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

If you have sold or transferred all your shares in Shandong Xinhua Pharmaceutical Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited

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

(Stock Code: 0719)

**CONTINUING CONNECTED TRANSACTIONS
AND THE PROPOSED ANNUAL CAPS**

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

VEDA | CAPITAL
智 略 資 本

A letter from the Board is set out on pages 1 to 7 of this circular. A letter from the Independent Board Committee containing its recommendations in respect of the Continuing Connected Transactions is set out on pages 8 to 9 of this circular. A letter from Veda Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 21 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at the Company's conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People's Republic of China on Friday, 27 December 2013 at 9:00 a.m. together with the form of proxy and reply slip were issued on 8 November 2013. Whether or not you are able to attend the meeting, we encourage you to complete and return the form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the extraordinary general meeting to the company secretary's office of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People's Republic of China.

Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

25 November 2013

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DEFINITIONS

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

“Board”	the board of Directors;
“Company”	山東新華製藥股份有限公司 (Shandong Xinhua Pharmaceutical Company Limited), a joint stock company incorporated in the PRC with limited liability;
“Continuing Connected Transactions”	the supply of certain pharmaceutical products by the Group to L. Perrigo and/or its affiliates under the Perrigo Agreement;
“Directors”	the directors of the Company including independent non-executive Directors;
“EGM”	the extraordinary general meeting of the Company to be held on 27 December 2013 for the purpose of approving the Continuing Connected Transactions and the proposed annual caps under the Perrigo Agreement;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	the independent board committee of the Company comprising three independent non-executive Directors, which is constituted for the purpose of considering the Perrigo Agreement and the proposed annual caps thereunder;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM;
“L. Perrigo”	means L. Perrigo Company, a company established in the United States;
“Latest Practicable Date”	18 November 2013, being the last practicable date prior to printing of this circular for ascertaining certain information contained herein;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Perrigo Agreement”	means the written agreement entered into between the Company and L. Perrigo dated 30 October 2013;
“Perrigo Company”	means Perrigo Company, a company established in the United States;
“Perrigo International”	means Perrigo International, Inc., a company established in the United States and a subsidiary of Perrigo Company;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supervisors”	the supervisors of the Company;
“Veda Capital”	Veda Capital Limited, a licensed corporation to carry out type 6 regulated activities under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement;
“Xinhua Perrigo”	means 淄博新華 — 百利高製藥有限責任公司 (Zibo Xinhua-Perrigo Pharmaceutical Company Limited), a PRC joint venture owned 50.1% by the Company and 49.9% by Perrigo International; and
“Zibo”	Zibo City, situated in Shandong Province of the PRC.



山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited

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

(Stock Code: 0719)

Executive Directors:

Mr. Zhang Daiming (*Chairman*)
Mr. Du Deping
Mr. Zhao Songguo

Registered Address:

Chemical Industry Area of Zibo Hi-tech
Industry Development Zone, Zibo City,
Shandong Province, PRC

Non-executive Directors:

Mr. Ren Fulong
Mr. Xu Lie
Mr. Zhao Bin

Independent Non-executive Directors:

Mr. Zhu Baoquan
Mr. Bai Huiliang
Mr. Kwong Chi Kit, Victor

25 November 2013

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND THE PROPOSED ANNUAL CAPS**

I. INTRODUCTION

The purpose of this circular is to provide you with the information regarding resolutions to be proposed at the EGM in relation to the Perrigo Agreement and the proposed annual caps in respect of the Continuing Connected Transactions under the Perrigo Agreement.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS

A. BACKGROUND INFORMATION

The Company entered into an agreement with L. Perrigo on 28 October 2010 in relation to the Company supplying pharmaceutical products to L. Perrigo and/or its affiliates for a period of two years from 1 January 2011 to 31 December 2012, which was automatically renewed for a term of one year. An announcement was made on 28 October 2010.

As the above agreement will expire on 31 December 2013, in order to secure the orders from L. Perrigo and/or its affiliates in the future, the Company has entered into the Perrigo Agreement with L. Perrigo for a period of three years commencing from 1 January 2014, unless terminated on six months' written notice.

B. PERRIGO AGREEMENT

Date : 30 October 2013

Parties : (i) the Company

(ii) L. Perrigo

Principal terms and conditions

On 30 October 2013, the Company and L. Perrigo entered into the Perrigo Agreement in relation to the Group supplying certain pharmaceutical products to L. Perrigo and/or its affiliates, including Perrigo Company.

The term of the Perrigo Agreement runs from 1 January 2014 to 31 December 2016 unless terminated on six months' written notice.

