore, unable to procure such products on its own. Therefore, the external supplier and the Company shall enter into the relevant agreement in respect of the Non-self-owned Publications, under which the Company will procure the Non-self-owned Publications from the external supplier and distribute them to Winshare Online. The Non-self-owned Publications will be sold through an online channel of Winshare Online, which will further expand the sales channels of the Company's Non-self-owned Publications to meet the consumption needs of various types of customers. Moreover, the collaborative sales of the Company and Winshare Online can mutually benefit both parties and enhance the sustainable development abilities of the Company.

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 principle business, and forms a part of the Group's publishing and distribution chain. The Products Sales and Cooperation Framework Agreement can capitalise on the experience and channels of Winshare Online in online sales to further promote the development of the Group's publications e-commerce business model and improve the Company's sustainability for long term development.

Winshare Online has continued to grow substantially in terms of sales size in recent 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 discounts for the e-commerce channel are far 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

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## LETTER FROM THE BOARD

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achieve independent purchase. Moreover, the other sales channels of the Group 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 that of 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 the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors whose views will be set out in the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" of this circular) consider that the Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **INFORMATION OF THE GROUP AND WINSHARE ONLINE**

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 and related services in relation to the publications and cultural products.

### **Connected relationship between the parties**

As at the Latest Practicable Date, Winshare Online is a 75% non-wholly owned subsidiary of the Company, while Sichuan Xinhua Publishing and Distribution Group, the controlling Shareholder of the Company, controls 25% of the voting power of Winshare Online. Sichuan Xinhua Publishing and Distribution Group is a large-scale state-owned cultural conglomerate that mainly focuses on publication distribution and also has its business scope extended to cultural tourism, media, and real estate development. The sole shareholder of Sichuan Xinhua Publishing and Distribution Group is Sichuan Development Holdings Co., Ltd., a wholly state-owned limited liability company funded and established by the Sichuan Provincial People's Government, which is mainly engaged in investment, financing and asset management. 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

As various applicable percentage ratios (other than the profits ratio) for the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are, on an annual basis, more than 5%, the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are 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, Mr. Chen Yunhua, Mr. Luo Jun and Mr. Zhang Peng may be regarded as having interests in the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement. As such, they have abstained from voting on the Board resolution for approving the two said agreements and the respective proposed annual cap amount for the transactions thereunder for each of the three years ending 31 December 2023. Save for the aforementioned Directors, none of the Directors has any material interests in the said two agreements.

In view of the interest of Sichuan Xinhua Publishing and Distribution Group in the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement, Sichuan Xinhua Publishing and Distribution Group and its associates, which are holding 623,382,470 A shares and 42,148,000 H Shares, approximately representing 53.94% of the total issued Shares as at the Latest Practicable Date, will abstain from voting at the EGM on the resolution in relation to the Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and 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.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

The EGM will be held at 10:00 a.m. on 21 January 2021 (Thursday) 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the transactions contemplated thereunder. At the EGM, the votes will be taken by poll.

The EGM Notice was despatched on Monday, 7 December 2020 and published on the website of the Stock Exchange (<http://www.hkexnews.hk>).

A form of proxy for use at the EGM was despatched on Monday, 7 December 2020 and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to 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 EGM (i.e. 10:00 a.m. on Wednesday, 20 January 2021) or not less than 24 hours before the time for the holding of any adjournment thereof or not less than 24 hours 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 EGM or any adjournment thereof should you so wish.

### VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, voting on all resolutions set out in the EGM Notice at the EGM shall be taken by way of poll pursuant to Article 95 of the Articles of Association of the Company.

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

### 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 Products Sales and Cooperation Framework Agreement and 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 26 to 53 of this circular.

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## LETTER FROM THE BOARD

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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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement. The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement, is set out on pages 24 to 25 of this circular.

The Board considers that the Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are in the interests of the Company and the Shareholders, and their terms and conditions 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 the Products Sales and Cooperation Framework Agreement and 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*

**winshare** 文軒

**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 January 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS:**

- (1) Products Sales and Cooperation Framework Agreement; and**  
**(2) Publications Purchase Framework Agreement**

We have been appointed as members of the Independent Board Committee to give our advice on the Product Sales and Cooperation Framework Agreement and 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 the circular dated 4 January 2021 (the “**Circular**”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular and the Letter from the Board unless the context otherwise requires.

Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise us on the Product Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 26 to 53 of the Circular.

Having considered the terms and conditions of the Product Sales and Cooperation Framework Agreement and 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 Product Sales and Cooperation Framework Agreement and 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 Product Sales and Cooperation Framework Agreement and 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

\* For identification purposes only

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM for approving the Product Sales and Cooperation Framework Agreement and 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*

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## LETTER FROM HALCYON CAPITAL LIMITED

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HALCYON CAPITAL LIMITED

11<sup>TH</sup> FLOOR

8 WYNDHAM STREET

CENTRAL

HONG KONG

4 January 2021

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the terms of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective 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 January 2021, 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 Products Sales and Cooperation Framework Agreement, the Group shall sell the Own Publications, the Non-self-owned Publications and the Digital Reading Contents from the Company to Winshare Online and cooperate with Winshare Online to engage in the sales business of the online bookstore via the e-commerce platform during the period from 1 January 2021 to 31 December 2023. The Letter from the Board further sets out the annual caps (the “**Sales Annual Caps**”) for the transactions under the Products Sales and Cooperation Framework Agreement for each of the three years ending 31 December 2023.

Pursuant to the Publications Purchase Framework Agreement, the Company agreed to purchase and Winshare Online agreed to sell the Purchased Publications from Winshare Online for the period from 1 January 2021 to 31 December 2023. The Letter from the Board further sets out the annual caps (the “**Purchase Annual Caps**”, together with the Sales Annual Caps, the “**Annual Caps**”) for the purchases of the Purchased Publications by the Company from Winshare Online for each of the three years ending 31 December 2023.

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## LETTER FROM HALCYON CAPITAL LIMITED

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As at the Latest Practicable Date, Winshare Online was a 75% non-wholly owned subsidiary of the Company and Sichuan Xinhua Publishing and Distribution Group controlled 25% of the voting power of Winshare Online. Sichuan Xinhua Publishing and Distribution Group is a large-scale state-owned cultural conglomerate that mainly focuses on publication distribution and also has its business scope extended to cultural tourism, media, and real estate development. The sole shareholder of Sichuan Xinhua Publishing and Distribution Group is Sichuan Development Holdings Co., Ltd., a wholly state-owned limited liability company funded and established by the Sichuan Provincial People's Government, which is mainly engaged in investment, financing and asset management. Since Sichuan Xinhua Publishing and Distribution 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 transactions contemplated under each of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement constitute continuing connected transactions of the Company pursuant to Rule 14A.25 of the Listing Rules.

