二零零七

中期報告

Interim Report 2007

四川新華文軒連鎖股份有限公司

SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.*

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

（於中華人民共和國註冊成立之股份有限責任公司）

（股份代號 Stock Code：811）

* For identification purposes only

*僅供識別

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Corporate Information

Legal name of the company

四川新華文軒連鎖股份有限公司

Company name in English

SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.

Legal representative

Mr. Gong Cimin

Executive directors

Mr. Gong Cimin *(chairman)*
Mr. Dai Chuanping *(vice chairman)*
Mr. Yang Miao
Mr. Zhang Yexin

Non-executive directors

Ms. Wang Jianping
Mr. She Jingping
Mr. Li Jiawei
Mr. Wu Qiang
Mr. Mo Shixing

Independent non-executive directors

Mr. Han Xiaoming
Mr. Cheng Sanguo
Mr. Chan Yuk Tong

Board committees

Strategy planning committee

Mr. Cheng Sanguo *(chairman)*
Mr. Gong Cimin
Mr. Zhang Yexin

Audit committee

Mr. Chan Yuk Tong *(chairman)*
Mr. Han Xiaoming
Ms. Wang Jianping

Remuneration and review committee

Mr. Han Xiaoming *(chairman)*
Mr. Chan Yuk Tong
Mr. Zhang Yexin

Supervisors

Mr. Luo Jun *(chairman)*
Mr. Li Yunyi
Mr. Wang Feng
Mr. Peng Xianyi
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

Independent supervisors

Mr. Fu Daiguo
Mr. Li Guangwei

Joint company secretaries

Mr. You Zugang
Mr. Ngai Wai Fung

Qualified accountant

Mr. Mak Ming Fai

Authorised representatives

Mr. Zhang Yexin
Mr. You Zugang

Alternate authorised representative

Mr. Ngai Wai Fung

International auditor

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Compliance adviser

WAG Worldsec Corporate Finance Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Legal advisers

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Registered office in the PRC

12th Floor, No. 86 Section One
People's South Road, Qingyang District
Chengdu, Sichuan
China

Principal place of business in Hong Kong

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Principal bankers

The Industrial and Commercial Bank of China
China Construction Bank

Hong Kong H share registrar

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company website

http://www.winshare.com.cn

Stock code

811

Interim Condensed Consolidated Income Statement

		For the six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
Revenue	*3*	**997,441**	1,074,957
Cost of sales		**(569,234)**	(662,251)
Gross profit		**428,207**	412,706
Other income	*3*	**14,441**	8,573
Selling and distribution costs		**(187,455)**	(204,815)
Administrative expenses		**(77,897)**	(54,302)
Other expenses		**(37,174)**	(27,537)
Profit from operating activities	*4*	**140,122**	134,625
Finance income, net	*5*	**28,917**	2,728
Share of profits and losses of associates		**(2,305)**	(67)
Profit before tax		**166,734**	137,286
Income tax	*6*	**173**	—
Profit for the period		**166,907**	137,286
Attributable to:			
Equity holders of the parent		**167,613**	138,145
Minority interests		**(706)**	(859)
		166,907	137,286
Dividend	*7*	**70,943**	—
Earnings per share			
— basic	*8*	**0.21**	0.19
— diluted		**N/A**	N/A

Interim Condensed Consolidated Balance Sheet

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**421,678**	408,559
Lease prepayment for land use rights		**73,992**	73,056
Investment properties		**2,517**	2,470
Intangible assets		**25,745**	19,391
Investment in associates		**48,448**	50,753
Available-for-sale equity investments		**2,420**	2,420
Deferred tax assets	*10*	**48,066**	62,158
Properties under development		**124,167**	123,102
Other long-term assets		**701**	1,404
		747,734	743,313
Current assets			
Inventories	*11*	**355,548**	338,853
Trade receivables	*12*	**343,099**	321,201
Prepayments, deposits and other receivables		**166,255**	130,267
Cash and cash equivalents		**2,873,400**	873,026
		3,738,302	1,663,347
TOTAL ASSETS		**4,486,036**	2,406,660
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	*13*	**1,135,131**	733,370
Reserves	*13*	**2,318,621**	532,519
		3,453,752	1,265,889
Minority interests		**46,454**	47,160
Total equity		**3,500,206**	1,313,049