Payment terms

1. The price of the pharmaceutical products is based on market prices.
2. L. Perrigo shall pay the Company within 60 days after invoicing.

LETTER FROM THE BOARD

Proposed annual caps

The proposed annual caps for the continuing connected transactions under the Perrigo Agreement are as follows:

	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)
Proposed annual caps	<u>48,000</u>	<u>56,000</u>	<u>65,000</u>

The Company has determined the above annual caps based on the following factors:

- (a) the historical figures in 2011, 2012 and January to September 2013 for the transactions between the Company and L. Perrigo and/or its affiliates (please see Table 1 below);
- (b) the demand by L. Perrigo and/or its affiliates;
- (c) the business development of the Company; and
- (d) the projected increase in the market prices of chemical raw materials for the production of the pharmaceutical products.

Table 1 — Historical figures in 2011, 2012 and January to September 2013 for the transactions between the Company and L. Perrigo and/or its affiliates

	2011 (RMB'000)	2012 (RMB'000)	January to September 2013 (RMB'000)
Total consideration	<u>45,965</u>	<u>20,113</u>	<u>27,561</u>

LETTER FROM THE BOARD

Reasons for and benefits of the continuing connected transactions between the Company and L. Perrigo

Pursuant to the Perrigo Agreement, the selling price for the pharmaceutical products charged by the Group will be based on the market price. The “market price” means the prevailing price of the pharmaceutical products in the market at the relevant time. In practice, the pricing of the transactions under the L. Perrigo Agreement will be agreed with L. Perrigo and/or its affiliates after available and comparable agreements of independent purchasers in respect of the relevant pharmaceutical products are reviewed and compared by the management of the Group (as required by the Company’s internal control procedures in relation to continuing connected transactions) so as to ensure that the prices of the pharmaceutical products charged by the Company under the Perrigo Agreement are in line with the market price and are on normal commercial terms and fair and reasonable.

The Directors also consider the payment terms under the Perrigo Agreement. As required by the Company’s internal control procedures in relation to continuing connected transactions, the payment terms under the Perrigo Agreement have been proposed by the management of the Group to the Directors having reviewed and made references to other available and comparable agreements the Group has with other independent purchasers. The Directors note that the payment terms offered by L. Perrigo are very similar to that offered by other independent third parties in respect of the same products and therefore are of the view that the payment terms are in line with the usual market practice in the pharmaceutical industry and are on normal commercial terms and fair and reasonable.

The Directors further consider that by selling the pharmaceutical products to L. Perrigo, the Company is able to expand its business in the United States. The parent company of L. Perrigo, Perrigo Company, is a leading global healthcare supplier that develops, manufactures and distributes over-the-counter and prescription pharmaceuticals, nutritional products, active pharmaceutical ingredients and consumer products. It is a listed company on the New York Stock Exchange (NYSE: PRGO). The Directors believe that by supplying pharmaceutical products to L. Perrigo under the Perrigo Agreement, the Company can sustain a solid business relationship with Perrigo Company, which is beneficial to the Group in the long run as the counterparty has an influential position within the pharmaceutical industry globally including the United States. The entering into the Perrigo Agreement represents good opportunities for the Group to expand the sales contribution in the United States market, as well as to promote and distribute the products of the Group in the United States. It also helps to enhance the reputation of the Group within the United States pharmaceutical market which in return might possibly attract new potential customers.

LETTER FROM THE BOARD

Accordingly, the Directors consider that the entering into the Perrigo Agreement is in the best interest of the Company and its Shareholders as a whole.

The Directors also consider that the Perrigo Agreement has been negotiated on an arm's length basis and the continuing connected transactions contemplated under the Perrigo Agreement are entered into in the ordinary and usual course of business on basis of normal commercial terms and that the terms of the continuing connected transactions under the Perrigo Agreement and the proposed annual caps thereof are fair and reasonable.

As far as the Company is aware, no Director has a material interest in the transactions and therefore no Director is required to abstain from voting on the board resolution in relation to the transactions.

Connected Relationship

As at the Latest Practicable Date, L. Perrigo is a subsidiary of Perrigo Company. Perrigo Company is a connected person of the Company as it is the parent company of Perrigo International, which is a substantial shareholder of Xinhua Perrigo, a 50.1% owned subsidiary of the Company. Accordingly, L. Perrigo, being a subsidiary of Perrigo Company, is also a connected person of the Company and the transactions contemplated under the Perrigo Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Implications under the Listing Rules

In respect of the proposed annual caps under the Perrigo Agreement for the three years ending 31 December 2016, as one or more of the applicable percentage ratios (as defined in the Listing Rules) exceed 5% and the annual consideration exceeds HK\$10,000,000, the continuing connected transactions contemplated under the Perrigo Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and announcement requirements under rules 14A.45 to 14A.47 of the Listing Rules, the independent shareholders' approval requirement under rule 14A.48 of the Listing Rules, the annual review requirement under rules 14A.37 to 14A.40 of the Listing Rules and the requirements set out in rules 14A.35(1) and 14A.35(2) of the Listing Rules.