Given the relevant percentage ratios, using each the Annual Caps as the numerator, exceed 5% and each of the Annual Caps is more than HK\$10,000,000, the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A 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 each of the Products Sales and Cooperation Framework Agreement, the Publications Purchase Framework Agreement and the respective transactions contemplated thereunder and the basis for determining the Annual Caps are fair and reasonable, and the entering into of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are 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 EGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are 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 the 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 EGM.

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## LETTER FROM HALCYON CAPITAL LIMITED

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### 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 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 Products Sales and Cooperation Framework Agreement, the Publications Purchase Framework Agreement, the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), the audited consolidated financial statements of Winshare Online for the years ended 31 December 2017, 2018 and 2019 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 Products Sales and Cooperation Framework Agreement and 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, online performance, profitability or the prospects of the Group, Sichuan Xinhua Publishing and Distribution Group, Winshare Online or any of their respective subsidiaries or associates.

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# LETTER FROM HALCYON CAPITAL LIMITED

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective 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 mainly engaged in sales of books, newspapers, journals, electronic publications; wholesale of audio-visual products (for exclusive purpose of chain store); manufacture of electronic publications and audio-visual products; production of audio tapes, video tapes; logistics; and wholesale and retail of pre-packaged food, dairy products (not including infant formula, solely operated by branch office management); printing of publications, printed matters of package and decoration and other printed matters; plate-leased printing and supply of textbooks; investments in publications and assets management; leasing of properties; business services; wholesale and retail of goods; import and export business; vocational skills training; education ancillary services; catering business and ticketing agency.

#### *Growth in revenue*

Set out below is the revenue recorded by the Group for the two years ended 31 December 2019 and six months ended 30 June 2019 and 2020 as extracted from the 2019 Annual Report and 2020 Interim Report, respectively.

	For the year ended 31 December			For the six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'million (audited)	RMB'million (audited)	RMB'million (audited)	RMB'million (unaudited)	RMB'million (unaudited)
Revenue	7,346	8,187	8,842	3,874	3,606
Operating costs	4,687	5,115	5,460	2,331	2,033

The Group experienced increases in revenue and operating costs during the three years ended 31 December 2019 and the growth rate during the period amounted to approximately 20.4% and 16.5%, respectively, while the Group experienced a decrease in revenue and operating costs of approximately 6.9% and 12.8%, respectively, for the six months ended 30 June 2020, as compared to the corresponding period in 2019.

As stated in the 2019 Annual Report, the increase in revenue for the year ended 31 December 2019 was mainly attributable to the growth in revenue from the general book publication, online sales and education service businesses. In particular, the Group recorded moderate growth in revenue in each of the publication segment and distribution segment, which amounted to approximately RMB2,639.2 million and RMB7,635.1 million, respectively, (before excluding inter-segment sales) for the year ended 31 December 2019. The increase in operating costs was mainly driven by the growth in sales.

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## LETTER FROM HALCYON CAPITAL LIMITED

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As stated in the 2020 Interim Report, the decrease in revenue for the six months ended 30 June 2020 was mainly due to the year-on-year decrease in sales revenue of the Group from the general book publication, physical store sales, education informatized and equipment businesses affected by the COVID-19 outbreak during the six months period ended 30 June 2020. The decrease in operating costs was in line with the decline in sales.

As further stated in the 2020 Interim Report, while firmly setting foot in the principal business of publishing and media, the Group will seize the opportunities arising from the development of the international cultural industry and utilise technology and capital as the driving force of transformation. By centring on big culture consumption service, the Group will implement the following strategies:

The Group will continue to further put into practice the strategy of “Revitalising the publishing industry in Sichuan Province” adhering to the “three key publishing” concepts with focus on the building of Winshare’s publishing business in continuously promoting the implementation of thematic publications and major publishing projects to achieve an improvement in quality and efficiency of Winshare’s publishing business. It will further push ahead the optimisation and upgrading of channels and the development of business integration on the education service business front, vigorously expanding the high school, vocational and preschool education service markets, strengthening the publication and distribution business of textbooks and supplementary materials as well as the education informatized and equipment business, and advancing new business expansion including research education, teacher training and online education. In addition to enhancing its collaborative service capabilities along the industry supply chain, the Group will optimise the cooperation with upstream suppliers and downstream sales channels, continue to expand its channels, and deepen its channel management capabilities to improve online sales scale and operating capabilities. It will also explore new business models, optimise business management mechanisms, and improve reading service capabilities to seek new profit growth drivers for physical bookstores. It will strengthen coordination in all respects along the supply chain, and enhance the comprehensive service capabilities at logistics, information, production and printing, and other platforms to provide strong support for the development of the Group’s business. By making use of the capital operations platform, the Group will gather social capital to continuously create a group of funds for the formation of a multi-level investment model integrating industry and finance with the aim of increasing income from capital operations and driving synergistic development between industrial operations and capital operations. On the basis of the existing platform of its journal and media segment, it will actively promote the development of media integration, and solidly advance the priorities of panda culture and national reading to create a new landscape in the media field.

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## LETTER FROM HALCYON CAPITAL LIMITED

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### *Impact of COVID-19*

As stated in the 2020 Interim Report, in a modern society with international division of labour and close collaboration, the outbreak of COVID-19 has a great impact on the global economy. Since the outbreak of COVID-19, various segments of the publishing industry such as content creation, production and printing, and offline sales, have been affected to varying extents. According to the statistics published by Open Book, in the first half of 2020, the overall book retail market decreased by 9.29% year-on-year. In particular, the online store channel increased by 6.74% year-on-year, whereas the physical store channel decreased by 47.36% year-on-year. However, objectively speaking, the outbreak of COVID-19 has also accelerated the transformation and upgrade of the publishing industry, allowed the players of the publishing industry to attach greater importance to integrated development, accelerated the layout of digital publishing business, and promoted the exploration of new technologies, new formats and new models.

### **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 and Distribution Group, being the controlling shareholder of the Company. As at the Latest Practicable Date, the Group is the sole supplier of Owned Publications to Winshare Online.

### *Growth in revenue*

As Winshare Online is a non-wholly owned subsidiary of the Company, the results of Winshare Online are 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 2019 as extracted from the audited financial statements of Winshare Online for the years ended 31 December 2017, 2018 and 2019, each of which were prepared under generally accepted accounting principles in the PRC.

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
Revenue	1,182	1,626	2,010
Operating costs	1,029	1,420	1,782

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## LETTER FROM HALCYON CAPITAL LIMITED

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The revenue of Winshare Online recorded a compound annual growth rate (“CAGR”) of approximately 30.4% during the three years ended 31 December 2019. For the year ended 31 December 2019, revenue of Winshare Online represented approximately 22.7% of the total revenue of the Group, as compared to approximately 16.1% for the year ended 31 December 2017. On the other hand, during the same period, Winshare Online recorded corresponding increase in cost at a CAGR of approximately 31.6% during the three years ended 31 December 2019. For the year ended 31 December 2019, cost of Winshare Online represented approximately 32.6% of the operating costs of the Group, as compared to approximately 22.0% for the year ended 31 December 2017.

