
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 and the accompanying form of proxy 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 limited company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

**TWO CONTINUING CONNECTED TRANSACTIONS,
PROPOSED ANNUAL CAPS AND
RATIFICATION OF PREVIOUS CONTINUING CONNECTED TRANSACTIONS
AND
RE-ELECTION OF DIRECTORS,
ELECTION OF NEW DIRECTORS, AND
RE-ELECTION OF SUPERVISORS**

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



A letter from the Board is set out on pages 1 to 21 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 22 to 23 of this circular. A letter from Get Nice Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the independent Shareholders is set out on pages 24 to 35 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at the Company's conference room at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The People's Republic of China on Monday, 22 December 2008 at 9:00 a.m. is set out on pages 41 to 43 of this circular. Whether or not you are able to attend the meeting, we encourage you to complete and return the enclosed 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. 14 Dongyi Road, Zhangdian 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.

5 November 2008

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“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
“Directors”	the directors of the Company
“Eastwest”	Eastwest United Group, Inc., a limited company established in the United States of America
“Eastwest Agreement”	the written agreement entered into between the Company and Eastwest dated 9 October 2008
“EGM”	The extraordinary general meeting of the Company to be held on 22 December 2008
“Factory”	Shandong Xinhua Pharmaceutical Factory
“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 constituted for the purpose of considering the Perrigo Agreement and Eastwest Agreement and the respective annual caps, and the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, comprising three independent non-executive directors
“L. Perrigo”	L. Perrigo Company, a company established in the United States
“Latest Practicable Date”	30 October 2008, being the last practicable date prior to printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Perrigo Agreement”	the written agreement entered into between the Company and L. Perrigo dated 7 October 2008
“Perrigo China Agreement”	the written agreement entered into between Xinhua Perrigo and Perrigo China Business Trust dated 3 July 2006
“Perrigo China Business Trust”	a trust created and organised under the laws of the PRC and a subsidiary of Perrigo Company
“Perrigo Company”	Perrigo Company, a company established in the United States
“Perrigo International”	Perrigo International, Inc., a company established in the United States and a wholly-owned 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
“Supervisory Committee”	The supervisory committee of the Company
“SXPGC”	Shandong Xinhua Pharmaceutical Group Company Limited
“Xinhua Eastwest”	淄博新華中西製藥有限責任公司 (Zibo Xinhua-Eastwest Pharmaceutical Company Limited), a PRC joint venture owned 75% by the Company and 25% by Eastwest United Group
“Xinhua Perrigo”	淄博新華 — 百利高製藥有限責任公司 (SINO-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited), a PRC joint venture owned 50.1% by the Company and 49.9% by Perrigo International
“XPIE”	山東新華製藥進出口有限責任公司 (Shandong Xinhua Pharmaceutical Import & Export Company Limited), a PRC company indirectly owned 98% by the Company
“Zibo”	Zibo City, situated in Shandong Province of the PRC

LETTER FROM THE BOARD



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

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

(Stock Code: 0719)

Executive Directors:

Ms. Guo Qin (*Chairman*)
Mr. Ren Fulong
Mr. Zhao Songguo

Non-executive Directors:

Mr. Liu Zhenwen
Mr. Li Tianzhong

Independent Non-executive Directors:

Mr. Dai Qingjun
Mr. Xu Guojun
Mr. Sun Minggao

Registered Address:

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

5 November 2008

To the Shareholders

Dear Sir or Madam,

I. TWO CONTINUING CONNECTED TRANSACTIONS, PROPOSED ANNUAL CAPS AND RATIFICATION OF PREVIOUS CONTINUING CONNECTED TRANSACTIONS

A. TWO CONTINUING CONNECTED TRANSACTIONS

1. Continuing connected transactions between the Company and L. Perrigo

Perrigo Agreement

Date : 7 October 2008

Parties : (i) the Company

(ii) L. Perrigo

LETTER FROM THE BOARD

Principal terms and conditions

On 7 October 2008, the Company and L. Perrigo entered into the Perrigo Agreement in relation to the Company supplying the pharmaceutical products to L. Perrigo and its affiliates, including Perrigo Company.

The term of the Perrigo Agreement runs from 1 January 2008 to 31 December 2009 and is automatically renewable for a term of one year 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.

Proposed annual caps

The proposed annual caps for the Perrigo Agreement are as follows:

	2008	2009	2010*
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Proposed annual caps	48,000	80,000	88,000

* *if the agreement is renewed*

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

- (a) the historical figures in 2007 and January - June 2008 for the transactions between the Company and Perrigo Company, the parent company of L. Perrigo (please see Table 1 below);
- (b) the demand set out by L. Perrigo; and
- (c) the increase in the market prices of chemical raw materials for the production of the pharmaceutical products (please see Table 2 below).

LETTER FROM THE BOARD

Table 1 — Historical figures in 2007 and January - June 2008 for the transactions between the Company and Perrigo Company, the parent company of L. Perrigo

	2007 <i>(RMB'000)</i>	1 January 2008 to 30 June 2008 <i>(RMB'000)</i>
Total consideration	45,619	26,393

Table 2 — Approximate market prices of chemical raw materials

	January 2007	June 2008
Sulphuric acid	RMB370 per ton	RMB1,700 per ton
Dimethyl sulphate	RMB2,500 per ton	RMB5,000 per ton
Reductant	RMB500 per ton	RMB1,500 per ton

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

By selling the pharmaceutical products to L. Perrigo, the Company is able to expand its business in the United States. The Directors consider that the transactions have been negotiated on an arm's length basis and are on normal commercial terms. They also consider that the terms of the transactions are fair and reasonable, and that entering into the transactions is in the best interests of the Shareholders as a whole.

Connected Relationship

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 the Listing Rules.

LETTER FROM THE BOARD

Implications under the Listing Rules

The highest annual cap for 2008, 2009 and 2010 under the Perrigo Agreement is RMB88,000,000. The applicable percentage ratios (as defined in the Listing Rules) exceed 2.5% on an annual basis and the total consideration exceeds HK\$10,000,000. In accordance with rules 14A.35(3) and (4) of the Listing Rules, the Company requires independent Shareholders' approval as described in rule 14A.48, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules.

Information about the Company and L. Perrigo

The Company is principally engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemical 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.

2. Continuing connected transactions between the Company and Eastwest

Eastwest Agreement

Date : 9 October 2008

Parties : (i) the Company

(ii) Eastwest

Principal terms and conditions

The Company and Eastwest entered into the Eastwest Agreement in relation to the Company supplying the pharmaceutical products to Eastwest for a period of two years from 1 January 2008 to 31 December 2009.

Payment terms

1. The price of the pharmaceutical products is based on the prevailing market price.
2. Eastwest shall pay the Company within the time specified at the time of entering into the transactions.

LETTER FROM THE BOARD

Proposed annual caps

The proposed annual caps for the Eastwest Agreement are as follows:

	2008 <i>(RMB'000)</i>	2009 <i>(RMB'000)</i>
Proposed annual caps	8,000	12,000

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

- (a) the historical figures in 2007 and January - June 2008 for the transactions between the Company and Eastwest (please see Table 3 below);
- (b) the demand by Eastwest; and
- (c) the increase in the market prices of chemical raw materials for the production of the pharmaceutical products (please see Table 2 above).