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Current liabilities			
Other borrowing		—	15,395
Trade payables	*14*	794,239	869,299
Customers' deposits, other payables and accruals		177,156	197,919
Tax payable		4,835	10,998
		976,230	1,093,611
Non-current liabilities			
Other borrowing	*15*	9,600	—
		9,600	—
Total liabilities		985,830	1,093,611
TOTAL EQUITY AND LIABILITIES		4,486,036	2,406,660
NET CURRENT ASSETS		2,762,072	569,736
TOTAL ASSETS LESS CURRENT LIABILITIES		3,509,806	1,313,049

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent							
	Issued share capital RMB'000	Capital reserve* RMB'000	Statutory reserve* RMB'000	Other reserves* RMB'000	Retained earnings* RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	733,370	33,514	53,040	63,461	382,504	1,265,889	47,160	1,313,049
Net profit for the period	—	—	—	—	167,613	167,613	(706)	166,907
New shares issued	401,761	1,878,014	—	—	—	2,279,775	—	2,279,775
Share issue expenses	—	(173,513)	—	—	—	(173,513)	—	(173,513)
Decrease in other reserve *(note 10)*	—	—	—	(15,069)	—	(15,069)	—	(15,069)
Dividends paid *(note 7)*	—	—	—	—	(70,943)	(70,943)	—	(70,943)
At 30 June 2007 (Unaudited)	1,135,131	1,738,015	53,040	48,392	479,174	3,453,752	46,454	3,500,206

* These reserve accounts as at 30 June 2007 comprise the consolidated reserves of RMB2,318,621,000 in the interim condensed consolidated balance sheet as at 30 June 2007.

	Attributable to equity holders of the parent							
	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	733,370	33,514	26,403	63,461	166,550	1,023,298	7,056	1,030,354
Net profit for the period	—	—	—	—	138,145	138,145	(859)	137,286
Investment in subsidiaries	—	—	—	—	—	—	1,298	1,298
At 30 June 2006 (Unaudited)	733,370	33,514	26,403	63,461	304,695	1,161,443	7,495	1,168,938

Interim Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash flows generated from operating activities	**31,192**	138,542
Net cash flows used in investing activities	**(63,217)**	(55,800)
Net cash flows generated from financing activities	**2,042,196**	1,297
Net increase in cash and cash equivalents	**2,010,171**	84,039
Cash and cash equivalents at 1 January	**873,026**	592,162
Exchange difference	**(9,797)**	—
Cash and cash equivalents at 30 June	**2,873,400**	676,201

1. Corporate information and group reorganisation

Sichuan Xinhua Winshare Chainstore Co., Ltd (the "Company") was established in the People's Republic of China (the "PRC") on 11 June 2005 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of Sichuan Xinhua Publishing Group Co., Ltd. ("Xinhua" or the "Parent"), a state-owned enterprise. The Company's H shares were listed on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2007.

The Company and its subsidiaries (collectively the "Group") principally engages in the production and trading of publications and related products in the mainland China. The registered office of the Company is located at 12/F, No. 86 Section One, People's South Road, Qingyang District, Chengdu, Sichuan, the PRC.

Pursuant to the Reorganisation, the Company took over the relevant businesses and entities engaged in the distribution of publications and related products in the Sichuan Province and issued 630,032,000 ordinary shares of RMB1.00 each to the Parent, credited as fully paid, as consideration. Sichuan Publication Group, Sichuan Daily Newspaper Group, Liaoning Publication Group Co., Ltd., Sichuan Province Youth & Children Press and Chengdu Hua Sheng (Group) Industry Co., Ltd. (collectively the "Other Promoters") injected cash into the Company in an aggregate amount of RMB155,000,000 as consideration for the Company's paid-up capital of an aggregate of 103,338,000 ordinary shares of RMB1.00 each. As a result, 85.91% and 14.09% of the share capital of the Company were owned by the Parent and the Other Promoters, respectively. Thereafter, the Company took over Xinhua's holding company of the entities engaged in the distribution of publications and related products in the Sichuan Province and Xinhua became the parent and ultimate holding company of the Company. For details of the Reorganisation, please refer to Appendix I to the prospectus of the Company dated 16 May 2007 (the "Prospectus").

2. Basis of preparation

The interim condensed consolidated financial report for the six months ended 30 June 2007 (the "Period") (the "Interim Condensed Consolidated Financial Statements") was prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's financial information for the three years ended 31 December 2004, 2005 and 2006 which was set out in Appendix I to the Prospectus.

3. Revenue, other income and segment information

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

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

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

3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (Continued)

BUSINESS SEGMENTS

The following tables present revenue and operating results by the business segments of the Group.