### **2. Background and reasons for the entering into of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement**

As stated in the Letter from the Board, the Group has achieved integrated operation in publishing and distribution industry chain and is equipped with a business supporting platform. As one of the largest publishers in the region, the Group is considered the best supplier of Own Publications and the Digital Reading Contents of Winshare Online. As certain external suppliers of Non-self-owned Publications request to enter into cooperative agreements only with the Company (as a printed publications seller) to supply products, Winshare Online (as an online seller) is, therefore, unable to procure such products on its own. Therefore, the external supplier and the Company shall enter into the relevant agreement in respect of the Non-self-owned Publications, under which the Company will procure the Non-self-owned Publications from the external supplier and distribute them to Winshare Online. The Non-self-owned Publications will be sold through an online channel of Winshare Online, which will further expand the sales channels of the Company’s Non-self-owned Publications to meet the consumption needs of various types of customers. Moreover, the collaborative sales of the Company and Winshare Online can mutually benefit both parties and enhance the sustainable development abilities of the Company.

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 principal business, and forms a part of the Group’s publishing and distribution chain. The Products Sales and Cooperation Framework Agreement can capitalise on the experience and channels of Winshare Online in online sales to further promote the development of the Group’s publications e-commerce business model and improve the Company’s sustainability for long term development.

Winshare Online has continued to grow substantially in terms of sales size in recent 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 discounts for the e-commerce channel are far less than that for the physical channel. Based on its current sales size, Winshare Online has a stronger independent bargaining power and as advised by the

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## LETTER FROM HALCYON CAPITAL LIMITED

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Company, Winshare Online 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 Group 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 that of 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 the Shareholders, as a whole.

### *Our view*

As stated in the Letter from the Board, for 2021 and onwards, 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.

As advised by the Company, to the best of knowledge of the Company, as the Group is one of the largest publishers in the region and is in the leading position in educational related publications, certain external suppliers of Non-self-owned Publications request to enter into cooperative agreements only with the Company (as a printed publications seller) and Winshare Online is unable to procure these products on its own. Given Winshare Online is the only internet sales platform operated by the Group, the Company has been selling and will continue to sell the Non-self-owned Publications to Winshare Online in accordance with its "building an online and offline channel integration development model".

As analysed above, the revenue of Winshare Online has experienced growth in revenue at a CAGR of approximately 30.4% over the past three years, considerably exceeded the revenue growth rate of the Group during the same period. For the year ended 31 December 2019, the revenue of Winshare Online exceeded RMB2.0 billion, represented approximately 22.7% of the total revenue of the Group. Meanwhile, as stated above and as principally affected by the outbreak of COVID-19, the overall book retail market decreased by 9.3% year-on-year in the first half of 2020, while the sales through online store channel increased by 6.7% year-on-year, whereas the physical store channel decreased by 47.4% year-on-year.

Having considered the aforesaid and, in particular, the continuous growth in the business size of Winshare Online, the continuous transformation of bookstores and development of online bookstores, and as stipulated under the Products Sales and Cooperation Framework Agreement, the pricing offered by the Group to Winshare Online in respect of the provision of the Publications For Sale and the Digital Reading Contents shall be no less favourable to the average pricing offered to no less than two Independent Third Parties who are engaged in similar business to ensure that the final pricing for the Publications For Sale and the Digital Reading Contents is fair and reasonable, we concur with the view of the management of the Company that the entering into of the Products

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## LETTER FROM HALCYON CAPITAL LIMITED

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Sales and Cooperation Framework Agreement, in connection with the selling of Publications For Sale and the Digital Reading Contents to Winshare Online and the cooperation with Winshare Online to engage in the sales business of the online bookstore via the e-commerce platform during the period from 1 January 2021 to 31 December 2023, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

On the other hand, as advised by the Company, a general market practice, publishers generally offer better terms to internet stores than physical stores, and Winshare Online may be able to source certain publications at lower costs.

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 Purchased Publications offered by 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 scale. In the event the integrated 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 another Independent Third Party, 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 Purchased Publications by the Company from Winshare Online for the period from 1 January 2021 to 31 December 2023, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Products Sales and Cooperation Framework Agreement**

The principal terms of the Products Sales and Cooperation Framework Agreement are summarized in the following.

The Group shall sell the Publications For Sale and the Digital Reading Contents to Winshare Online, which will be used for wholesale and retail businesses by Winshare Online; and Winshare Online shall cooperate with the Group to engage in the sales business of the online bookstore via the e-commerce platform.

The settlement of payment for the Publications For Sale and the Digital Reading Contents shall be agreed between the Group and Winshare Online having regard to transaction prices or pricing for different types and quantities of the Publications For Sale and the Digital Reading Contents under each sales contract or order and the actual sales conditions. Unless otherwise agreed by the parties, the settlement of payment for each sales contract or order shall be made by cash or bank drafts within one month upon actual business engagement between the parties.

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The settlement of payment for the sales business of the online bookstore shall be agreed between the Group and Winshare Online having regard to the means of cooperation, sharing of shop expenses, cooperation fee and means of settlement.

The pricing policy of the Publications For Sale and the Digital Reading Contents under this agreement is further elaborated below.

#### **4. Principal terms of the Publications Purchase Framework Agreement**

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

The Group shall purchase the Purchased Publications from Winshare Online for sales by the Group.

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 Group and Winshare Online having regard to the types and quantities of these Purchased 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.

Winshare Online undertakes that the integrated price of the Purchased Publications supplied to the Group shall, under no circumstances, be higher than the price of the same type of publications offered to the Independent Third Parties with the same type of sales channels and sales scale. In the event the integrated 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 Group, the Group has the right to purchase such type of publications from another third party. In addition, the Company's relevant professional departments will regularly review the purchase costs of the Company to ensure that the integrated purchase costs of the Publications purchased from Winshare Online are not higher than the external purchase costs and ensure that the price is reasonable.

The pricing policy of the Purchased Publications under this agreement is further elaborated below.

**5. Pricing policies and internal control policies**

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 Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement or the Publications Purchase Framework Agreement, as the case may be:

*Pricing policy – Products Sales and Cooperation Framework Agreement*

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. In determining the Discount, the publishers will take into account the integrated production costs of the books (including compilation costs, printing costs, copyrights licensing fees, etc.) and the reasonable profits. The cost ratio of the relevant publications is determined with reference to the formula:  $(\text{Retail Price} - \text{Discount}) / \text{Retail Price} \times 100\%$ . The integrated purchase costs of a book category refer to the overall average purchase cost ratio of the relevant publications during a particular financial year, which is calculated with reference to the formula:  $(\text{Total retail price of a book category} - \text{Total discount of a book category}) / \text{Total retail price of a book category} \times 100\%$ .