Table 3 — Historical figures in 2007 and January - June 2008 for the transactions between the Company and Eastwest

	2007 <i>(RMB'000)</i>	1 January 2008 to 30 June 2008 <i>(RMB'000)</i>
Total consideration	5,276	2,160

Reasons for and benefits of the continuing connected transactions between the Company and Eastwest

By selling the pharmaceutical products to Eastwest, the Company is able to expand its business in the United States. The Directors consider that the transactions were and are on normal commercial terms and in the ordinary course of business. They also consider that the terms of the transactions were and are fair and reasonable and that entering into the transaction is in the interests of the Shareholders as a whole.

Connected Relationship

As at the Latest Practicable Date, Eastwest is a substantial shareholder of Xinhua Eastwest, a subsidiary of the Company, and therefore Eastwest is a connected person of the Company. As a result, the ongoing transactions between the Company and Eastwest constitute continuing connected transactions under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Implications under the Listing Rules

The highest annual cap for 2008 and 2009 under the Eastwest Agreement is RMB12,000,000. One of the applicable percentage ratios (as defined in the Listing Rules) exceeds 2.5% on an annual basis and the total consideration exceeds HK\$10,000,000. In accordance with rule 14A.35(3) and (4) of the Listing Rules, the Company requires independent Shareholders' approval as described in rule 14A.48, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules.

Information about Eastwest

Eastwest is principally engaged in trading business.

B. RATIFICATION OF THE CONTINUING CONNECTED TRANSACTIONS CONDUCTED IN 2007 AND 2008

As disclosed in the announcement of the Company dated 5 September 2008, the Company conducted continuing connected transactions with Perrigo Company in 2007 and the first half of 2008 and XPIE also conducted continuing connected transactions with Perrigo Company in 2007 without independent Shareholders' prior approval.

1. Continuing connected transactions between the Company and Perrigo Company

Principal terms and conditions and consideration

From 1 January 2007 to 31 December 2007, the Company and Perrigo Company entered into various transactions in relation to the Company selling pharmaceutical products to Perrigo Company for the total consideration of RMB45,619,000.

From 1 January 2008 to the Latest Practicable Date, the Company and Perrigo Company have continued the above transactions. The total consideration for the first half of 2008 is RMB26,393,000.

The Directors believe that the consideration of each connected transaction for the relevant period in 2007 and 2008 was arrived at after arm's length negotiations between the parties thereto on normal commercial terms. The consideration of each connected transaction was based on the prevailing market price.

LETTER FROM THE BOARD

Payment terms

The consideration for the various transactions between the Company and Perrigo Company was paid by Perrigo Company in cash to the Company within 30 days from the date of delivery of goods in each transaction.

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

By selling the pharmaceutical products to Perrigo Company, the Company was able to expand its business in the pharmaceutical industry in the United States. The Directors consider that the transactions were negotiated on an arm's length basis and were on normal commercial terms and in the ordinary course of business. They also consider that the terms of the transactions are fair and reasonable, and that entering into the transactions was and is in the best interests of the Shareholders as a whole.

Connected Relationship

Prior to 1 January 2007, each of the Company and Perrigo International held a 50% equity interest in Xinhua Perrigo. Accordingly, Xinhua Perrigo was not a subsidiary of the Company and Perrigo International was not a connected person of the Company. On 1 January 2007, the Company acquired a 0.1% equity interest in Xinhua Perrigo and Xinhua Perrigo became a subsidiary of the Company. Accordingly, Perrigo International, as a substantial shareholder of Xinhua Perrigo, then became a connected person of the Company. Perrigo Company, the parent company of Perrigo International, also became a connected person of the Company on 1 January 2007. As a result, the ongoing transactions between the Company and Perrigo Company in 2007 and 2008 constituted continuing connected transactions under Chapter 14A of the Listing Rules.

2. Continuing connected transactions between XPIE and Perrigo Company

Principal terms and conditions and consideration

From 1 January 2007 to 31 December 2007, XPIE entered into various transactions with Perrigo Company in relation to XPIE selling pharmaceutical products to Perrigo Company for a total consideration of RMB9,752,000.

From 1 January 2008 to the Latest Practicable Date, XPIE and Perrigo Company have not conducted any transactions.

The consideration of each connected transaction in 2007 was arrived at after arm's length negotiations between the parties thereto on normal commercial terms. The consideration of each connected transaction was based on the prevailing market price.

LETTER FROM THE BOARD

Payment terms

The consideration for the various sales contracts between XPIE and Perrigo Company was paid by Perrigo Company in cash to XPIE within 30 days from the date of delivery of the goods in each transaction.

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

By selling the pharmaceutical products to Perrigo Company through XPIE, the Company was able to expand its business in the pharmaceutical industry in the United States. The Directors consider that the transactions were negotiated on an arm's length basis and were on normal commercial terms and in the ordinary course of business. They also consider that the terms of the transactions were fair and reasonable, and that entering into the transactions was and is in the best interests of the Shareholders as a whole.

Connected Relationship

The Company indirectly held and holds a 98% equity interest in XPIE. Therefore, XPIE was and is a subsidiary of the Company. As mentioned in paragraph B.1 above, Perrigo International became a connected person of the Company on 1 January 2007. Accordingly, Perrigo Company, the parent company of Perrigo International, also became a connected person of the Company on 1 January 2007. As a result, the ongoing transactions between XPIE and Perrigo Company in 2007 constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Implications under the Listing Rules for the above two continuing connected transactions

Pursuant to rules 14A.25 and 14A.26 of the Listing Rules, the continuing connected transactions between the Company and Perrigo Company, and the continuing connected transactions between XPIE and Perrigo Company could be aggregated as they are the transactions of the same nature entered into by the Company or its subsidiaries with the same party i.e., Perrigo Company.

When the two continuing connected transactions between the Company and Perrigo Company and between XPIE and Perrigo Company in 2007 are aggregated, the applicable percentage ratios (as defined in the Listing Rules) exceeded 2.5% on an annual basis and the total consideration exceeded HK\$10,000,000. In accordance with rules 14A.35(3) and (4) of the Listing Rules, the Company required independent Shareholders' approval as described in rule 14A.48 of the Listing Rules, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules.

LETTER FROM THE BOARD

To comply with the independent Shareholders' approval requirements described in rule 14A.48 of the Listing Rules, the Company will seek ratification from independent Shareholders in relation to the two continuing connected transactions in 2007 at the EGM.

Further, as disclosed in the announcement dated 5 September 2008, from 1 January 2008 to 30 June 2008 there were continuing connected transactions between the Company and Perrigo Company but there were no transactions between XPIE and Perrigo Company. The applicable percentage ratios (as defined in the Listing Rules) were slightly below 2.5% for this six months' period. In accordance with rule 14A.34(1) of the Listing Rules, the Company is only required to comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent Shareholders' approval requirements.

However, the Company has been continuing to conduct these connected transactions with Perrigo Company from 1 July 2008 to the date of EGM and it is not clear whether the applicable percentage ratios for whole year of 2008 will exceed 2.5%, and therefore, to be prudent, the Company is also seeking ratification from the independent Shareholders on the continuing connected transactions between the Company and Perrigo Company in 2008 at the EGM.

Since the Perrigo Agreement covers the transactions between the Company and L. Perrigo or L. Perrigo's affiliates, if the Company enters into any transactions with L. Perrigo or Perrigo Company under the period of the Perrigo Agreement, no separate independent Shareholders' approval is required once the Perrigo Agreement and the proposed annual caps are approved by the independent Shareholders at the EGM.