LETTER FROM THE BOARD

Information about the Company and L. Perrigo

The Company is mainly engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemicals products.

L. Perrigo is principally engaged in the manufacture, distribution and sale of certain over-the-counter, non-prescription pharmaceutical products in the United States.

C. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement.

III. EXTRAORDINARY GENERAL MEETING

The Directors have resolved to convene the EGM to consider and approve the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement. Notice of the EGM together with the form of proxy and reply slip were issued on 8 November 2013. Whether or not you are able to attend the EGM, we encourage you to complete and return the form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM, to the company secretary of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

IV. RECOMMENDATION

The Directors consider that the approval of the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement are in the best interests of the Company and its Shareholders as a whole and are fair and reasonable as far as the Shareholders are concerned.

The Independent Board Committee comprising independent non-executive Directors of the Company has been appointed to advise the Independent Shareholders on the approval of the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the same.

LETTER FROM THE BOARD

After taking into account the reasons for and benefits of the Perrigo Agreement and the opinion of Veda Capital, the Independent Board Committee considers that the approval of the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement are fair and reasonable as far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement.

All connected persons or Shareholders with a material interest in the transactions and its associates shall abstain from voting in approving the Perrigo Agreement, and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Shareholder has a material interest in the transactions that it must abstain from voting, and accordingly all Shareholders are permitted to vote at the EGM.

The Independent Shareholders will be asked to consider and, if thought fit, approve by poll the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement.

Yours faithfully,

By order of the Board of Directors

Shandong Xinhua Pharmaceutical Company Limited

Zhang Daiming

Chairman



山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited

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

(Stock Code: 0719)

Independent Non-executive Directors:

Mr. Zhu Baoquan

Mr. Bai Huiliang

Mr. Kwong Chi Kit, Victor

Registered Address:

Chemical Industry Area of Zibo Hi-tech
Industry Development Zone, Zibo City,
Shandong Province, The PRC

25 November 2013

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND THE PROPOSED ANNUAL CAPS**

We refer to this circular dated 25 November 2013 issued by the Company to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the circular shall have the same meanings when used in this letter.

As the Independent Board Committee, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, the approval of the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement, are in the interests of the Company and the Shareholders as a whole and whether they are fair and reasonable so far as the Shareholders are concerned. None of the members of the Independent Board Committee have any direct or indirect interest in the Continuing Connected Transactions. In addition, Veda Capital has been appointed as the independent financial adviser to advise you and us on this matter.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to (i) the letter of advice from Veda Capital as set out on pages 10 to 21 of this circular; and (ii) the letter from the Board on pages 1 to 7 of this circular, which set out information relating to, and the reasons for and benefits of entering into the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement.

As the Company's independent Directors, we have discussed with the management of the Company the reasons for and benefits of entering into the Perrigo Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement. We have considered the factors and reasons considered by, and the opinions and recommendations of, Veda Capital as set out on pages 10 to 21 of this circular. We concur with the view of Veda Capital that the Perrigo Agreement and the annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms and fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the entering into the Perrigo Agreement and the annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee of

Shandong Xinhua Pharmaceutical Company Limited

Mr. Zhu Baoquan, Mr. Bai Huiliang, Mr. Kwong Chi Kit, Victor

LETTER FROM VEDA CAPITAL

The following is the full text of the letter from Veda Capital setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of and proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement, which has been prepared for the purpose of inclusion in this circular.



Veda Capital Limited
Suite 3711, 37/F
Tower II, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

25 November 2013

*To the Independent Board Committee and the Independent Shareholders of
Shandong Xinhua Pharmaceutical Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of and proposed annual caps in relation to the continuing connected transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular to the Shareholders dated 25 November 2013 (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 October 2010, the Company and L. Perrigo entered into an agreement (“**Previous Perrigo Agreement**”) pursuant to which the Company agrees to supply the pharmaceutical products (“**Pharmaceutical Products**”) to L. Perrigo and/or its affiliates for a period of two years from 1 January 2011 to 31 December 2012, which was automatically renewed for a term of one year. An announcement was made on 28 October 2010.