The transaction price of the Own Publications shall be determined by the parties on normal commercial terms through arm’s length negotiation with reference to the integrated production costs of the Own Publications and the integrated market price of the Own Publications, which shall be basically the same as the agreed transaction price and the integrated transaction price for transactions between the parties and Independent Third Parties.

The transaction price of the Non-self-owned Publications shall be determined by the parties on normal commercial terms through arm’s length negotiation with reference to the integrated purchase cost and reasonable profits of the Non-self-owned Publications. Upon satisfaction of the conditions above, the transaction price at which the single publications are sold by the Group to Winshare Online may be set by adding 1.5 to 3.5 percentage points to the purchase cost ratio, with reference to historical organization and management costs of publications incurred and depletion and marketing expenses in commodity transportation and management incurred from the transactions with the Group (other than special products). We noted that such range is comparable to the range of increment charged by Winshare Online under the Publications Purchase Framework Agreement.

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## LETTER FROM HALCYON CAPITAL LIMITED

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The transaction price of the Digital Reading Contents shall be determined by the parties on normal commercial terms through arm's length negotiation based on the proportion of reading revenue or the formula of fixed unit price times actual quantity on shelf. The revenue arising therefrom is shared between Winshare Online and the Group pursuant to the specific purchase agreement. The proportion of the agreed revenue sharing and the revenue-sharing among the parties and the Independent Third Parties shall be basically the same. There are two mechanisms in determining the settlement price of the Digital Reading Contents:

- (i) based on the total revenue arising from purchases and/or rental of the Digital Reading Contents made by end users of the online sales platform according to a specified revenue sharing ratio between Winshare Online and the Group; or
- (ii) based on the types of the Digital Reading Contents made available on the online sales platform, calculated according to: the actual quantity of the types of the Digital Reading Contents made available x the agreed fixed unit price.

The selection of either settlement mechanism with respect to the Digital Reading Contents shall be determined after negotiation between the parties with reference to the prevailing market demands (which are primarily divided into general categories and best-selling categories) and the settlement mechanism which is estimated to be more favourable to the Group shall be selected. The Digital Reading Contents of general categories adopt a settlement mechanism based on reading revenue sharing, and the Digital Reading Contents of best-selling categories adopt a settlement mechanism with a fixed unit price. Generally, (i) the revenue-sharing ratio between Winshare Online and the Group lies between 30%:70% and 40%:60%; and (ii) the fixed unit price lies between RMB30 and RMB100 per unit, which are in line with the prevailing market practice.

The pricing offered by the Group to Winshare Online in respect of the provision of the Publications For Sale and the Digital Reading Contents shall be no less favourable to the average pricing offered to no less than two Independent Third Parties who are engaged in similar business to ensure that the final pricing for the Publications For Sale and the Digital Reading Contents is fair and reasonable.

With respect to the sales business of the online bookstore, the Company shall determine the cooperation fee (in relation to the sales business of the online bookstore via the e-commerce platform) based on the integrated market price of the services provided to the Independent Third Parties with respect to the cooperation in accordance with the principle of market pricing for online shop operations. The transaction price agreed under the cooperation agreement and the relevant transaction price among the parties and the market players who are Independent Third Parties shall be basically the same.

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## LETTER FROM HALCYON CAPITAL LIMITED

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### *Pricing policy – Publications Purchase Framework Agreement*

With respect to the Non-self-owned 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, a reasonable profit and the integrated market price at which the same type of products are offered to the Independent Third Parties by Winshare Online with respect to the Purchased Publications on the same conditions. The transaction price so agreed shall be basically the same as that of the transactions entered into among the parties and Independent Third Parties of similar scale. Upon satisfaction of the conditions above, 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, with reference to historical organization and management costs of publications incurred and depletion and marketing expenses in commodity transportation and management incurred from the transactions with the Group (other than special products).

With respect to the Own Publications purchased by Winshare Online from the Group, the transaction price of the Own Publications shall be the purchase price of Winshare Online, i.e. its selling price = its purchase price.

Winshare Online undertakes that the integrated price of the Purchased Publications supplied to the Group shall, under no circumstances, be higher than the price of the same type of publications offered to the Independent Third Parties with the same type of sales channels and sales scale. In the event the integrated 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 Group, the Group has the right to purchase such type of publications from another third party. In addition, the Company's relevant professional departments will regularly review the purchase costs of the Company to ensure that the integrated purchase costs of the Purchased Publications purchased from Winshare Online are not higher than the external purchase costs and ensure that the price is reasonable.

### *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, including:

- (i) With regard to Winshare Online's purchase of Own Publications and the Digital Reading Contents from the Group, the price shall be determined by the relevant publishing house under the Group and Winshare Online according to changes in market conditions. The relevant administrative departments of the Company will annually review the integrated production costs and the market

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prices of the Own Publications and the Digital Reading Contents of the publishing house of the Group upon end of each financial year, including but not limited to reviewing the integrated purchase price offered by the Group to the Independent Third Parties for similar type of publications, to ensure the prices of the Own Publications and the Digital Reading Contents are executed in accordance with the pricing policy and the price is fair and reasonable.

The pricing for the sale of Non-self-owned Publications to Winshare Online by the Group shall be proposed by the relevant business department of the Company and Winshare Online with the integrated pricing proposals, which will be further discussed and reviewed by the relevant functional administrative department of the Company. The pricing proposals will be confirmed with reference to the integrated purchase cost and will be further submitted to the management of the Company for approval and confirmation.

- (ii) The relevant administrative departments of the Company will regularly review the integrated purchase cost of Non-self-owned Publications at the end of the relevant financial year to ensure that the pricing of Non-self-owned Publications is not lower than its integrated purchase cost, and the additional ratio is fair and reasonable, so as to ensure that the Non-self-owned Publications transaction is executed in accordance with the pricing policy.
- (iii) The price at which the Purchased Publications are purchased by the Group from Winshare Online shall be proposed by the Group's physical sales channels and Winshare Online with the integrated pricing proposals, which will be further discussed and reviewed by the relevant functional administrative department of the Company, and the integrated pricing proposals will be determined with reference to prevailing market price, i.e. the prices offered by independent third-party suppliers to independent third-party physical bookstores, upon entering into the proposed transaction. The integrated pricing proposals for the Purchased Publications purchased by the Group from Winshare Online shall be basically the same as the prevailing market prices. The integrated pricing proposals initially determined will be further submitted to the management of the Company for approval and confirmation.
- (iv) During the review of the price offered by other Independent Third Parties, the relevant administrative departments of the Group shall generally verify quotation from no less than two publication suppliers who are Independent Third Parties to determine the market price. The relevant administrative departments of the Group shall regularly review the market price at the end of the financial year to ensure the purchase of the Purchased Publications 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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## LETTER FROM HALCYON CAPITAL LIMITED

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- (v) 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.
- (vi) The Group shall engage the auditor of the Company to carry out annual review on the continuing connected transactions (including but not limited to the pricing policies and annual caps) every year in accordance with the requirement of Rule 14A.56 of the Listing Rules.
- (vii) The transactions under the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement with Winshare Online for each financial period, as well as the conclusion made by the independent non-executive Directors on whether the relevant transactions are conducted on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole will be disclosed in annual reports and financial statements of the Group.
- (viii) The Board will ensure that the transaction amounts of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement during their validity period shall not exceed the estimated cap amounts approved under the authorisation of the Board prior to the taking effect upon Independent Shareholders' approval, and the transactions are entered into in accordance with the relevant principles under the aforesaid agreements.