For the six months ended 30 June 2007

	Distribution RMB'000 (Unaudited)	Retailing RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue					
Sales to external customers	799,137	175,015	23,289	—	997,441
Intersegment sales	—	4,434	72,510	(76,944)	—
Other income	5,143	8,873	425	—	14,441
	804,280	188,322	96,224	(76,944)	1,011,882
Profit from operation					
Segment results	190,054	4,427	(7,591)	(2,244)	184,646

For the six months ended 30 June 2006

	Distribution RMB'000 (Unaudited)	Retailing RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue					
Sales to external customers	900,114	160,076	14,767	—	1,074,957
Intersegment sales	—	645	—	(645)	—
Other income	2,594	4,696	1,283	—	8,573
	902,708	165,417	16,050	(645)	1,083,530
Profit from operation					
Segment results	161,090	786	(10,678)	—	151,198

4. PROFIT FROM OPERATING ACTIVITIES

The profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation and amortisation	**18,865**	17,713
Loss on disposal of items of property, plant and equipment	**450**	—
Rental expenses — minimum lease payment	**20,907**	18,768
Employee benefits expense (including directors' and supervisors' emoluments)		
Wages, salaries and other employee benefits	**76,861**	80,874
Post-employment pension scheme contributions	**6,953**	4,555
	83,814	85,429
Provision for bad and doubtful debts	**11,326**	19,022
Write-down of inventories to net realisable value	**1,759**	8,360

5. FINANCE INCOME, NET

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses on other borrowings, wholly repayable within five years	**(288)**	—
Interest income	**29,205**	2,728
	28,917	2,728

6. Income tax

According to the PRC Enterprise Income Tax Law, the entities within the Group are subject to enterprise income tax at rates ranging from nil to 33% (2006: nil to 33%) on their respective taxable income.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2006 and 2007.

An analysis of the provision for enterprise income tax is as follows:

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax	**(804)**	—
Deferred income tax	**977**	—
	173	—

7. Dividend

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Declared and paid during the period		
Equity dividends on ordinary shares:		
— Final dividend for 2006	**70,943**	—

The board of directors (the "Board") of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (for the six months ended 30 June 2006: Nil).

8. Earnings per share

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

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the net profit attributable to equity holders of the parent for the period of approximately RMB138,145,000 and 733,370,000 ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2007 and 2006 have not been calculated because no diluting events existed during the two periods.

9. Property, plant and equipment

During the six months ended 30 June 2007, the Group acquired property, plant and equipment at a total cost of RMB31,087,000.

Property, plant and equipment with a net book value of RMB876,000 were disposed of by the Group during the six months ended 30 June 2007, resulting in a net loss on disposal of RMB450,000.

10. Deferred tax assets

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will decrease from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate sharply from 1 January 2008. According to IAS 12, deferred tax assets are measured at the tax rates that are expected to apply to the period when the asset is realised. As a result, the change in the corporate income tax rate has had the following impact on the financial position of the Group as at 30 June 2007:

	30 June 2007 RMB'000
Decrease: other reserve	**15,069**
Decrease: deferred tax assets	**15,069**

At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

11. Inventories

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Merchandise and products for resale	**387,422**	368,972
Less: Provision	**(31,874)**	(30,119)
	355,548	338,853

12. Trade receivables

The Group grants different credit periods to customers in different segments. In Retailing, sales conducted with customers except for corporate customers are in cash. Corporate customers are granted a credit period for no more than nine months. Customers in Distribution and Others are granted a credit period for no more than nine months.

An aged analysis of the trade receivables is as follows:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 6 months	**247,111**	268,409
6 to 12 months	**97,412**	47,849
Over 1 year	**71,376**	67,958
	415,899	384,216
Less: provision for bad and doubtful debts and allowance for sales return	**(72,800)**	(63,015)
	343,099	321,201

13. Share capital and capital reserve

As a result of the listing of the Company's H shares on the Stock Exchange and the exercise of the over-allotment options granted to the international underwriters, the Company issued and sold 369,400,000 H shares and 32,361,000 H shares to the public at 30 May 2007 and 7 June 2007, respectively, at an issue price of HK$5.8 each (equivalent to approximately RMB5.7). The Company raised net proceeds of approximately RMB2,106 million, of which paid-up share capital amounted to approximately RMB402 million and capital reserve approximately RMB1,704 million.

14. Trade payables

The Group is normally granted a credit period of not more than one year from its suppliers.