LETTER FROM VEDA CAPITAL

As the Previous Perrigo Agreement will expire on 31 December 2013 and in order to secure the orders from L. Perrigo and/or its affiliates in the future, the Company has entered into the Perrigo Agreement with L. Perrigo on 30 October 2013, for a period of three years commencing from 1 January 2014, unless terminated on six months' written notice.

As at the Latest Practicable Date, L. Perrigo is a subsidiary of Perrigo Company. Perrigo Company is a connected person of the Company as it is the parent company of Perrigo International, which is a substantial shareholder of Xinhua Perrigo, a 50.1% owned subsidiary of the Company. Accordingly, L. Perrigo, being a subsidiary of Perrigo Company, is also a connected person of the Company and the transactions contemplated under the Perrigo Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

In respect of the proposed annual caps under the Perrigo Agreement for the three years ending 31 December 2016, as one or more of the applicable percentage ratios (as defined in the Listing Rules) exceed 5% and the annual consideration exceeds HK\$10,000,000, the continuing connected transactions contemplated under the Perrigo Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and announcement requirements under rules 14A.45 to 14A.47 of the Listing Rules, the independent shareholders' approval requirement under rule 14A.48 of the Listing Rules, the annual review requirement under rules 14A.37 to 14A.40 of the Listing Rules and the requirements set out in rules 14A.35(1) and 14A.35(2) of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Zhu Baoquan, Mr. Bai Huiliang and Mr. Kwong Chi Kit, Victor has been established to advise the Independent Shareholders on the Continuing Connected Transactions. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Perrigo Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the proposed annual caps under the Perrigo Agreement are fair and reasonable.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of and proposed annual caps in relation to the Continuing Connected Transactions under the Perrigo Agreement, we have taken into consideration the following principal factors and reasons:

I. Information on the Company and L. Perrigo

The Company is mainly engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemicals products.

L. Perrigo is principally engaged in the manufacture, distribution and sale of certain over-the-counter, non-prescription pharmaceutical products in the United States.

II. Background and reasons for the Perrigo Agreement

The Company entered into the Previous Perrigo Agreement on 28 October 2010 in relation to the Company supplying the Pharmaceutical Products to L. Perrigo and/or its affiliates for a period of two years from 1 January 2011 to 31 December 2012, which was automatically renewed for a term of one year.

As the Previous Perrigo Agreement will expire on 31 December 2013 and in order to secure the orders from L. Perrigo and/or its affiliates in the future, the Company has entered into the Perrigo Agreement with L. Perrigo on 30 October 2013, for a period of three years commencing from 1 January 2014, unless terminated on six months' written notice.

As noted from the interim report of the Company for the six months ended 30 June 2013 (“**IR2013**”), the profit attributable to the owners of the Company for the six months ended 30 June 2013 was approximately RMB4,510,000, representing a decrease of approximately 85.17% from that for the six months ended 30 June 2012 of RMB30,416,000.

As noted from the IR2013, the Company faced with various difficulties for the first half of 2013, such as a continuous downturn of international market demands, the appreciation of RMB, the increasing downward pressure on the domestic economy, price competitions of pharmaceutical products, bidding of preparation products, as well as the increasing pressures on environmental protection, price drop of the Company's products, the increase of financial expenses arising from products relocation and the rise of production costs resulted from the initial operation stage of new production lines, the Group actively took measures to expand sales, reduce non-production expenses, strengthen research and development and accelerate the construction of relocation projects. As further noted from the IR2013, in order to overcome the difficulties abovementioned, the Group actively explored the domestic and international markets and made efforts to expand the scale of operations, achieving a 5.15% year-on-year increase in operating income. The Group also took a differentiated marketing approach to focus on preparation products, endeavored to develop untapped terminals and enhanced market cultivation, recording a 47.2% year-on-year increase in the sales income of new key preparation products, 0.26% year-on-year increase in export earnings, which amounted to US\$94,614,000, and 90% year-on-year increase in preparation products exports, which amounted to RMB53,000,000.

As noted from the annual report of the Company for the year ended 31 December 2012 (“**AR2012**”), the profit attributable to the owners of the Company for the year ended 31 December 2012 was approximately RMB22,417,000, representing a decrease of approximately 69.86% from that for the year ended 31 December 2011 of RMB74,375,000. Also noted from the AR2012, the market competition of the bulk pharmaceuticals industry is intense and there is no significant improvement in the market demand.