The Company has complied with the reporting requirements earlier this year and published an announcement on 5 September 2008.

Information about Perrigo Company and XPIE

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

XPIE is principally engaged in import and export of chemical products and pharmaceutical technical know-how in the PRC.

LETTER FROM THE BOARD

C. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the independent Shareholders in connection with the following:

1. Perrigo Agreement and the proposed annual caps;
2. Eastwest Agreement and the proposed annual caps; and
3. ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

D. EXTRAORDINARY GENERAL MEETING

The Directors have resolved to convene the EGM to consider and, if thought fit by the independent Shareholders, to approve the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and to ratify the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007. Notice of the EGM is set out on pages 41 to 43 of this circular. Whether or not you are able to attend the EGM, we encourage you to complete and return the enclosed 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 at the Company at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

E. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the approval of the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the ratification of the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 are in the best interests of the Company and its Shareholders as a whole and are fair and reasonable as far as the independent 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, the Eastwest Agreement and their respective annual caps and the ratification of the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007. Get Nice Capital Limited has been appointed as 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, the Eastwest Agreement and the continuing connected transactions between the Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, and the opinion of Get Nice Capital Limited, the Independent Board Committee considers that the approval of the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the ratification of the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 are fair and reasonable as far as the independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and to ratify the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

All connected persons or Shareholders with a material interest in the transactions and its associates shall abstain from voting in approving the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and in ratifying the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

Since none of L. Perrigo and its associates (including Perrigo and its associates) and Eastwest and its associates are the Shareholders of the Company as at the Latest Practicable Date, no Shareholders are expected to be interested in any of the aforesaid agreements and/or continuing connected transactions, and therefore no Shareholders are required to abstain from voting in the EGM.

The independent Shareholders will be asked to consider and, if thought fit, approve by poll the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and ratify the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

The Company will publish an announcement on the results of the EGM on the business day following the EGM with respect to whether or not the resolutions set out in this circular has been passed by the independent Shareholders.

F. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee and the letter of advice from Get Nice Capital Limited and information set out in the appendix to this circular.

LETTER FROM THE BOARD

II. PROPOSED RE-ELECTION AND ELECTION OF DIRECTORS AND SUPERVISORS

The Board currently comprises eight Directors including Guo Qin being the Chairman, Ren Fulong and Zhao Songguo being executive Directors, Liu Zhenwen and Li Tianzhong being non-executive Directors and Dai Qingjun, Xu Guojun and Sun Minggao being independent non-executive Directors. The Supervisory Committee comprises five Supervisors, namely, Yu Gongfu, Gao Qinggang, Liu Qiang, Zhang Yueshun, and Tao Zhichao. In accordance with Articles 91 and 112 of the Articles of Association, all Directors and Supervisors shall hold office for a term of three years and may offer themselves for re-election.

All the following candidates will be re-elected or elected at the EGM by ordinary resolutions passed by the Shareholders attending the EGM. The new term of office of the elected Directors and the Supervisors will be for a period of three years, which is proposed to commence on the date of the EGM and will expire on the completion of the term of office.

A. Executive Directors proposed to be re-elected

1. Ms. Guo Qin

Ms. Guo Qin, aged 50, is a senior engineer and practising pharmacist. She graduated from Shandong Medical University, specialising in pharmacy. Ms. Guo joined the Factory in 1982. She previously held the positions of deputy director of the preparation workshop and the preparation sales department, deputy director and then director of the quality control department, as well as deputy director and director of the Inspection Center for the Quality of Drugs, a subsidiary of Shandong Pharmaceutical Administration. She was also the director of the enterprise management department, assistant to the general manager, then deputy general manager of the Company and general manager of the Company. Ms. Guo is currently a member of the Standing Committee of Zibo People's Congress. Ms. Guo was appointed as chairman of the Company on 24 March 2006. Ms. Guo is also the Chairman of SXPGC, chairman of Zibo Xinhua-Eastwest Pharmaceutical Company Limited, chairman of Zibo Xinhua-Perrigo Pharmaceutical Company Limited and chairman of Xinhua Pharmaceutical (Shouguang) Company Limited. Save as disclosed above, she did not hold any other directorship in any listed companies in the past three years or any positions with the Company or other members of the Group. Ms. Guo has no relationship with any other Directors, senior management or substantial or controlling Shareholders.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Ms. Guo held 12,639 A shares of the Company, which represents 0.00276% of the total issued share capital of the Company and Ms. Guo does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO. Ms. Guo has not entered into any service contract with the Company. The proposed amount of her emoluments for 2008 is approximately RMB200,000, determined by reference to her experience and the emoluments of other non-independent directors of the Company. The term of office of Ms. Guo will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

2. Mr. Ren Fulong

Mr. Ren Fulong, aged 46, is a senior engineer and practising pharmacist. He graduated from Shandong Changwei Medicine College in 1985. From 1985 to 1988, Mr. Ren was a resident physician. In 1991, Mr. Ren obtained his master's degree in medicine from Beijing Medical University and joined the Factory in the same year. He previously held the positions of deputy director and director of the Company's research institute, assistant to the general manager and then deputy general manager of the Company and deputy general manager of SXPGC. Mr. Ren was appointed as general manager of the Company on 24 March 2006 and has been elected as Director of the Company with effect from 9 June 2006. Mr. Ren is also a director of SXPGC, chairman of Shandong Xinhua Medical Trade Company Limited, chairman of Zibo Xinhua Drug Store Chain Company Limited, director and general manager of Xinhua Pharmaceutical (Shouguang) Company Limited, director of Zibo XinCat Pharmaceutical Company Limited and director of Shandong Xinhua Longxin Chemical & Industrial Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Ren has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Ren does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Ren has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB330,000, determined by reference to his experience and the emoluments of other non-independent directors of the Company. The term of office of Mr. Ren will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

LETTER FROM THE BOARD

3. Mr. Zhao Songguo

Mr. Zhao Songguo, aged 45, is a senior accountant. He graduated from Shandong Television and Broadcasting University, specializing in enterprise management, in 1986. He also completed a postgraduate course in financial management in Qingdao Ocean University in 2004. Mr. Zhao joined the Factory in 1980 and previously held the positions of the head and the director of the finance department and the assistant to the general manager of the Company. Mr. Zhao is a Director, deputy general manager and financial controller of the Company. He is also a director of Zibo Xinhua Eastwest Pharmaceutical Company Limited, director of Shandong Xinhua Pharmaceutical Export & Import Company Limited, director of Shandong Xinhua Medical Trade Company Limited, director of Shandong Zibo Xinhua Pharmacy Chain Co., Ltd., director of Shandong Xinhua Pharmaceutical (Europe) GmbH, director of Shandong Xinhua Longxin Chemical Co., Ltd., director of Shandong Xinhua Changxing Chemical Equipment Company Limited and director of Xinhua Pharmaceutical (Shouguang) Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Zhao has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Zhao does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Zhao has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB250,000, determined by reference to his experience and the emoluments of other non-independent directors of the Company. The term of office of Mr. Zhao will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