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

### *Our analyses*

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). 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

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## LETTER FROM HALCYON CAPITAL LIMITED

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similar type of publications offered to the Independent Third Parties with the same type of sales channels and sales scale, we consider that the pricing of the Purchased Publications from Winshare Online are made on no less favourable terms to the Company than those available to Independent Third Parties, and, therefore, fair and reasonable.

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. The purchase price of publications offered to/by third parties will be compared to the purchase records in the EPR system adopted by the Company to ensure such publications are priced in accordance with the Pricing Policies and Internal Control Measures and the purchase prices (i), for Publications For Sale and the Digital Reading Contents, offered to Winshare Online are comparable to that offered to the Independent Third Parties; and (ii), for Purchased Publications, offered by Winshare Online are comparable to that offered from the Independent Third Parties.

Meanwhile, according to announcements of the Company dated 27 March 2019 and 30 March 2020 published on the web site of the Shanghai Stock Exchange and the Group has conducted reviews on the effectiveness of internal control of the Group as at 31 December 2018 and 2019, respectively. The abovementioned announcements stated that, as at each of the reporting dates, the Company has maintained an effective internal control on financial reporting and there were no material internal control deficiencies in the internal control on financial reporting.

Taking into account the fact that, among other things, the Company is able to monitor the purchase price attributable to each publication through the EPR 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 Purchased Publications from Winshare Online will be no higher than those to be purchased from other independent third parties.

We also note from the annual reports of the Company for the years ended 2018 and 2019 that the auditors and the independent non-executive Directors 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 2018 and 2019 were carried out in the accordance with the terms of the relevant publications purchase agreement. In particular, as stated in the annual reports of the Company for the years ended 2018 and 2019, the auditors of the Company confirmed that, among other things, the relevant continuing connected transactions carried out in the years ended 31 December 2018 and 2019 were carried out in the accordance with the terms of the relevant product sales and cooperation agreement or the publications purchase agreement (as the case may be) and nothing has come to the auditors attention that caused the auditors to believe that the transactions were not carried out, in all material respects, in the years ended 31 December 2018 and 2019, in accordance with the pricing policies of the Company.

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## LETTER FROM HALCYON CAPITAL LIMITED

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We have also obtained and reviewed the Company's minutes dated 8 April 2018 in relation to the determination of the Discount rate for Winshare Online (the "**Minutes**") and noted that the pricing procedures as stipulated in the Minutes are consistent with the Pricing Policies and Internal Control Measures. We have obtained and reviewed three sales transactions between the Company and Winshare Online and noted that the Discount rate is consistent with the information as contained in the Minutes. We have obtained and reviewed the digital reading contents cooperation agreement entered into between a subsidiary of the Company and Winshare Online, and two digital reading contents cooperation agreements entered into between such subsidiary of the Company and two Independent Third Parties, and noted that the pricing as contained in the relevant agreement with Winshare Online is consistent with the Pricing Policies and Internal Control Measures.

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
- (iv) the Group will duly disclose in the annual reports and financial statements the transactions under the Products Sales and Cooperation Framework Agreement and 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and concur with the Directors' view that the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are entered into on normal and commercial terms and the terms thereof are fair and reasonable.

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## LETTER FROM HALCYON CAPITAL LIMITED

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### 6. Rationale for determining the Annual Caps

Pursuant to Rule 14A.35 of the Listing Rules, each of the sale of the Publications For Sale and the Digital Reading Contents, cooperate with Winshare Online to engage in the sales business of the online bookstore via the e-commerce platform as outlined in section headed “Principal Terms of the Products Sales and Cooperation Framework Agreement” above, and the proposed purchase of the Purchased Publications as outlined in section headed “Principal Terms of the Publications Purchase Framework Agreement” above are required to be subject to the Annual Caps for each financial year of the Group up to 31 December 2023.

#### *The Sales Annual Caps*

The actual transaction amounts in respect of the transactions entered into pursuant to the 2018 Products Sales and Cooperation Framework Agreement for each of the two years ended 31 December 2019 and the eleven months ended 30 November 2020 are set out below:

	For the year ended 31 December 2018 <i>RMB'000</i>	For the year ended 31 December 2019 <i>RMB'000</i>	For the eleven months ended 30 November 2020 <i>RMB'000</i>	For the year ending 31 December 2020 <i>(Annualised)</i> <i>(Note 1)</i> <i>RMB'000</i>	Compound annual growth rate ("CAGR") from 2018 to 2020 <i>(Note 2)</i>
Purchase by					
Winshare Online					
from the Group	10,028	126,199	121,697	132,760	263.9%
Annual caps	140,000	200,000	<i>Not applicable</i>	280,000	41.4%
Utilisation Rate					
<i>(Note 3)</i>	7.2%	63.1%	<i>Not applicable</i>	47.4%	<i>Not applicable</i>

*Notes:*

- The transaction amounts for the year ending 31 December 2020 are annualised from the actual amounts for eleven months ended 30 November 2020.
- The calculation of compound annual growth rate is based on the annualised amount for the year ending 31 December 2020 and the amount for the year ended 31 December 2018.
- The calculation of utilisation rate is based on the transaction amounts divided by the annual caps of the respective financial year.

The transaction amount under the 2018 Products Sales and Cooperation Framework Agreement grew at a CAGR of approximately 263.9% during the two years ended 31 December 2019 and eleven months ended 30 November 2020, exceeding the growth rate in the then annual caps of a CAGR of approximately 41.4%, which was principally due to the relatively low utilization rate for the year ended 31 December 2018. While the utilization rate for the year ended 31 December 2019 increased to approximately 63.1%. As advised by the Company, the

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## LETTER FROM HALCYON CAPITAL LIMITED

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business of Winshare Online was adversely affected during the outbreak of COVID-19 as the logistic services were temporarily halt during the lock down period. Nevertheless, the annualized purchase by Winshare Online from the Company for the year ending 31 December 2020 (based on the transaction amount for the eleven months ended 30 November 2020) still represents an increase of approximately 5.2% as compared to that for the year ended 31 December 2019.