An aged analysis of the trade payables is as follows:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 6 months	**351,942**	597,336
6 to 12 months	**289,686**	95,057
Over 1 year	**152,611**	176,906
	794,239	869,299

15. Other borrowing

Other borrowing as at 30 June 2007 represented an entrusted loan from the Parent. On 28 April 2007, an entrusted loan agreement was entered into among the Parent, Chengdu Xin Hui Industrial Co., Ltd. (the "Chengdu Xin Hui"), a subsidiary of the Company, and China Construction Bank (the "CCB") whereby the Parent has agreed to entrust CCB to grant a loan of a principal of RMB9,600,000 to Chengdu Xin Hui. The entrusted loan agreement bears an interest rate of 5.91% per annum and is repayable on 27 April 2009.

16. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2007.

17. Commitments

(I) CAPITAL COMMITMENTS

The Group had the following capital commitments, principally for the construction and acquisition of property, plant and equipment:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Contracted, but not provided for	**4,858**	9,498

(II) OPERATING LEASE COMMITMENTS

Operating lease commitments — Group as lessee

The Group had the following future minimum rentals payable under non-cancellable operating leases:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	**28,331**	26,514
In the second to fifth years, inclusive	**12,782**	25,884
	41,113	52,398

17. COMMITMENTS (Continued)

(II) OPERATING LEASE COMMITMENTS (Continued)

Operating lease commitment — Group as lessor

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	3,307	2,828
In the second to fifth years, inclusive	3,764	4,710
	7,071	7,538

18. RELATED PARTY TRANSACTIONS AND BALANCES

(A) SIGNIFICANT RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2007 and 2006, the Group had the following significant transactions with their related parties:

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Sale of merchandise to the Parent and its subsidiaries (collectively the "Parent Group")	7,030	45,414
Purchase of merchandise from associates	3,399	39,047
Rental income from the Parent	672	672
Rental expense to the Parent	11,290	11,290
Interest expenses to the Parent	288	—
Purchase of property, plant and equipment from the Parent Group	152	296
Purchase of services from the Parent Group	10,266	2,340
Purchase of printing services from an associate	398	98
Compensation of key management personnel of the Group:		
Short term employee benefits	601	241
Post-employment pension	16	7
Total compensation paid	617	248

18. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) BALANCES WITH RELATED PARTIES

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Trade and other receivables		
Trade receivables due from		
— The Parent Group	**12,392**	30,064
Other receivables due from the Parent Group	**941**	1,872
Trade and other payables		
Trade payables due to		
— Associates of the Group	**8,446**	7,083
Other payables due to the Parent Group	**8,503**	17,411

The above balances are unsecured, interest-free and have no fixed term of repayment.

19. SUBSEQUENT EVENTS

The Group did not have any significant subsequent events taken place subsequent to 30 June 2007.

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements was approved and authorised for issue by the Board on 27 August 2007.

Operation review

OPERATING ENVIRONMENT

According to the "2006–2007 Development Report of China's Publishing Industry" (2006-2007中國出版業發展報告), China's publishing industry is entering a new phase that features transition and breakthrough, including: foster the transition of the industry's growth format which was driven by reform on system and mechanism; direct the industry to a strategic transition through the means of digital publication; expand the publishing market by further promoting reading habits among the whole population; provide a favorable environment for the industry's transition and development by regulating the publishing market.

Information shows that the signing ceremony of the joint venture investment intention between Jiangsu Xinhua Distribution Group (江蘇新華發行集團) and Hainan Province Xinhua Book Store (海南省新華書店) was held at Nanjing's Phoenix Palace Hotel on 31 May 2007. This inter-provincial co-operation is aimed to integrate valuable resources that were based on capital. Hainan Xinhua Distribution Company Limited (海南新華發行有限責任公司) becomes the market's new entity formed by both parties.

On 21 June 2007 Dalian Daily (大連日報) reported that following the approval from relevant departments, Dalian City Xinhua Book Store (大連市新華書店) proposed to be transferred to Dalian's Tiange Media Shareholding Company Limited (天歌傳媒股份有限公司) by way of transfer agreement.

In the article predicting the climate of the publishing industry during the second half of 2007, the China Book Business Report (中國圖書商報) clearly stated the innovative significance of the forthcoming merger of Haitian Publishing House (海天出版社) into Shenzhen Publication & Distribution Group (深圳發行集團).

All signs indicate that the further promotion of acquisition, merger, integration and restructure of state-owned publishers and distributors has begun. Through capital operation to establish a number of large publishers and distributors with a shareholding system is an inevitable trend.