LETTER FROM THE BOARD

B. Non-executive Directors proposed to be re-elected

1. Mr. Liu Zhenwen

Mr. Liu Zhenwen, aged 56, is a senior economist. He joined the Factory in 1966 and was transferred to Shandong Jining Antibiotics Factory in 1968 where he served as group leader, workshop section head, deputy head and then head of the workshop and head of the Department of Production and Technology. He has also acted as manager of the Production and Planning Department, deputy general manager, director, deputy director, deputy secretary to the Company's Communist Party Committee and general manager of Shandong Lukang Pharmaceutical Co., Ltd. He is currently the deputy secretary to the Company's Communist Party Committee, and a director and the general manager of SXPGC. Mr. Liu has been a director of the Company since 9 June 2006. Mr. Liu is also the chairman of Shandong Xinhua Industry & Trade Company Limited and the chairman of Shandong Zibo XinCat Pharmaceutical Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Liu has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Liu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Liu has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB170,000, determined by reference to his experience and the emoluments of other non-independent directors of the Company. The term of office of Mr. Liu will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

2. Mr. Li Tianzhong

Mr. Li Tianzhong, aged 46, is a senior engineer. He graduated from Shandong Institute of Technology, specialising in industry automation and joined the Factory in 1983. Mr. Li previously held the positions of engineer and director of the electricity workshop, manager of the trade department, supply and marketing department and drug department of the Company, assistant to the general manager, director and deputy general manager of Xinhua Lukang Pharmaceutical Group Corporation, director and deputy general manager of SXPGC. He is currently a director of the Company, a director and the chairman of the labour union of SXPGC and the chairman of the labour union of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Li has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Li does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Li has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB220,000, determined by reference to his experience and the emoluments of other non-independent directors of the Company. The term of office of Mr. Li will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

C. Independent non-executive Directors proposed to be re-elected

1. Mr. Xu Guojun

Mr. Xu Guojun, aged 46, has a doctorate degree in accounting from Renmin University in the PRC. He is a professor, non-practising Chinese certified public accountant, tutor of the students in a doctorate class and an assistant to the president and the deputy chief accountant of Ocean University of China. Mr. Xu is also a council member of the China Accounting Association, the vice chairman of Qingdao Social Academy, and a member of Qingdao Economic Development Committee. With many years' experience in teaching accounting and financial management courses, engaging in scientific research and practical research as well as publishing many written works in accounting and financial management theories, he has been given the award of the leader of Qingdao Youth Science and Engineering and has been named as the Excellent Teacher in Shandong Province and one of Ten Excellent Teachers of Provincial Colleges and has been granted the State Department special government allowances. Mr. Xu is currently an independent non-executive Director of the Company. Mr. Xu is also an independent director of Shandong Xinhua Medical Instrument Co., Ltd., independent director of Qingdao Yellow Sea Rubber Company Limited, and director of Qingdao Haier Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Xu has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Xu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Xu has not entered into any service contract with the Company. The proposed amount of her emoluments for 2008 is approximately RMB60,000, determined by reference to his experience and the emoluments of other non-independent directors of the Company. The term of office of Mr. Xu will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

LETTER FROM THE BOARD

2. Mr. Sun Minggao

Mr. Sun Minggao, aged 44, has a doctorate degree in management from Tianjin University and he is a tutor of the students in a doctorate class and a senior economist. Mr. Sun founded Shenzhen Tactician Investment (Group) Co., Ltd. in 2001, where he is the chairman and president. He is also a researcher of Public Economics Academy of Peking University, deputy director of Southern Institute of Economic Research, honourable chairman of Neimenggu Baotou Youth Federation, financial adviser of Shiyan Municipal People's Government of Hubei Province, senior economics consultant of the People's Government of Linyi County of Shandong Province, deputy director of the Pearl River Delta Service Center of China Association of Small and Medium Enterprises, standing member of Shenzhen Venture Capital Association, vice chairman of Shandong Production Committee, and vice chairman of Shandong Logistics & Procurement Committee. Mr. Sun is an independent non-executive director of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Sun has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Sun does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Sun has not entered into any service contract with the Company. The proposed amount of his emolument for 2008 is approximately RMB60,000, determined by reference to his experience and the emoluments of other non-independent Directors of the Company. The term of office of Mr. Sun will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

D. Candidates proposed to be elected as new independent non-executive Directors

1. Mr. Zhu Baoquan

Mr. Zhu Baoquan, aged 62, is a researcher and a tutor of the students in a doctorate class. He was the vice president of Shanghai Pharmaceutical Industry Research Institute from September 1993 to January 2002, and he was the president of Shanghai Pharmaceutical Industry Research Institute from February 2002 to June 2008. Since July 2008, Mr. Zhu has been an adviser and the Academic Committee Dean of Shanghai Pharmaceutical Industry Research Institute, the President of Shanghai Jiao Tong University Pharmacy College and an independent director of Zhejiang Pharmaceutical Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Zhu has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Zhu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Zhu has not entered into any service contract with the Company. The term of office of Mr. Zhu will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of Directors of the Company. Further announcement will be made once his emolument is determined.

2. **Mr. Kwong Chi Kit**

Mr. Kwong Chi Kit, aged 41, is a financial controller of Anwell Technologies Limited, a company whose shares are listed on Singapore Exchange Limited. Mr. Kwong has more than 16 years' experience covering auditing, accounting and financial management in commercial, manufacturing and public accounting sectors. He is also an independent non-executive director of Get Nice Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange. He is a fellow member of the Association of Chartered Certified Accountants (United Kingdom) and an associate member of the Hong Kong Institute of Certified Public Accountants. He has a bachelor's degree in commerce from Curtin University of Technology, Australia. Save as disclosed above, as at the Latest Practicable Date, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Kwong has no relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Kwong does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Kwong has not entered into any service contract with the Company. The term of office of Mr. Kwong will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company. Further announcement will be made once his emolument is determined.

LETTER FROM THE BOARD

E. Supervisors proposed to be re-elected

1. Mr. Yu Gongfu

Mr. Yu Gongfu, aged 58, is a senior engineer. He graduated from Shandong Engineering College in 1974, specialising in industrial automation. He joined the Factory in 1968. Mr. Yu had previously held the positions of the vice-chairman of the labour union and the deputy manager of the Factory, and he was the deputy general manager and a Director of the Company. He was also a director, deputy general manager, deputy secretary to the Communist Party Committee and the secretary to the Disciplinary Committee of the Communist Party of SXPGC. Mr. Yu is the chairman of the Supervisory Committee of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Yu has no relationship with any Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Yu held 6,075 A shares of the Company which represents 0.00133% of the total issued share capital of the Company and Mr. Yu does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Yu has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB220,000, determined by reference to his experience and the emoluments of other Supervisors of the Company. The term of office of Mr. Yu will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Supervisory Committee of the Company.

2. Mr. Gao Qinggang

Mr. Gao Qinggang, aged 59, is a senior accountant. He graduated from Shandong Television and Broadcasting University, specialising in finance and accounting. Mr. Gao joined the Factory in 1978 and was previously a deputy director and a director of the finance department of the Factory, as well as the chief of the Shareholding System Reform Office, and a director, deputy general manager and financial controller of the Company. Mr. Gao is a director, deputy general manager and financial controller of SXPGC. Mr. Gao is currently a Supervisor of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Gao has no relationship with any Directors, senior management or substantial or controlling Shareholders of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Gao held 4,370 A shares of the Company which represents 0.000956% of the total issued share capital of the Company and Mr. Gao does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Gao has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB130,000, determined by reference to his experience and the emoluments of other Supervisors of the Company. The term of office of Mr. Gao will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Supervisory Committee of the Company.