LETTER FROM VEDA CAPITAL

Pursuant to both IR2013 and AR2012, the latest financial reports of the Company, we understand the fact that the Company is currently facing a continuous downturn of international market demand on pharmaceutical products, which caused the profit attributable to the owners of the Company for the six months ended 30 June 2013 and for the year ended 31 December 2012 dropped by approximately 85.17% and 69.86% compare to the previous corresponding period. As advised by the Directors, to combat the declining trend of the demand of the pharmaceutical products, the Company has been actively took measures to expand sales in both domestic and international market, and at the same time strengthening the relationship with the current customers of the Group.

As extracted from the AR2012, below is the geographical revenue breakdown of the Group for the year ended 31 December 2012 and 31 December 2011:

Location	For the	For the
	year ended	year ended
	31 December	31 December
	2012	2011
	RMB'000	RMB'000
PRC	1,772,779	1,838,173
Europe	496,242	410,081
America	470,377	507,721
Others	192,718	161,885
Total revenue	<u>2,932,116</u>	<u>2,917,860</u>

As depicted in the table above, we note that the PRC, Europe, America and Others market represent approximately 60.46%, 16.92%, 16.04% and 6.58% of the Group's total revenue for the year ended 31 December 2012. And for the year ended 31 December 2011, the revenue distribution of the PRC, Europe, America and Others are 63%, 14.05%, 17.4% and 5.55% respectively. We are given to understand from the Directors that both Europe and America market are crucial income stream to the Group, following the PRC market, and the Group has always been focusing on these two markets in order to diversify the income stream of the Group, but not only concentrate in the PRC market.

LETTER FROM VEDA CAPITAL

As further advised by the Directors, the transaction between the Company and L. Perrigo for the year ended 2012 and 2011 have taken up approximately RMB20,113,000 and RMB45,965,000 out of the America market, representing roughly 4.28% and 9.05% of the America market for the year 2012 and 2011. We understand that the entering into of the Perrigo Agreement represents good opportunities for the Group to (i) maintain and expand the sales contribution in the America market, as well as to promote and distribute the Group's products internationally; (ii) strengthen its collaboration and sustain its business relationship with L. Perrigo and; (iii) directly enhances the reputation of the Group within the U.S pharmaceutical market which in return might possibly attract new potential customers.

In addition, we conducted research on Perrigo Company, the parent company of L. Perrigo, knowing that Perrigo Company is a leading global healthcare supplier that develops, manufactures and distributes over-the-counter (OTC) and prescription pharmaceuticals, nutritional products, active pharmaceutical ingredients (API) and consumer products. Perrigo Company is the world's largest manufacturer of OTC pharmaceutical products for the store brand market. Perrigo Company's primary markets and locations of manufacturing facilities are the United States, Israel, Mexico and the United Kingdom. Also, Perrigo Company is a listed company on the New York Stock Exchange (NYSE: PRGO), with a market capitalization of approximately USD14.36 billion as at the Latest Practicable Date. It is believed that conducting business with L. Perrigo i.e. supplying Pharmaceutical Products to them under the Perrigo Agreement, can sustain a solid business relationship with Perrigo Company, which is beneficial to the Group in long term as the counterparty has an influential position within the pharmaceutical industry globally.

In addition, it is advised by the Company that they have supplied Pharmaceutical Products to L. Perrigo for more than 10 years and both parties have already established a sound and prolonged business relationship i.e. efficient payment arrangement, delivery process etc... It is considered by the Company that the entering into the Perrigo Agreement is a renewal of the Previous Perrigo Agreement, which allows both parties to continue businesses from 1 January 2014 until 31 December 2016.

LETTER FROM VEDA CAPITAL

Having considered (i) the nature of business of the Company and L. Perrigo; (ii) the supply of the Pharmaceutical Products to L. Perrigo helps the Group to maintain decent sales revenue within the America pharmaceutical market; (iii) the continual supply of Pharmaceutical Products allows the Group to sustain a business relationship with Perrigo Company, the world's largest manufacturer of OTC pharmaceutical products for the store brand market, alongside allowing the Company to enhance its reputation within the America pharmaceutical market and; (iv) both parties have conducted business for more than 10 years and the entering into the Perrigo Agreement is a renewal to permit the Company carry on supplying Pharmaceutical Products to L. Perrigo, we are of the view that the entering into the Perrigo Agreement is in the ordinary and usual course of business of the Group and are in the interests of the Company and Shareholders as a whole.

Principal terms of the Perrigo Agreement

Date: 30 October 2013

Parties : (i) the Company
(ii) L. Perrigo

Principal terms and conditions

As noted from the Board Letter, on 30 October 2013, the Company and L. Perrigo entered into the Perrigo Agreement in relation to the Group supplying Pharmaceutical Products to L. Perrigo and/or its affiliates, including Perrigo Company.