The Company's development over the past few years has attracted the industry's attention. In particular, the successful listing at the main board of the Stock Exchange means that the Company basically possesses the ability as a platform company that can integrate and develop the domestic cultural industry in a trans-ownership and trans-region manner. The Company believes that the advantages of resources in the publishing/distribution industry supplement each other. The utilization of the integration and covering capability, resulted by the advantage of sales channels, for developing the added value of channels and expanding to the upstream of the industry chain, as well as the integration effect of the industry's resources will become the new means to achieve higher profits in the publishing/distribution industry. The Company also believes that Xinhua Winshare will definitely become the leading force amid the industry's development and integration.

BUSINESS REVIEW

OVERALL SALES

During the Period, the Group's sales revenue amounted to RMB997 million, representing a decrease of approximately 7.2% over the same period of last year.

Gross profit margin managed a certain level of growth despite the unfavourable decrease in selling price of textbooks as a result of tendering in the distribution segment. This was attributed to several factors, such as the economy of scale resulted by central procurement, the growth of book industry, increased products in ancillary support and services, etc..

Distribution

During the Period, distribution segment's sales revenue amounted to RMB799 million, representing a decrease of approximately 11.2% over the same period of last year. The decrease in sales revenue was due to the decrease in selling price of textbooks as a result of tendering, and the decrease in sales of supplementary materials as a result of the increasing competition in the market caused by the "Notice on Promulgating Eight Regulations in Respect of Standardising Educational Charges in Sichuan Province" (Chuan Jiao [2006] No. 19) (《關於印發＜四川省規範教育收費工作八條規定＞的通知》(川教[2006]19號)) and the "Notice on Promulgating Eight Regulations in Respect of Implementing Quality Education During the Nine-year Obligatory Education Period in Sichuan Province" (Chuan Jiao [2006] No. 29) (《關於印發＜四川省義務教育階段學校實施素質教育八條規定＞的通知》(川教[2006]29號)) promulgated by the Sichuan Provincial Education Department on 9 February 2006 and 15 February 2006, respectively (collectively known as the "Double Eight Regulations").

Retail

During the Period, the sales revenue of retail segment amounted to RMB179 million, representing an increase of 11.7% over the same period of last year. This increase was mainly due to the growth of the book industry in China and the Company's continuing expansion and optimization on the retail network.

Others

During the Period, the sales revenue of other segments amounted to RMB96 million, representing an increase of 5.5 times over the same period of last year. This increase was mainly due to the increased products in ancillary support and services of the Company and the further consolidation and optimization of the national distribution network.

Capability Building

The third phase of the ERP project was completed in May 2007, two months prior to the originally expected completion in July 2007. This system has become the superior tool to assist procurement, sales, logistic and finance operation. It also helps to generate revenue for the Company's major businesses and save operational costs.

Other Remarks

As at the end of the Period, the Company was principally devoted to the adjustment and perfection of the network structure and the building of internal capability. Investment in newly established networks only accounted for a small portion. In the second half of the year and the years to come, it is expected to mainly prepare for resource investment in the industry's resource integration and the newly established networks.

PROSPECT AND OUTLOOK

The Company proposed to strengthen the existing core competences, in particular to expand the business of the Company beyond Sichuan Province. In line with this development, the Company planned to implement the following key strategies:

- expanding the retail network of the Company;
- expanding the distribution network of the Company, actively participating in the tendering for distribution right of non-government-subsidised textbook to primary school and lower secondary school in other provinces (especially those in neighborhood) and the next series tendering for the general supplier of government-subsidised textbook to primary school and lower secondary school in Sichuan Province;

- Strengthening the supplementary materials distribution business of the Company within and outside Sichuan Province;
- Improving the ancillary support and services of the Company to book publishers and widening the category of cooperative products of the Company;
- Establishing a nation wide Zhongpan network through procurement and logistic platform;
- Establishing strategic alliances with other distributors by cooperation or acquisition; and
- Perfecting the information management system of the Company.

FINANCIAL REVIEW

TURNOVER

The turnover and the percentage attributable to each major business segment of the Group for the first half of 2007 and the first half of 2006 are as follows.

	For the six months ended 30 June			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Retailing (including intersegment revenue)	**179,449**	**18.0**	160,721	15.0
Distribution (including intersegment revenue)				
— textbooks	**494,160**	**49.5**	506,564	47.1
— supplementary materials	**304,977**	**30.6**	393,550	36.6
Sub-total	**799,137**	**80.1**	900,114	83.7
Others (including intersegment revenue)	**95,799**	**9.6**	14,767	1.4
Intersegment revenue eliminated	**(76,944)**	**(7.7)**	(645)	(0.1)
Total	**997,441**	**100.0**	1,074,957	100.0

For the period ended 30 June 2007, the Group's turnover amounted to approximately RMB997 million, representing a decrease of approximately 7.2% from RMB1,075 million over the same period of 2006. The decrease in turnover was mainly attributed to the decrease of turnover in the distribution segment.