3. Mr. Zhang Yueshun

Mr. Zhang Yueshun, aged 59, is a certified public accountant and a certified public assessor in the PRC. Mr. Zhang was the controller of an enterprise, deputy chief of Zibo Office affiliated to the Enterprise Department of the Ministry of Finance of the PRC, deputy director of the Zibo Municipal State-owned Assets Administration and chief accountant of Shandong Zibo Accounting Firm. Mr. Zhang is currently a senior consultant of Zibo Puhua Accounting Firm and an independent Supervisor of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Zhang has no relationship with any Directors, senior management or substantial or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Zhang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Zhang has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB24,000, determined by reference to his experience and the emoluments of other Supervisors of the Company. The term of office of Mr. Zhang will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Supervisory Committee of the Company.

4. Mr. Tao Zhichao

Mr. Tao Zhichao, aged 39, graduated from East China University of Politics and Law and obtained a bachelor's degree in law. Mr. Tao was also awarded a master's degree in law from Shandong University. Mr. Tao is a partner of Shandong Zhigong Associates, a legal consultant for the People's Government of Zibo, Shandong and an independent Supervisor of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions with the Company or other members of the Group. Mr. Tao has no relationship with any Directors, senior management or substantial or controlling Shareholders of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Tao does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Tao has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 is approximately RMB24,000, determined by reference to his experience and the emoluments of other Supervisors of the Company. The term of office of Mr. Tao will commence from the date of approval by the Company's Shareholders at the EGM and will end on the expiry of the term of the sixth Supervisory Committee of the Company.

E. Employee Supervisor

Mr. Liu Qiang was appointed as employee Supervisor of the Company by the employee's representatives meeting held on 2 February 2007. Pursuant to the Article 113 of the Articles of Association, an employee Supervisor need not be elected by the Shareholders. He will automatically be appointed as Supervisor of the sixth Supervisory Committee of the Company.

Mr. Liu Qiang, aged 55, was employed to work in the Factory in 1970. He graduated from the technical secondary school of the Factory in 1988 and was employed in different positions as secretary of the party branch of the production workshop, secretary of the principal branch of the party in the Factory branch and Supervisor to the party committee office. He is currently being employed as Supervisor to the union office of the Company.

Other than the relationship arising from his supervisorship with the Company, Mr. Liu has not held any directorship in any listed companies in the past three years and he does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Liu held 4,370 A shares of the Company which represents 0.000956% of the total issued share capital of the Company and Mr. Liu does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO. He has not entered into any service contract with the Company in 2008. The proposed amount of his emoluments for 2008 is approximately RMB66,000, determined by reference to his experience and the emoluments of other Supervisors of the Company.

All of the above persons have nothing to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules nor are there other matters that need to be brought to the attention of the Shareholders.

Yours faithfully,

By order of the Board of Directors

Shandong Xinhua Pharmaceutical Company Limited

Guo Qin

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

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

(Stock Code: 0719)

Independent Non-executive Directors:

Mr. Dai Qingjun

Mr. Xu Guojun

Mr. Sun Minggao

Registered Address:

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

5 November 2008

To the independent Shareholders

Dear Sir or Madam,

**TWO CONTINUING CONNECTED TRANSACTIONS,
PROPOSED ANNUAL CAPS AND
RATIFICATION OF PREVIOUS CONTINUING CONNECTED TRANSACTIONS**

We refer to this circular dated 5 November 2008 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, the Eastwest Agreement and their respective annual caps and the ratification of the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, are in the interests of the Company and the Shareholders as a whole and whether they are fair and reasonable so far as the independent Shareholders are concerned. None of the members of the Independent Board Committee have any direct or indirect interest in any of the aforesaid continuing connected transactions. In addition, Get Nice Capital Limited has been appointed as 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 letters of advice from Get Nice Capital Limited as set out on pages 24 to 35 of this circular; and (ii) the letter from the Board on pages 1 to 21 of this circular, which set out information relating to, and the reasons for and benefits of the approval of the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

As the Company's independent Directors, we have discussed with the management of the Company the reasons for and benefits of the approval of the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007. We have considered the factors and reasons considered by, and the opinions and recommendations of, Get Nice Capital Limited as set out on pages 24 to 35 of this circular. We concur with the view of Get Nice Capital Limited that the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the two continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 are 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 approval of the Perrigo Agreement, the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee of
Shandong Xinhua Pharmaceutical Company Limited
Dai Qingjun, Xu Guojun, Sun Minggao

LETTER FROM GET NICE CAPITAL LIMITED

The following is the full text of a letter from Get Nice Capital Limited for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the independent Shareholders in relation to the Perrigo Agreement and the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007:



10th Floor, Cosco Tower,
Grand Millennium Plaza,
183 Queen's Road Central
Hong Kong

5 November 2008

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

Dear Sirs,

TWO CONTINUING CONNECTED TRANSACTIONS, PROPOSED ANNUAL CAPS AND RATIFICATION OF PREVIOUS CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders on whether (i) the Perrigo Agreement and the Eastwest Agreement and their respective annual caps; and (ii) the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, details of which are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 5 November 2008 (the "**Circular**"), of which this letter forms part, are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and whether they are fair and reasonable. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 7 October 2008, the Company and L. Perrigo entered into the Perrigo Agreement in relation to the Company supplying the pharmaceutical products to L. Perrigo and its affiliates, including 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 the Listing Rules. The highest annual cap for 2008, 2009 and 2010 under the Perrigo Agreement is

LETTER FROM GET NICE CAPITAL LIMITED

RMB88,000,000. The applicable percentage ratios (as defined in the Listing Rules) exceed 2.5% on an annual basis and the total consideration exceeds HK\$10,000,000. In accordance with rules 14A.35(3) and (4) of the Listing Rules, the Company requires independent Shareholders' approval as described in rule 14A.48, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules.

On 9 October 2008, the Company and Eastwest entered into the Eastwest Agreement in relation to the Company supplying the pharmaceutical products to Eastwest. As at the Latest Practicable Date, Eastwest is a substantial shareholder of Xinhua Eastwest, a subsidiary of the Company, and therefore Eastwest is a connected person of the Company. As a result, the ongoing transactions between the Company and Eastwest constitute continuing connected transactions under Chapter 14A of the Listing Rules. The highest annual cap for 2008 and 2009 under the Eastwest Agreement is RMB12,000,000. One of the applicable percentage ratios (as defined in the Listing Rules) exceeds 2.5% on an annual basis and the total consideration exceeds HK\$10,000,000. In accordance with rule 14A.35(3) and (4) of the Listing Rules, the Company requires independent Shareholders' approval as described in rule 14A.48, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules.

As disclosed in the announcements of the Company dated 5 September 2008 and 23 October 2008 (the "**Announcements**"), the Company conducted continuing connected transactions with Perrigo Company in 2007 and 2008 and XPIE, a subsidiary of the Company, also conducted continuing connected transactions with Perrigo Company in 2007, in each case without prior independent Shareholders' approval. To comply with the independent Shareholders' approval requirements described in rule 14A.48 of the Listing Rules, the Company is seeking ratification from independent Shareholders at the EGM in relation to the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007.