The term of the Perrigo Agreement runs from 1 January 2014 to 31 December 2016 unless terminated on six months' written notice.

Payment terms

1. The price of the Pharmaceutical Products is based on market prices.
2. L. Perrigo shall pay the Company within 60 days after invoicing.

As noted from the Board Letter, the Perrigo Agreement has been negotiated on an arm's length basis and advised by the Company, the terms under the Perrigo Agreement are in line with the usual market practice.

LETTER FROM VEDA CAPITAL

We have reviewed the Perrigo Agreement and noted that pursuant to the Perrigo Agreement, the transactions contemplated thereunder shall be conducted on normal commercial terms and by arm's length negotiation. We have also reviewed the internal control manual in respect of connected transactions of the Company and pursuant to such internal control manual, the principles of the pricing of products offer to/from connected persons under a continuing connected transaction shall be (i) based on market prices of the products and the price offers to the connected persons shall not be lower than the price of same product quoted to independent purchasers in the market and the terms offer for the connected persons should be no less favourable than those available to or from other parties; and (ii) on fair and reasonable basis. We have reviewed (i) the supply arrangement receipts of the Pharmaceutical Products supplied to independent purchasers by the Company and; (ii) the receipts between the Company and L. Perrigo under the Previous Perrigo Agreement, and noted that the prices offered to L. Perrigo were no less favourable than those entered into with independent purchasers, which is in line with the Company's internal control regarding to connected persons. Furthermore, we are given to understand from the Company that, in order to ensure the transactions under the Perrigo Agreement are on normal commercial terms and fair and reasonable and in compliance with the terms of the Perrigo Agreement, the pricing of the transactions will be agreed after available and comparable agreements of the independent purchasers are reviewed and compared by the management.

Given the above, we are of the view that the terms of the Perrigo Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps for the Perrigo Agreement

The proposed annual caps for the Continuing Connected Transactions under the Perrigo Agreement for the three years ending 31 December 2016 are set out below:

	2014 <i>(RMB'000)</i>	2015 <i>(RMB'000)</i>	2016 <i>(RMB'000)</i>
Proposed annual caps	<u>48,000</u>	<u>56,000</u>	<u>65,000</u>

LETTER FROM VEDA CAPITAL

As noted from the Board Letter, the Company has determined the above annual caps based on (i) the historical figures in the years 2011 and 2012 and the nine months period from January to September 2013 for the transactions between the Company and L. Perrigo and/or its affiliates (please see table below); (ii) the demand by L. Perrigo and/or its affiliates; (iii) the business development of the Company; and (iv) the projected increase in the market prices of chemical raw materials for the production of the Pharmaceutical Products.

The table below shows the historical figures for the years 2011 and 2012 and the nine months period from January to September 2013 for the transactions between the Company and L. Perrigo and/or its affiliates.

	2011	2012	January to
	(RMB'000)	(RMB'000)	September 2013
			(RMB'000)
Total consideration	<u>45,965</u>	<u>20,113</u>	<u>27,561</u>

As noted from the Board Letter, the historical transaction amounts under the Previous Perrigo Agreement for the Pharmaceutical Products for the years 2011 and 2012 and the nine months period from January to September 2013 are RMB45,965,000, RMB20,113,000 and RMB27,561,000 (the “**2013 First Nine Months Historical Amount**”) respectively. We acknowledged that there was a significant decline of approximately 56.24% regarding the Pharmaceutical Products transaction in the year 2012 as compared to the year 2011. As advised by the Directors, such decline was principally due to the depressive condition of the global economy, which is directly linked to the pharmaceutical products market and reduced the demand of the Pharmaceutical Products ordered by L. Perrigo. It is further advised by the Directors that the pharmaceutical products industry has started to recover slightly since 2013 and is proved by the fact that the 2013 First Nine Months Historical Amount has already exceeded the historical transaction in the year 2012 by approximately 37.03%. The Company has also advised that the 4th quarter of a year is usually the peak season for the pharmaceutical product industry in which the size of the demand and price will be adjusted upwards, and therefore it is expected that the transactions for the Pharmaceutical Products between the Company and L. Perrigo in the remaining three months (i.e. October to December 2013) will increase accordingly.