The table below further sets out the respective proposed Sales Annual Caps of the transactions under the Products Sales and Cooperation Framework Agreement for the three financial years ending 31 December 2021, 2022 and 2023:

	For the year ending 31 December			Growth rate of the proposed Sales Annual	
	2021	2022	2023	Caps from	CAGR from
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 to 2021	2021 to 2023
Sales Annual Caps	320,000	470,000	690,000	14.3%	46.8%

As stated in the Letter from the Board, in considering the Sales Annual Caps, the Directors have considered a number of factors including:

- (i) the historical transaction amounts of the Own Publications, Non-self-owned Publications and the Digital Reading Contents sold and the online bookstore cooperation business under the 2018 Products Sales and Cooperation Framework Agreement during the last three years;
- (ii) the significant progress of the Group's efforts to revitalise publishing in recent years, the increasing market influence and market share of the Own Publications and the revenue growth of 36.4% and 13.0% in the sales of own general books published by the Group in 2018 and 2019, respectively. The Group's future development plans in respect of its publication segment and the synergic development strategies among business segments will facilitate the sales growth of the Own Publications through various channels;
- (iii) the rapid growth trend in the PRC e-commerce market and the favourable policies introduced by the PRC government on the cultural and publication industries in recent years, contributing to Winshare Online's positive expectation for its future business development and the expected additional demand for the publications derived therefrom;

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## LETTER FROM HALCYON CAPITAL LIMITED

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- (iv) under the strategic background of the Group’s continuous and deepening progress towards “Revitalising the publishing industry in Sichuan”, the Group will accomplish the synergic development among the publication segment and various sales channels in the future through increasing its sales efforts for Owned Publications and utilizing the massive user base and years of user data owned by Winshare Online to design market-oriented products in collaboration with publication segment, and hence improve sales contribution of the Own Publications with diversified marketing approaches. Taking into account factors described in (ii), (iii) and this paragraph, the average sales growth of the Own Publications through the Group’s internet channels is estimated to be approximately 30%-40% per annum in the upcoming three years;
- (v) the possible increment of purchase costs of publications from time to time under the effect of inflation. According to the national consumer price index published on the website of the National Bureau of Statistics, the annual growth rate of the national consumer price index has been in the range of 1.4%-2.9% over the recent 5 years; and
- (vi) the existing 7 online bookstores and the estimated 5 to 10 additional online book stores to be opened by the Group in next three years and the annual fee standards set by each online bookstore.

### *The Purchase Annual Caps*

The actual transaction amounts in respect of the transactions entered into pursuant to the 2018 Publications Purchase Framework Agreement for each of the two years ended 31 December 2019 and the eleven months ended 30 November 2020 are set out below:

	For the year ended 31 December 2018 <i>RMB'000</i>	For the year ended 31 December 2019 <i>RMB'000</i>	For the eleven months ended 30 November 2020 <i>RMB'000</i>	For the year ending 31 December 2020 (Annualised) <i>(Note 1)</i> <i>RMB'000</i>	Compound annual growth rate ("CAGR") from 2018 to 2020 <i>(Note 2)</i>
Purchase by the Group from					
Winshare Online	319,204	626,923	472,085	515,002	27.0%
Annual caps	610,000	760,000	<i>Not applicable</i>	860,000	18.7%
Utilisation Rate <i>(Note 3)</i>	52.3%	82.5%	<i>Not applicable</i>	59.9%	<i>Not applicable</i>

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*Notes:*

1. The transaction amounts for the year ending 31 December 2020 are annualised from the actual amounts for eleven months ended 30 November 2020.
2. The calculation of the compound annual growth rate is based on the annualised amount for the year ending 31 December 2020 and the amount for the year ended 31 December 2018.
3. The calculation of utilisation rate is based on the transaction amounts divided by the annual caps of the respective financial year.

Although the transaction amount under the 2018 Publications Purchase Framework Agreement grew at a CAGR of approximately 27.0% during the two years ended 31 December 2019 and ten months ended 30 November 2020, it should be noted that the actual transaction amount for the year ended 31 December 2019 grew by approximately 96.4% and reached an utilization rate of approximately 82.5%. As stated above, since the outbreak of COVID-19, various segments of the publishing industry such as content creation, production and printing, and offline sales, have been affected to varying extents. According to the statistics published by Open Book, in the first half of 2020, the overall book retail market decreased by 9.3% year-on-year. In particular, the online store channel increased by 6.7% year-on-year, whereas the physical store channel decreased by 47.4% year-on-year. As the business of the Group in 2020 has unavoidably be adversely affected by the outbreak of COVID-19, we concur with the management that the actual transaction amount for the year ended 31 December 2019 served as a better benchmark than that of 2020.

The table below further sets out the respective proposed Purchase Annual Caps of the transactions under the Publications Purchase Framework Agreement for the three financial years ending 31 December 2021, 2022 and 2023:

	For the year ending 31 December			CAGR from 2021 to 2023
	2021	2022	2023	
	RMB'000	RMB'000	RMB'000	
Purchase Annual Caps	820,000	960,000	1,120,000	16.9%

As stated in the Letter from the Board, the Purchase Annual Caps stated above have been determined by reference to a number of factors including:

- (i) the historical transaction amounts and the growth rate of the Purchased Publications under the 2018 Publications Purchase Framework Agreement during the last three years;
- (ii) the expected average annual growth rate of approximately 5%-10% for each of the sales channels of the Group in the upcoming three years based on the Group's future business development plan of implementing strategies of "Rejuvenating physical bookstores" and "rejuvenating the publishing industry in Sichuan", which aim to dig deeper into publication market segments, further promote online and offline channel

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integration and synergic development among business segments and enhance the overall sales capabilities of the Group, resulting in the expected additional demand for the publications in anticipation of the Group's business development; and;

- (iii) the possible increase in purchase costs of the publications from time to time due to inflation. According to the national consumer price index published on the website of the National Bureau of Statistics, the annual growth rate of the national consumer price index has been in the range of 1.4%-2.9% over the recent 5 years.

### *Our analyses on the Annual Caps*

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.

According to 第十七次全國國民閱讀調查 (The Seventeenth China Nationals Reading Survey\*) conducted in 2019 by the Chinese Academy of Press and Publication<sup>1</sup>, the integrated national reading rate through all medias in the PRC in 2019 was approximately 81.1%, representing a slight increase from approximately 80.8% in 2018. The rate of access to digital reading methods was approximately 79.3%, representing an increase of approximately 3.1 percentage points as compared to approximately 76.2% in 2018; the book reading rate was approximately 59.3%, representing an increase of approximately 0.3 percentage points as compared to approximately 59.0% in 2018. In particular, the number of books read by minors (aged below 18) experienced a growth from approximately 8.9 in 2018 to approximately 10.4 in 2019. According to Web of Nationals Reading, national reading had been included in the government working report in the seventh consecutive year since 2014 and has become a basic livelihood project.