Since none of L. Perrigo and its associates (including Perrigo and its associates) and Eastwest and its associates are the Shareholders as at the Latest Practicable Date, no Shareholders are expected to be interested in any of the aforesaid agreements and/or continuing connected transactions, and therefore no Shareholders are required to abstain from voting in the EGM.

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information, facts and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or management of the Company (for which they are solely responsible), are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We are also not aware that any statements of belief, opinion and intention made by the Directors in the Circular were not reasonably made after due and careful enquiry and not based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

LETTER FROM GET NICE CAPITAL LIMITED

We consider that we have been provided with sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company or any of its respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee and the independent Shareholders in respect of (i) the Perrigo Agreement and the Eastwest Agreement and their respective annual caps; and (ii) the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, we have taken the following principal factors and reasons into consideration:

I. THE PERRIGO AGREEMENT AND THE EASTWEST AGREEMENT

A. Background of the continuing connected transactions between the Company and L. Perrigo and the Perrigo Agreement

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

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

As set out in the Announcements, prior to 1 January 2007, each of the Company and Perrigo International held a 50% equity interest in Xinhua Perrigo. Accordingly, Xinhua Perrigo was not a subsidiary of the Company and Perrigo International was not a connected person of the Company. On 1 January 2007, the Company acquired an 0.1% equity interest in Xinhua Perrigo and Xinhua Perrigo became a subsidiary of the Company. Accordingly, Perrigo International, as a substantial shareholder of Xinhua Perrigo, became a connected person of the Company on 1 January 2007. Perrigo Company, the parent company of Perrigo International, also became a connected person of the Company on 1 January 2007. As a result, the ongoing transactions between the Company and Perrigo Company from 1 January 2007 constitute continuing connected transactions under Chapter 14A of the Listing Rules.

LETTER FROM GET NICE CAPITAL LIMITED

As disclosed in the Announcements, From 1 January 2007 to 31 December 2007, the Company and Perrigo Company entered into various transactions in relation to the Company selling pharmaceutical products to Perrigo Company for the total consideration of RMB45,619,000. From 1 January 2008 onwards, the Company and Perrigo Company have been continuing the above transactions without a written agreement, annual caps or independent Shareholders' approval. The total consideration for the first half of 2008 was RMB26,393,000.

On 7 October 2008, the Company and L. Perrigo, a subsidiary of Perrigo Company, entered into the Perrigo Agreement in relation to the Company supplying the pharmaceutical products to L. Perrigo and its affiliates, including Perrigo Company. The term of the Perrigo Agreement runs from 1 January 2008 to 31 December 2009 and shall automatically renew for a term of one year unless terminated on six months' written notice.

B. Background of the continuing connected transactions between the Company and Eastwest and the Eastwest Agreement

Eastwest is principally engaged in trading business.

As set out in the Announcements, Eastwest held a 25% equity interest in a subsidiary of the Company, Xinhua Eastwest, and therefore, Eastwest was and is a substantial shareholder of Xinhua Eastwest. Accordingly, Eastwest was and is a connected person of the Company. As a result, the ongoing transactions between the Company and Eastwest constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As disclosed in the Announcements, from 1 January 2007 to 31 December 2007, the Company entered into various sales contract with Eastwest and sold pharmaceutical products to Eastwest for the total consideration of RMB5,276,000. From 1 January 2008 onwards, the Company and Eastwest have been continuing the above transactions without a written agreement and annual caps. The total consideration for the first half of 2008 was RMB2,160,000.

On 9 October 2008, the Company and Eastwest entered into the Eastwest Agreement in relation to the Company supplying the pharmaceutical products to Eastwest for a period of two years from 1 January 2008 to 31 December 2009.

LETTER FROM GET NICE CAPITAL LIMITED

C. Principal terms of the Perrigo Agreement and the Eastwest Agreement

(a) Payment terms under the Perrigo Agreement

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

(b) Payment terms under the Eastwest Agreement

1. The price of the pharmaceutical products is based on prevailing market prices.
2. Eastwest shall pay the Company within the time specified at the time of entering into the transactions.

We are of view that the payment terms for both the Perrigo Agreement and the Eastwest Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

D. Reasons for and benefits of the Perrigo Agreement and the Eastwest Agreement

By selling the pharmaceutical products to L. Perrigo and Eastwest respectively, the Company is able to expand its business in the United States of America. The Directors consider that the transactions have been negotiated on an arm's length basis and are on normal commercial terms. They also consider that the terms of the transactions are fair and reasonable, and that entering into the transactions is in the best interests of the Shareholders as a whole.

As advised by the Directors, the pharmaceutical market in the United States of America is very large and potentially very lucrative. Therefore, the Directors plan to establish the distribution network for its pharmaceutical products in the United States of America for the medium to long term growth and development of the Company. By entering into the Perrigo Agreement and the Eastwest Agreement, the Company is able to penetrate the pharmaceutical market in the United States of America. This would broaden the revenue base of the Company and enable the Company to have a stable source of revenue and potentially diversify its pharmaceutical products to this market. Accordingly, we consider that entering into the Perrigo Agreement and the Eastwest Agreement are in the best interests of the Company and the Shareholders as a whole.

LETTER FROM GET NICE CAPITAL LIMITED

E. Proposed annual caps for the Perrigo Agreement and the Eastwest Agreement

The proposed annual caps for the Perrigo Agreement and the Eastwest Agreement are as follows:

	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Proposed annual caps for the Perrigo Agreement	48,000	80,000	88,000*
Proposed annual caps for the Eastwest Agreement	8,000	12,000	Not applicable

* if the Perrigo Agreement is renewed

The Company has determined the above annual caps for the Perrigo Agreement and the Eastwest Agreement based on the following factors:

- (a) (i) the historical figures in 2007 and January - June 2008 for the transactions between the Company and Perrigo Company, the parent company of L. Perrigo as for the Perrigo Agreement (please see Table 1 below) and; (ii) the historical figures in 2007 and January-June 2008 for the transactions between the Company and Eastwest as for the Eastwest Agreement (please see Table 2 below);
- (b) (i) the projected demand by L. Perrigo for annual caps under the Perrigo Agreement; and (ii) the projected demand by Eastwest for the annual caps under the Eastwest Agreement; and
- (c) the increase in the market prices of chemical raw materials for the production of the pharmaceutical products (please see Table 3 below) for both of the Perrigo Agreement and the Eastwest Agreement.

Table 1 — Historical figures in 2007 and January - June 2008 for the transactions between the Company and Perrigo Company

	2007	1 January 2008 to 30 June 2008
Total consideration for the transactions between the Company and Perrigo Company	RMB45,619,000	RMB26,393,000
Percentage of total consideration for the transactions between the Company and Perrigo Company to the proposed annual cap for 2008 for the Perrigo Agreement	95.04%	54.99%

LETTER FROM GET NICE CAPITAL LIMITED

Table 2 — Historical figures in 2007 and January - June 2008 for the transactions between the Company and Eastwest

	2007	1 January 2008 to 30 June 2008
Total consideration for the transactions between the Company and Eastwest	RMB5,276,000	RMB2,160,000
Percentage of total consideration for the transactions between the Company and Eastwest to the proposed annual cap for 2008 for the Eastwest Agreement	65.95%	27%

Table 3 — Approximate market prices of chemical raw materials

	January 2007	June 2008
Sulphuric acid	RMB370 per ton	RMB1,700 per ton
Dimethyl sulphate	RMB2,500 per ton	RMB5,000 per ton
Reductant	RMB500 per ton	RMB1,500 per ton

As can be seen from Table 1, the total consideration for the transactions between the Company and Perrigo Company for 2007 and for the first six months from January to June 2008 account respectively for approximately 95.04% and 54.99% of the proposed annual cap for 2008 for the Perrigo Agreement. As can be seen from Table 2, the total consideration for the transactions between the Company and Eastwest for 2007 and for the first six months from January to June 2008 account respectively for approximately 65.95% and 27% of the proposed annual cap for 2008 for the Eastwest Agreement.