LETTER FROM VEDA CAPITAL

The proposed annual cap of RMB48,000,000 for the year ending 31 December 2014 represents a significant growth of approximately 74.16% as compared to the 2013 First Nine Months Historical Amount of RMB27,561,000. In light of (i) the proposed annual cap in the year 2014 has taken into consideration that the orders will be on 12-month basis whilst that the 2013 First Nine Months Historical Amount has only taken into the record for the first nine months of 2013; (ii) the growth of the remaining three months of 2013 is expected to be positive as the 4th quarter of a year is usually the peak season for the pharmaceutical product industry; (iii) the proposed annual cap of RMB48,000,000 for the year ending 31 December 2014 represents only a slight increase of approximately 4.43% from the transaction amount of RMB45,965,000 for the year ended 31 December 2011 (we did not compare with the year ended 31 December 2012 as the historical transaction was significantly influenced by the adverse condition of global economy as advised by the Directors); and (iv) the pharmaceutical products market has started picking up since 2013 and therefore, we consider the proposed annual cap under the Perrigo Agreement for the year ending 31 December 2014 is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Concerning the proposed annual caps for the years ending 31 December 2015 and 2016 which represent a steady increase of approximately 16.67% and 16.07% as compared to that in the previous corresponding year, we are given to understand from the Company that the expected annual growth of the demand by L. Perrigo regarding the Pharmaceutical Products is approximately 7%, with the market price of the chemical raw materials used to produce the Pharmaceutical Products anticipated to have an annual growth of approximately 10%. As such, we consider the proposed annual caps for the year ended 31 December 2015 and 2016 are both acceptable upon taking into consideration of the expected increases in the Pharmaceutical Products demand and chemical raw material prices.

Pursuant to the 2012 annual report of Perrigo Company ("**Perrigo AR 2012**"), we understand that over recent years, Perrigo Company has been executing a strategy designed to expand its product offerings through both advanced research & development and acquisitions and to reach new healthcare consumers through entry into new 48 markets. This strategy is accomplished by investing in and continually improving all aspects of the Perrigo Company's five strategic pillars, high quality, superior customer service, leading innovation, best cost and empowered people. It is further noted from the Perrigo Company's website (<http://www.perrigo.com/>) that Perrigo Company will carry on providing quality, affordable, healthcare products, in accordance to the five strategic pillars and continue to be an innovative global market leader in delivering superior healthcare value.

LETTER FROM VEDA CAPITAL

As advised by the Company, the market of the pharmaceutical products is directly linked to the overall economy performance. The pharmaceutical products market is currently encountering a depressive state, whereas the general price of the pharmaceutical products has been tumbling for a period and reaching a historical low position, particularly in 2012. It is believed by the Company that following the recovery of the global economy subsequent to the financial crisis 2008, the recovery of the pharmaceutical products market will soon be seen and therefore, the Company projects an increase of price of the general raw materials used to produce pharmaceutical goods and hence, pushing up the price of the Pharmaceutical Products.

United States (U.S) is the world's largest economy in terms of country. According to the Bureau of Economic Analysis (BEA), an agency in the United States Department of Commerce that provides important economic statistics, the gross domestic product (GDP) in the U.S was worth USD15,684.80 billion in 2012, representing an approximate 4.63% growth compare to 2011, of which the GDP of the U.S stood at roughly USD14,991.30 billion. More recently, the real GDP of the U.S increased at an annual rate of 2.5% in the 2nd quarter of 2013 and 1.1% for the 1st quarter of 2013. According to the BEA, the increase in real GDP in the 2nd quarter 2013 was primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, private inventory investment, and residential fixed investment.

In general, the demand in the pharmaceutical industry relies on the economy condition and the core factor is the unemployment rate. Unemployment affects the industry in two major ways, with the unemployed do not have the funds to buy pharmaceutical products and people do rely on jobs to provide health insurance. With a better global economy prospect, employment rate is expected to go up, which results in higher demand of pharmaceutical products. According to the BEA, the number of unemployed persons in the U.S in December 2012 was at 12.2 million, with the unemployment rate stood at 7.8%. According to the latest available information regarding the unemployment rate in the U.S, it is noted that the rate dropped to 7.2% in September 2013, comparing to an unemployment rate of approximately 7.9% in January 2013, showing that the unemployment rate in the U.S is improving steadily.

Population is another principal factor which influences the demand of the pharmaceutical products. According to a release published by the U.S. Census Bureau on 27 December 2012, it was forecasted that as at 1 January 2013, the total U.S population would be approximately 315 million, and this represents an increase of roughly 2.27 million or 0.73%, from New Year's Day of 2012 and an increase of roughly 6.34 million or 2.05%, since the most recent Census Day of the U.S at 1 April 2010. It is also projected by the official that the population in the U.S will grow to 321 million by 2015, implying a potential demand growth for the pharmaceutical products.