We have further reviewed an article published in Cyberspace Administration of China in May 2020 regarding reading methodologies of the public (the “**Article**”)<sup>2</sup>. According to the Article, the overall scale of digital reading market in the PRC reached approximately RMB28.9 billion in 2019, representing a growth rate of approximately 13.5% as compared to 2018, with number of users reaching 470 million. Meanwhile, significant increase in willingness to pay for e-books has been observed.

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<sup>1</sup> <http://www.nppa.gov.cn/nppa/contents/280/45906.shtml>

<sup>2</sup> [http://www.cac.gov.cn/2020-05/11/c\\_1590751834804929.htm](http://www.cac.gov.cn/2020-05/11/c_1590751834804929.htm)

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On the other hand, according to an article published in the Publishing & Press Bureau of Jiangsu in December 2019 regarding 2019年度全國出版物發行業發展報告 (2019 National Publication Industry Development Report\*) (the “**Report**”)<sup>3</sup>, the publications sales revenue in 2018 was approximately RMB374.4 billion, representing a growth of approximately 1.1%, while there was drop in profit of approximately 36.2%. According to the Report, there was increase in concentration in the industry and the total publications sales revenue of for the 20 largest issuers was approximately RMB115.8 billion, representing approximately 31.5% of the national sales revenue of publications, and 16 out of the 20 largest issuers belong to the Xinhua Group. Meanwhile, online bookstore experienced a considerable increase in publication sales revenue, which amounted to approximately RMB59.7 billion in 2018, representing a year-on-year increase of approximately 17.8% and represented approximately 15.9% of the total national publication sales revenue.

### *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:

<b>Title</b>	<b>Issued on</b>	<b>Published by</b>	<b>Relevant contents</b>
“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*) <sup>4</sup>	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.

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<sup>3</sup> [http://www.jssxwcbj.gov.cn/art/2019/12/11/art\\_34\\_66231.html](http://www.jssxwcbj.gov.cn/art/2019/12/11/art_34_66231.html)

<sup>4</sup> <http://www.nppa.gov.cn/nppa/contents/279/1764.shtml>

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## LETTER FROM HALCYON CAPITAL LIMITED

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Title	Issued on	Published by	Relevant contents
關於支持實體書店發展的指導意見 (Opinion in Supporting the Development of Physical Book Stores*) <sup>5</sup>	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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<sup>5</sup> [http://www.gov.cn/xinwen/2016-06/18/content\\_5083377.htm](http://www.gov.cn/xinwen/2016-06/18/content_5083377.htm)

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Title	Issued on	Published by	Relevant contents
全民閱讀“十三五”時期發展規劃 (The Thirteenth Five-Year Development Plan on Nationwide Reading*) <sup>6</sup>	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 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, subsequent to the announcement of the Opinion in Supporting the Development of Physical Book Stores\*, different provinces and cities have rolled out the implementation opinions in response to the Opinion in Supporting the Development of Physical Book Stores\* and to support the development of physical book stores. Given the Opinion in Supporting the Development of Physical Book Stores\* eyed on continuous development and support of physical book stores, new policies and measures have been rolled out continuously by different government authorities. For example, in July 2019, the Ministry of Education of the PRC announced關於進一步支援高校校園實體書店發展的指導意見 (Opinion in Further Supporting the Development of Physical Book Stores in High School Campus\*)<sup>7</sup>, which included the strengthening of construction planning and support of physical bookstores on campus. Colleges and universities should incorporate physical campus bookstores into the overall campus construction plan, and comprehensively consider factors such as campus area, functional zoning, distribution of people, and convenient transportation, so as to provide campus physical bookstores with a moderately scaled and appropriately located business space. Such opinion further added that all localities should support and guide eligible campus bookstores to actively strive for support policies and special support funds. Given different implementation opinions had been published over the past few years with policies and measures being implemented in accordance with the implementation opinions to facilitate and support the growth of physical book stores, we are of the view that aforesaid policies may continue to drive the sales of physical books in coming years.

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<sup>6</sup> <http://www.nationalreading.gov.cn/ReadBook/contents/6270/311647.shtml>

<sup>7</sup> [http://www.gov.cn/xinwen/2019-07/25/content\\_5415100.htm](http://www.gov.cn/xinwen/2019-07/25/content_5415100.htm)

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### *The Sales Annual Caps*

In respect of the Sales Annual Caps, we are advised by the management of the Company that the expected increase is principally driven by the increase in sales of Own Publications to Winshare Online. We noted that the National Press and Publication Administration published the Notice of the National Press and Publication Administration on Strengthening the Network Distribution Capacity Building of Xinhua Bookstore\* (國家新聞出版署關於加強新華書店網絡發行能力建設的通知) on 23 April 2019 (the “Notice”)<sup>8</sup>. According to the Notice, the industry shall gather its resources and be innovative in servicing methods, Xinhua Bookstore shall actively open up the upstream and downstream, and connect the industry chain, and promote the interconnection of information among publishers, distributors, libraries, consumers and other users. Moreover, the Notice targeted that a unified national Xinhua Bookstore online publication platform with important brand influence and comprehensive strength shall be formed by 2023. Meanwhile, we have obtained and reviewed an internal report of the Group in September 2020, according to which the Group shall emphasise on the promotion of its publications. As further stated in the 2019 Annual Report, according to the Open Book Data, in 2019, the Group ranked 7th in the mass publication market among 36 publishing groups nationwide, up by six places year-on-year. Books recording annual sales volume of more than 500,000 copies increased by 20 genres from 2018; and that recording annual sales volume of more than 20,000-100,000 copies increased by 120 genres from 2018, the highest level in recent years. In 2019, the Group had 33 genres shortlisted for various national-level projects, of which, ten genres were shortlisted for the projects funded by the National Publication Fund for 2019, four genres were shortlisted for the projects supported by special funds for ethnic writing, and seven genres were shortlisted for key publication projects in the national “13th Five-Year Plan”.

As advised by the Company, the business of Winshare Online was adversely affected during the outbreak of COVID-19 as the logistic services were affected during the lock down period. However, the annualized purchase by Winshare Online from the Company for the year ending 31 December 2020 (based on the transaction amount for the eleven months ended 30 November 2020) still represents an utilization rate of approximately 47.4% of the relevant annual cap for the year ending 31 December 2020. We noted that the Sales Annual Cap for the year ending 31 December 2021 only represent a growth of approximately 14.3% over the relevant annual cap for the year ending 31 December 2020, while the revenue of Winshare Online had recorded considerable growth at a CAGR of approximately 30.4% during 2017 to 2019.