LETTER FROM GET NICE CAPITAL LIMITED

We have discussed with the management of the Company on the above factors for the determination of the annual caps for the Perrigo Agreement for 2008 to 2010 and the annual caps for the Eastwest Agreement for 2008 and 2009. We are advised that the Company has noted that the market prices of raw materials for the production of pharmaceutical products in June 2008 have doubled or tripled or more over the market prices in January 2007 as set out in Table 3 above. The Directors anticipate that the market prices of the above chemical raw materials for production of pharmaceutical products will remain at such high levels in 2008 and 2009 but will experience downward pressure in 2010. In view of such situation, the Company expects an increase in the selling price of its pharmaceutical products for 2008 to 2009 so as to compensate for the increase in the cost of purchase for the above chemical raw materials for production of pharmaceutical products over this period. In addition, the Company expects an increase in the trading volume of the continuing connected transactions to cope with the business plan of the Company in expanding its market share in the United States of America based on the projected demand by L. Perrigo and Eastwest respectively over the next few years. Accordingly, it is reasonable to expect (i) a significant increase in the annual caps from 2008 to 2009 by approximately 66.67% and 50% for the Perrigo Agreement and the Eastwest Agreement respectively; and (ii) a moderate increase in the annual cap from 2009 to 2010 by 10% for the Perrigo Agreement.

The annual caps for the transactions under the Perrigo Agreement of RMB48,000,000, RMB80,000,000 and RMB88,000,000 for 2008, 2009 and 2010 will respectively account for approximately 2.57%, 4.29% and 4.72% of the audited consolidated turnover of the Company of RMB1,865,568,000 for the financial year ended 31 December 2007. We are of the view that the Company's risk of reliance on the business with L. Perrigo under the Perrigo Agreement is acceptable.

The annual caps for the transactions under the Eastwest Agreement of RMB8,000,000 and RMB12,000,000 for 2008 and 2009 will respectively account for approximately 0.43% and 0.64% of the audited consolidated turnover of the Company of RMB1,865,568,000 for the financial year ended 31 December 2007. We are of the view that the Company's risk of reliance on the business with Eastwest under the Eastwest Agreement is acceptable.

In light of the above, we consider that the above factors for the determination of the proposed annual caps for the Perrigo Agreement and the Eastwest Agreement are fair and reasonable.

LETTER FROM GET NICE CAPITAL LIMITED

II. RATIFICATION OF THE CONTINUING CONNECTED TRANSACTIONS CONDUCTED IN 2007 AND 2008

A. Background of the continuing connected transactions between the Company and Perrigo Company and between XPIE and Perrigo Company

As disclosed in the Announcements, the Company conducted continuing connected transactions with Perrigo Company in 2007 and first half of 2008 and XPIE also conducted continuing connected transactions with Perrigo Company in 2007 without independent Shareholders' prior approval.

(a) *Transactions between the Company and Perrigo Company*

As set out in the section headed "Background of the continuing connected transactions between the Company and L. Perrigo" of this letter above, Perrigo Company became a connected person of the Company on 1 January 2007. As a result, the ongoing transactions between the Company and Perrigo Company in 2007 and first half of 2008 constituted continuing connected transactions under Chapter 14A of the Listing Rules.

From 1 January 2007 to 31 December 2007, the Company and Perrigo Company entered into various transactions in relation to the Company selling pharmaceutical products to Perrigo Company for the total consideration of RMB45,619,000.

From 1 January 2008 onwards, the Company and Perrigo Company have been continuing the above transactions. The total consideration for the first half of 2008 is RMB26,393,000.

The consideration of the various transactions between the Company and Perrigo Company was paid by Perrigo Company in cash to the Company within 30 days from the date of delivery of goods in each transaction.

The Directors believe that the consideration of each connected transaction for the relevant period in 2007 and 2008 was arrived at after arm's length negotiations between the parties thereto on normal commercial terms. The consideration of each connected transaction was based on the prevailing market price and we therefore consider it to be on normal commercial terms.

LETTER FROM GET NICE CAPITAL LIMITED

(b) Transactions between XPIE and Perrigo Company

XPIE is principally engaged in import and export of chemical products and pharmaceutical technical know-how in the PRC.

The Company indirectly held and holds a 98% equity interest in XPIE. Therefore, XPIE was and is a subsidiary of the Company. Perrigo International became a connected person of the Company on 1 January 2007. Accordingly, Perrigo Company, the parent company of Perrigo International, also became a connected person of the Company on 1 January 2007. As a result, the ongoing transactions between XPIE and Perrigo Company in 2007 constituted continuing connected transactions under Chapter 14A of the Listing Rules.

From 1 January 2007 to 31 December 2007, XPIE entered into various transactions with Perrigo Company in relation to XPIE selling pharmaceutical products to Perrigo Company for a total consideration of RMB9,752,000.

From 1 January 2008 to the Latest Practicable Date, XPIE and Perrigo Company have not conducted any transactions.

The consideration for the various sales contracts between XPIE and Perrigo Company was paid by Perrigo Company in cash to XPIE within 30 days from the date of delivery of the goods in each transaction.

The consideration for each connected transaction in 2007 was arrived at after arm's length negotiations between the parties thereto. The consideration for each connected transaction was based on the prevailing market price and we therefore consider it to be on normal commercial terms.

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

By selling the pharmaceutical products to Perrigo Company and to Perrigo Company through XPIE respectively, the Company was able to expand its business in the pharmaceutical industry in the United States. The Directors consider that the transactions were negotiated on an arm's length basis and were on normal commercial terms and in the ordinary course of business. They also consider that the terms of the transactions are fair and reasonable, and the entering into the transactions was and is in the best interests of the Shareholders as a whole.

LETTER FROM GET NICE CAPITAL LIMITED

C. Implications under the Listing Rules for the above two continuing connected transactions

Pursuant to rules 14A.25 and 14A.26 of the Listing Rules, the continuing connected transactions between the Company and Perrigo Company, and the continuing connected transactions between XPIE and Perrigo Company could be aggregated as they are the transactions of the same nature entered into by the Company or its subsidiaries with the same party i.e., Perrigo Company.

When the two continuing connected transactions between the Company and Perrigo Company and between XPIE and Perrigo Company in 2007 are aggregated, the applicable percentage ratios (as defined in the Listing Rules) exceeded 2.5% on an annual basis and the total consideration exceeded HK\$10,000,000. In accordance with rules 14A.35(3) and (4) of the Listing Rules, the Company required independent Shareholders' approval as described in rule 14A.48 of the Listing Rules, and must comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules. To comply with the independent Shareholders' approval requirements described in rule 14A.48 of the Listing Rules, the Company is seeking ratification from independent Shareholders in relation to the two continuing connected transactions in 2007 at the EGM.