LETTER FROM VEDA CAPITAL

In relation to (i) the projected increase of L. Perrigo's demand regarding the Pharmaceutical Products; (ii) the projected increase in market price of the chemical raw materials used to produce the Pharmaceutical Products; (iii) the continuity business strategy and influential position of Perrigo Company within the U.S pharmaceutical market; (iv) the expected economy recovery of the U.S and the direct linkage between the pharmaceutical products industry and a country's prosperity; and (v) the positive anticipation of the employment rate and population growth of the U.S, we are of the view that the basis adopted to determine the proposed annual caps for the year ending 31 December 2014, 2015 and 2016 under the Perrigo Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

Given the above, we are of the view that the basis adopted to determine the proposed annual caps of the Continuing Connected Transactions under the Perrigo Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms under the Perrigo Agreement are conducted in the ordinary and usual course of business of the Group and the terms and conditions of the Perrigo Agreement including the proposed annual caps of the Continuing Connected Transactions under the Perrigo Agreement, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolutions for approving the Perrigo Agreement including the proposed annual caps of the Continuing Connected Transactions under the Perrigo Agreement.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Julisa Fong
Managing Director

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. SHARE CAPITAL

As at the Latest Practicable Date, the total number of issued shares of the Company was 457,312,830, comprising 307,312,830 A shares listed on the Shenzhen Stock Exchange and 150,000,000 H shares listed on the Stock Exchange.

3. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the following senior officer held shares in the Company:-

Name	Number of A Shares	Percentage of the total issued share capital of the Company (%)
Senior officer:		
Mr. Cao Changqiu	961	0.00021

Save as disclosed above, as at the Latest Practicable Date:-

- (a) none of the Directors, Supervisors and chief executive of the Company was interested in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which (i) 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 they are taken or deemed to have under such provisions of the SFO), (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange;

- (b) none of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting at the date of this circular, and which was significant in relation to the business of the Group;
- (c) none of the Directors, Supervisors of the Company and Veda Capital had any direct or indirect interest in any assets which had since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up, 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; and
- (d) none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the businesses of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who 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 the Company were as follows:

No.	Name of Shareholder	Class of shares	Number of shares held	Percentage of the total issued share capital (%)
1.	SXPGC	State-owned A Shares	166,115,720	36.32
2.	HKSCC (Nominees) Limited	Listed H Shares	148,449,998	32.46

SXPGC is a wholly-state owned company. Mr. Zhang Daiming is the chairman of the Company and is also the chairman of SXPGC. Mr. Ren Fulong being a Director of the Company is also a director and a general manager of SXPGC. Mr. Xu Lie being a Director of the Company is also a director of SXPGC.

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who 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 other member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

No member of the Group is engaged in any litigation or arbitration or claim of material importance and there is no litigation or arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. CONSENTS OF EXPERT

The following expert has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears:

Names	Qualifications
Veda Capital	a licensed corporation to carry out type 6 regulated activities under the SFO

To the best knowledge of the Directors, as at the Latest Practicable Date, Veda Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best knowledge of the Directors, as at the Latest Practicable Date, Veda Capital did not have any direct or indirect interest in any asset which had been acquired or disposed of by or leased to the Company, or was proposed to be acquired or disposed of by or leased to the Company, since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors and Supervisors had entered into, or proposed to enter into, a service contract with the Company or any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation, other than statutory compensation.

9. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Directors had a material interest in the Continuing Connected Transactions under the Perrigo Agreement.

As at the Latest Practicable Date, none of the Company, its holding company and fellow subsidiaries of the controlling company of its controlling shareholder had entered into any contracts in relation to the Group's business in which any Directors or Supervisors had a material interest, whether directly or indirectly.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, 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.

10. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

11. VOTE BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of Shareholders of the Company at the EGM shall be taken by poll.

12. MISCELLANEOUS

- (a) The joint secretaries of the Company are Mr. Cao Changqiu, who graduated from Qingdao Ocean University, specialising in economic management in 1991 and Ms. Guo Lei, who graduated from Guangzhou Foreign Trade College, specialising in accounting in 1992.
- (b) The share registrar of the Company in Hong Kong is Hong Kong Registrar Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) In the case of any discrepancy, the Chinese text of this circular shall prevail over the English text.

13. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Charltons, being the Hong Kong legal advisers to the Company, at 12th Floor, Dominion Centre, 43-59 Queen's Road East, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

- (a) The Perrigo Agreement;
- (b) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;
- (c) the letter of advice from Veda Capital as set out in this circular; and
- (d) the written consent from Veda Capital referred to in paragraph 7 of this appendix.