Retailing

In favour of the Group's continuing outlet networks optimization and the growth of books industry in PRC, the turnover of the Group's retail segment remained a steady growth, recording an increase of 11.7% to RMB179 million in the first half of 2007 from RMB161 million in the first half of 2006.

Distribution

Textbook

The Group's textbook distribution business remained stable but the sales revenue of textbooks in the first half of 2007 slight decreased 2.4% from that of the same period of 2006 due to the decrease in price of textbooks.

Supplementary Materials

Affected by the "Double Eight Regulations", the supplementary materials market in Sichuan Province has started to experience recession since the autumn semester of 2006. The sales revenue of supplementary materials in the first half of 2007 amounted to RMB305 million, representing a decrease of 22.5% from RMB394 million over the same period of 2006. However, this figure has already shown a strong rebound of 24.0% from RMB246 million in the second half of 2006.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit and the gross profit margin of each segment of the Group for the first half of 2007 and the first half of 2006 are as follows.

	For the six months ended 30 June			
	2007		2006	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Retailing (including intersegment revenue)	64,685	36.0	60,328	37.5
Distribution (including intersegment revenue)				
— textbooks	184,123	37.3	176,779	34.9
— supplementary materials	172,310	56.5	173,042	44.0
Sub-total	356,433	44.6	349,821	38.9
Others (including intersegment revenue)	9,333	9.7	2,557	17.3
Intersegment revenue eliminated	(2,244)	N/A	—	N/A
Total	428,207	42.9	412,706	38.4

Retailing

In the first half of 2007, retailing segment's gross profit margin decreased by 1.5% compared to the same period last year, while gross profit increased by 7.2%. This is mainly due to the somewhat higher discount granted to the customers.

Distribution

Textbooks

The Group offers ancillary support and services to certain suppliers. The cost for purchasing products from them (collectively known as "cooperative products") is lower than from the other suppliers which do not receive ancillary support and services. During the first half of 2007, the gross profit margin of distributing textbooks segment recorded an increase of 2.4% compared with the same period last year due to the higher proportion of cooperative products involved.

Supplementary materials

Since the implementation of "Double Eight Regulations" in the autumn semester of 2006, most supplementary materials distributed by the Group were "cooperative products", ensuring a higher gross profit margin. Therefore, the gross profit margin from distributing supplementary materials increased to 56.5% in the first half of 2007 from 44.0% in the first half of 2006.

EXPENSES

In the first half of 2007, the Group's selling and distribution costs and administrative expenses totalled RMB265 million, representing a mild increase of 2.4% from RMB259 million in the same period of 2006. This is attributed to the higher level of cost needed for business expansion into other provinces at the early stage.

In the first half of 2007, the Group's other expenses increased by 35.0% from RMB28 million in the first half of 2006 to RMB37 million. This is mainly attributed to the exchange loss of RMB10 million and listing expenses due to the listing of the state-owned shares transferred to the National Council for the Social Security Fund ("NSSF") of RMB 7 million. Excluding such two expenses associated with listing, other expenses actually decreased by 27.7%.

FINANCE INCOME, NET

Finance income, net increased sharply by 9.6 times from the RMB3 million in the first half of 2006 to RMB29 million in the first half of 2007. This increase was mainly due to the interest income from the proceeds of the H shares offering of the Company on the Stock Exchange.

OPERATING PROFITS

For the first half of 2007, the Group's operating profits were RMB140 million, representing an increase of 4.1% compared to RMB135 million of the same period of 2006. The other expenses in the first half of 2007 comprised exchange loss of RMB10 million and listing expenses due to the listing of the state owned shares transferred to NSSF of RMB7 million. Excluding such two finance expenses, the Group's actual operating profits for the first half of 2007 was RMB157 million, representing an increase of 16.9% over the same period of 2006.

NET PROFIT

In the first half of 2007, the Group recorded net profit of RMB167 million, representing a significant increase of 21.6% compared with RMB137 million over the same period of 2006, while the net profit margin also increased from 12.8% for the first half of 2006 to 16.7% for the first half of 2007. The substantial increase of net profit and net profit margin was mainly due to the increase of gross profit margin and the interest income from listing proceeds.