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<sup>8</sup> <http://www.nppa.gov.cn/nppa/contents/312/74541.shtml>

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We have also obtained and reviewed the consumer price index of the PRC in the recent five years and noted that according to the National Bureau of Statistics, the consumer price index (with base year 1978=100) increased gradually during 2015 to 2019 from approximately 615.2 in 2015 to approximately 669.8 in 2019. Meanwhile, according to the International Monetary Fund, it is expected that PRC will continue to experience inflation and increase in average consumer prices during 2020 to 2025. Therefore, we concur with the management of the Group that the Sales Annual Caps shall cater for possible increase in purchase costs in the future.

Taking into account of the aforesaid, in particular the continuous growth and focus on the publications of the Group and the fact that the businesses of the Group and Winshare Online have maintained a growth momentum over the past years and the CAGR of the revenue was approximately 9.7% and 30.4%, respectively, from 2017 to 2019, we concur with the view of the management of the Company that the publication segment of the Group and Winshare Online is still expected to grow alongside with the industry in coming years, and we concur with the Directors' view that the basis of determining the Sales Annual Caps is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

### *The Purchase Annual Caps*

On the other hand, we noted that the Purchase Annual Cap for the year ending 31 December 2021 represents a growth of approximately 7.9% over the annual caps for the year ended 31 December 2019 and a decline of approximately 4.7% to the annual caps for the year ending 31 December 2020, and the Purchase Annual Caps for the three years ending 31 December 2023 increases at a CAGR of approximately 16.9%.

We have also obtained and reviewed the consumer price index of the PRC in the recent five years and noted that according to the National Bureau of Statistics, the consumer price index (with base year 1978=100) increased gradually during 2015 to 2019 from approximately 615.2 in 2015 to approximately 669.8 in 2019. Meanwhile, according to the International Monetary Fund, it is expected that PRC will continue to experience inflation and increase in average consumer prices during 2020 to 2025. Therefore, we concur with the management of the Group that the Purchase Annual Caps shall cater for possible increase in purchase costs in the future.

According to the 2019 Annual Report, the operating costs of the distribution segment of the Group was approximately RMB5,174.8 million for the year ended 31 December 2019. The largest Purchase Annual Caps represents approximately 21.6% of the operating costs of the distribution segment of the Group in 2019. We consider that, on one hand, the increase in Purchase Annual Caps represents a possible increase in purchases from Winshare Online which has grown considerably over the past years, while, on the other hand, there are pricing and internal control policies in place to safeguard the interests of the Group and the Shareholders.

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Taking into account of the aforesaid and the fact that the businesses of the Group has maintained a growth momentum over the past years, we concur with the view of the management of the Company that the businesses 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 Purchase Annual Caps 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 Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective transactions contemplated thereunder falls within the ordinary and usual course of business of the Company; (ii) the entering into of the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; (iii) the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement are 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(s) at the EGM to approve the Products Sales and Cooperation Framework Agreement and the Publications Purchase Framework Agreement and the respective 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 20 years of experience in corporate finance industry.*

## 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:* Mr. Chao Hsun is the spouse of Ms. Wu Wenqian who is indirectly interested in 53,336,000 A Shares through Chengdu Hua Sheng. Pursuant to the SFO, Mr. Chao Hsun is deemed to be interested in 53,336,000 A Shares of the Company indirectly held by Ms. Wu Wenqian through Chengdu Hua Sheng.

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 2019, 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		Class of Shares	Approximate percentage of the relevant class of Shares	Approximate percentage of the total issued share capital of the Company	Long position/ short position
	Directly or Indirectly Held	Capacity				
Sichuan Development	623,382,470	Interests in controlled corporation	A Shares	78.72%	50.52%	Long position
	39,916,000	Interests in controlled corporation (Note 1)	H Shares	9.03%	3.24%	Long position

Name of Shareholder	Number of Shares Directly or Indirectly Held	Capacity	Class of Shares	Approximate percentage of the relevant class of Shares	Approximate percentage of the total issued share capital of the Company	Long position/ short position
Sichuan Xinhua Publishing and Distribution Group	592,809,525	Beneficial owner	A Shares	74.86%	48.05%	Long position
	35,824,000 (Note2)	Interests in controlled corporation	H Shares	8.10%	2.90%	Long position
Chengdu Hua Sheng	53,336,000 (Note3)	Beneficial owner	A Shares	6.74%	4.32%	Long position
Wu Wenqian	53,336,000 (Note3)	Interests in controlled corporation	A Shares	6.74%	4.32%	Long position
Edgbaston Investment Partners LLP	21,936,000	Investment manager	H Shares	4.96%	2.50%	Long position
Seafarer Capital Partners, LLC	30,875,500	Investment manager	H Shares	6.99%	2.50%	Long position
	23,511,110	Interests in controlled corporation		5.32%	1.91%	Long position
Citigroup Inc.	300,000	Interests in controlled corporation	H Shares	0.06%	0.02%	Short position
	20,566,110	Approved lending agent		4.65%	1.67%	Lending Pool

*Note:* The data of H Shares are sourced from the “Disclosure of Interests” forms on the website of the Stock Exchange.

*Notes:*

1. Sichuan Development is the controlling shareholder of Sichuan Xinhua Publishing and Distribution Group and Sichuan Cultural Industry Investment Group Co., Ltd. According to the SFO, Sichuan Development is deemed to (i) indirectly hold 592,809,525 A Shares of the Company through Sichuan Xinhua Publishing and Distribution Group and 30,572,945 A Shares of the Company through Sichuan Cultural Industry Investment Group Co., Ltd., totalling 623,382,470 A Shares; and (ii) hold 33,592,000 H Shares of the Company through Sichuan Xinhua Publishing and Distribution Group and 6,324,000 H Shares of the Company through Sichuan Cultural Industry Investment Group Co., Ltd., totalling 39,916,000 H Shares.

2. Sichuan Xinhua Publishing and Distribution Group directly and indirectly through its wholly-owned subsidiary Shudian Investment Co., Ltd. holds 35,824,000 H Shares of the Company. Sichuan Xinhua Publishing and Distribution Group is directly interested in 592,809,525 A Shares of the Company.
3. Ms. Wu Wenqian is directly interested in 95% equity interests in Chengdu Hua Sheng. Accordingly, Ms. Wu Wenqian is deemed to hold 53,336,000 A Shares of the Company through Chengdu Hua Sheng.

#### 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 2019, 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:

<b>Name</b>	<b>Qualification</b>
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 2019, the date to which the latest published audited financial statement of the Group was made up.

## **9. DOCUMENTS FOR INSPECTION**

A copy of the Products Sales Cooperation Framework Agreement and 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.