EARNINGS PER SHARE

Earnings per share is calculated by dividing profits attributable to equity holders of the Company by weighted average number of ordinary shares in issue for the period. For the first half of 2007, the Group's earnings per share was RMB0.21, representing an increase of 10.8% compared to RMB0.19 of the same period of 2006. Please refer to note 8 to the unaudited interim condensed consolidated financial statements for the calculation of earnings per share.

LIQUIDITY AND FINANCIAL RESOURCES

Except for the borrowings of Chengdu Xin Hui Industrial Company Limited (成都鑫滙實業有限公司) ("Chengdu Xin Hui"), a subsidiary of the Company, the Group did not have any bank borrowings. As at 30 June 2007, the Group had other long-term borrowings of RMB9.6 million as fixed-interest financing. The stable and strong cash flow and robust financial conditions laid out a sound foundation for the continuing development of the Group.

As at 30 June 2007, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 22.0% (31 December 2006: 45.4%). The significant decrease in the gearing ratio of the Group was mainly due to the proceeds from listing of the Company.

As at 30 June 2007, all of the bank deposits of the Group was held in commercial banks in the PRC or licensed banks in Hong Kong in according with applicable laws and regulations. Except for bank deposits of HKD810 million (RMB790 million), the balance were denominated in RMB.

As at the date of this report, most of the HKD deposits has been converted into RMB and deposited in commercial banks in the PRC. The Group's assets, liabilities, sales, costs and expenses were substantially denominated in RMB. As a result, the management considers the foreign exchange exposure of the Group is minimal and has not entered any foreign exchange hedging arrangement.

CONTINGENT LIABILITIES AND CHARGE ON ASSETS

As at 30 June 2007, the Group did not have any material contingent liabilities or any charge or guarantee on its assets.

EMPLOYEES

As at 30 June 2007, the Company employed 5,830 staff.

The Group reviews the employee remuneration policies regularly. The standard remuneration package includes a base salary, performance related bonus, welfare and the Group provides other benefits such as retirement benefits, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing accumulation fund for our staff.

The Group offers internal training or regular training to employees. The Group mainly launched training schemes on the following aspects in the first half of the year: ERP system, retail sales skills, educational publication subscription skills, professional knowledge of publishing, logistic information system and other integrated management skills.

In the second half of the year we will continue to conduct training such as listing rules for the middle and senior management, training to enhance management personnel's skills and primary-level staff's business skills, as well as networked online classroom.

Use of proceeds

The Company was listed on the main board of the Stock Exchange on 30 May 2007 and issued 401,761,000 new shares which raised RMB2,280 million (HKD2,330 million). The net proceeds after deduction of listing expenses were RMB2,106 million. As at 30 June 2007, except for the RMB100 million used as general working capital, the remaining listing proceeds have not been used. As at 30 June 2007, the proceeds were used according to the uses set out in the Prospectus.

Investment positions

During the Period, the Company did not make any significant investment.

Post balance sheet date events

The Group did not have any significant events after 30 June 2007.

Share Capital and Shareholders

SHARE CAPITAL

As at 30 June 2007, total issued share capital of the Company was 1,135,131,000 shares, which include:

Class of share	Number of shares	Percentage of issued share capital of the Company
Domestic Shares		
State-owned Shares（國有股）	639,857,900	56.37%
Including		
(i) State-owned Shares held by our Parent	592,809,525	52.22%
(ii) State-owned Shares held by other Promoters *(Note 1)*	47,048,375	4.15%
Social Legal Person Shares (社會法人股) *(Note 2)*	53,336,000	4.70%
H Shares	441,937,100	38.93%
Total Share Capital	1,135,131,000	100%

Notes:

(1) Other Promoters include Sichuan Publication Group, Sichuan Daily Newspaper Group, Sichuan Province Youth and Children Press, and Liaoning Publication Group Co. Ltd. but exclude Chengdu Hua Sheng (Group) Industry Co. Ltd..

(2) Social Legal Person Shares are held by Chengdu Hua Sheng (Group) Industry Co. Ltd., a Promoter.

Details of movements in share capital of the Company during the period are set out in note 13 to the unaudited interim condensed consolidated financial statements.

Substantial Shareholders

As at 30 June 2007, so for as is known to the Directors, the following persons (other than the Directors, supervisors and senior management of the Company) had an interest in the shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register required to be kept by the Company referred to therein, and would fall to be disclosed to the Company pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

Name of shareholders	Number of shares directly and indirectly held	Capacity	Class of share	Approximate percentage in relevant class of shares (%)	Approximate percentage in total issued shares capital (%)
Sichuan Xinhua Publishing Group Co. Ltd.	592,809,525	Beneficial owner	State-owned Shares	92.65%	52.22%
Chengdu Hua Sheng (Group) Industry Co. Ltd.	53,336,000	Beneficial owner	Social Legal Person Shares	100%	4.70%
OZ Management, L.L.C.	40,837,000	Beneficial owner	H Shares	9.24%	3.60%
Arisaig Greater China Fund Limited *(Note 1)*	22,300,000	Beneficial owner	H Shares	5.05%	1.96%
Arisaig Partners (Mauritius) Limited *(Note 1)*	22,300,000	Investment manger	H Shares	5.05%	1.96%
Cooper Lindsay William Ernest *(Note 1)*	22,300,000	Interest of controlled corporation	H Shares	5.05%	1.96%
National Council for the Social Security Fund	40,176,100	Beneficial owner	H Shares	9.09%	3.54%

Note 1: The above references to 22,300,000 shares refer to the same block of shares.

Save as disclosed above, as at 30 June 2007, so for as is known to the Directors of the Company, no other person had interests or short positions in the shares of the Company (other than the Directors or Supervisors) which would fall to be disclosed to the Company and the Stock Exchange pursuant to the Divisions 2 and 3 of Part XV of the SFO, or were required, pursuant to Section 336 of the SFO, to be entered in the register required to be kept by the Company referred to therein.

INTERESTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2007, none of the Directors, supervisors and senior management of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or supervisors were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

INTERIM DIVIDEND

The Board does not recommend the payment of the interim dividend for the six months ended 30 June 2007 (No interim dividend was declared for the six months ended 30 June 2006).

SHARE OPTION SCHEME

For the Period, the Company does not have any share option scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company or any of it subsidiaries did not purchase, sell or redeem any of the shares in the Company from the date of listing of the Company on 30 May 2007 to 30 June 2007.

ACQUISITION AND DISPOSAL

For the Period, the Group did not enter into major acquisitions or disposals on its subsidiaries, jointly controlled entities and associates.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to high standards of corporate governance and has taken actions to comply with the relevant code provisions as set out in the Code on Corporate Governance Practices (the "Code") stipulated in Appendix 14 of the Listing Rules, for the purpose of continuously strengthening and improving the Company's corporate governance including internal control system. In the opinion of the Directors of the Company, the Company has complied with the code provisions of the Code as set out in Appendix 14 of the Listing Rules during the Period from the date of listing of the Company on 30 May 2007 to 30 June 2007.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Directors and supervisors of the Company, for the purpose of governing securities transactions by the Directors and supervisors. Having made specific enquiries of every

Directors and supervisors of the Company, all Directors and supervisors confirmed that they have complied with the required standards set out in the Model Code in Appendix 10 of the Listing Rules during the period from the date of listing of the Company on 30 May 2007 to 30 June 2007.

AUDIT COMMITTEE

The Company established the Audit Committee on 20 April 2006 with written terms of reference in compliance with Appendix 14 of the Listing Rules to review and supervise the financial reporting process and the internal control procedures of the Company. The Audit Committee consists of two independent non-executive directors and one non-executive director, namely Chan Yuk Tong, Han Xiaoming and Wang Jianping, with Chan Yuk Tong serving as chairman. Chan Yuk Tong holds financial experience and professional qualification in accounting.

Audit Committee has reviewed the unaudited interim condensed consolidated financial statements set out in this interim report.

STRATEGY PLANNING COMMITTEE

The Company established a strategy planning committee on 11 June 2005. Its principal functions are to analyze and formulate the Company's long-term development strategies and to make important business investment decisions and proposals. As at 27 August 2007, Cui Zhenyu resigned as a non-executive director and a member of the Strategy Planning Committee and Zhao Junhuai is proposed to be appointed as a non-executive director and a member of the Strategy Planning Committee at the extraordinary shareholders' meeting to be held on 16 October 2007. Our Company's strategy planning committee will consist of four members, namely Cheng Sanguo, Gong Cimin, Zhang Yexin, and Zhao Junhuai as a proposed member subject to the shareholders' approval with Cheng Sanguo serving as chairman.

REMUNERATION AND REVIEW COMMITTEE

The Company established a remuneration and review committee on 20 April 2006. Its principal functions are to evaluate the performance of Directors and senior management and make recommendations to the Board on remuneration and other benefits paid to them. The Company's remuneration and review committee consists of three members, namely, Han Xiaoming, Chan Yuk Tong and Zhang Yexin, with Han Xiaoming serving as chairman.

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

Sichuan, PRC, 27 August 2007

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承新華煇煌
譜文軒新篇

WIN SHARE

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