Further, as disclosed in the Announcements, from 1 January 2008 to 30 June 2008, there were continuing connected transactions between the Company and Perrigo Company but there were no transactions between XPIE and Perrigo Company. The applicable percentage ratios (as defined in the Listing Rules) were slightly below 2.5% for the six months' period. In accordance with rules 14A.34(1) of the Listing Rules, the Company is only required to comply with the reporting and announcement requirements as described in rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent Shareholders' approval requirements.

However, as the Company has been continuing to conduct these connected transactions with Perrigo Company from 1 July 2008 to the date of EGM and it is not clear whether the applicable percentage ratios for the whole year of 2008 will exceed 2.5%, therefore, to be prudent, the Company is also seeking ratification at the EGM from the independent Shareholders' on the continuing connected transactions between the Company and Perrigo Company in 2008. Since the Perrigo Agreement covers the transactions between the Company and L. Perrigo or L. Perrigo's affiliates, if the Company enters into any transactions with L. Perrigo or Perrigo Company under the period of the Perrigo Agreement, no separate independent Shareholders' approval is required once the Perrigo Agreement and the proposed annual caps are approved by the independent Shareholders of the Company at the EGM.

The Company has complied with the reporting requirements earlier this year and published an announcement on 5 September 2008. As disclosed in this announcement, as soon as the existence of the above continuing connected transactions was discovered, the Company immediately and voluntarily informed the Stock Exchange of the same and disclosed such transactions in its 2007 annual report. Accordingly, we believe that the Company has taken reasonable steps to rectify the situation.

LETTER FROM GET NICE CAPITAL LIMITED

D. Conclusion

Based on the above and our analysis together with our opinion in the section headed “Reasons for and benefits of the Perrigo Agreement and the Eastwest Agreement” of this letter above, we consider that the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons and based on the information and representations provided and opinions given by the Board, we are of the view that the Perrigo Agreement and the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007, are 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 advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the resolutions in connection with the Perrigo Agreement and the Eastwest Agreement and their respective annual caps and the ratification of the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between XPIE and Perrigo Company in 2007 at the EGM.

Yours faithfully,

For and on behalf of

Get Nice Capital Limited

Louis Yiu

Director

Gary Hung

Director

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the total number of issued shares of the Company is 457,312,830, comprising 187,809,202 unlisted shares, 119,503,628 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 Directors hold shares in the Company:

Name	Number of A Shares	Percentage of the total issued share capital of the Company (%)
Director:		
Ms. Guo Qin	12,639	0.00276
Supervisors:		
Mr. Yu Gongfu	6,075	0.00133
Mr. Gao Qinggang	4,370	0.00096
Mr. Liu Qiang	4,370	0.00096
Senior Officers:		
Mr. Cao Changqiu	2,278	0.00050

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 equity or debt securities 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 entered into by any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group;
- (c) none of the Directors, Supervisors of the Company and Get Nice Capital Limited had any direct or indirect interest in any assets which had since 31 December 2007, 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) as at the Latest Practicable Date, none of the Directors or their respective associates has 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 ten percent 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	% of the total issued share capital
1.	SXPGC	State-owned A Shares	163,258,735	35.70
2.	HKSCC (Nominees) Limited	Listed H Shares	148,729,998	32.52

SXPGC is a wholly-state owned company. Ms. Guo Qin being a Director of the Company is also a director of SXPGC. Mr. Ren Fulong being a Director of the Company is also a director of SXPGC. Mr. Li Tianzhong being a non-executive Director of the Company is also a director of SXPGC. Mr. Gao Qinggang being the Supervisor 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 are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, 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:

Name	Qualifications
Get Nice Capital Limited	Independent financial adviser and a licensed corporation to carry out type 6 regulated activities under the SFO

The above expert is not beneficially interested in the share capital of any member of the Group nor do they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors and Supervisors of the Company 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. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Your right to demand a poll on the resolutions proposed at the EGM is set out below. The chairman of the EGM will exercise his power under Article 70 of the Articles of Association to put each of the resolutions proposed at the EGM to the vote by way of a poll. Article 70 of the Articles of Association sets out the procedure by which Shareholders of the Company may demand a poll:

“At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless any of the following persons demand a poll before or after such resolution is decided by a show of hands:

- (i) the chairman of the meeting;
- (ii) at least two members with voting rights or two proxies for the time being entitled to vote at the meeting; and
- (iii) any member or members (including proxies) representing one-tenth or more of the total voting rights of all the members having the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried, and an entry in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

The shareholder demanding a poll can withdraw such demand.”

10. 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.

At present, Mr. Zhao Songguo is the qualified accountant of the Company. With reference to the announcement of the Company dated 11 November 2005, the Stock Exchange has agreed to grant a three-year conditional waiver to the Company from strict compliance with Rule 3.24 of the Listing Rules regarding the employment of an individual with the qualifications set out under that rule as a qualified accountant on a full-time basis. The waiver commenced on 12 November 2005 and will cease on 11 November 2008 or when the Company fails to fulfill any of the conditions to the waiver as set out in the said announcement, whichever is earlier. Moreover, with reference to the announcement of the Company dated 17 September 2008, the Exchange has agreed to grant a further three-year conditional waiver to the Company from strict compliance with rule 3.24 of the Listing Rules commencing from 12 November 2008 until the earlier of 11 November 2011 or when the Company ceases to be able to comply with any of the conditions as set out in the announcement dated 17 September 2008.

- (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 and form of proxy shall prevail over the English text.

11. 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 10/F, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 20 November 2008 and at the EGM:

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

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

(Stock Code: 0719)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) will be held at the Company’s conference room at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The People’s Republic of China (the “**PRC**”) on 22 December 2008 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

“THAT:

- (1) the agreement entered into between the Company and L. Perrigo Company dated 7 October 2008 and the proposed annual caps of RMB48,000,000, RMB80,000,000 and RMB88,000,000 for 2008, 2009 and 2010 respectively for the transactions to be entered into pursuant to such agreement be and are hereby approved and confirmed;
- (2) the agreement entered into between the Company and Eastwest dated 9 October 2008 and the proposed annual caps of RMB8,000,000 and RMB12,000,000 for 2008 and 2009 respectively for the transactions to be entered into pursuant to such agreement be and hereby approved and confirmed;
- (3) the continuing connected transactions between the Company and Perrigo Company in 2007 and 2008, and between Shandong Xinhua Pharmaceutical Import and Export Company Limited and Perrigo Company in 2007 be and are hereby ratified, approved and confirmed;
- (4) Ms. Guo Qin, Mr. Ren Fulong and Mr. Zhao Songguo be re-elected as executive Director and Mr. Liu Zhenwen and Mr. Li Tianzhong be re-elected as non-executive Directors of the Company by cumulative voting*;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (5) Mr. Xu Guojun, Mr. Sun Minggao, Mr. Zhu Baoquan and Mr. Kwong Chi Kit be re-elected or elected as independent non-executive Directors of the Company by cumulative voting;
- (6) Mr. Yu Gongfu, Mr. Gao Qinggang, Mr. Zhang Yueshun and Mr. Tao Zhichao be re-elected as Supervisors of the Company.”

* *When Directors are elected through cumulative voting at the EGM, the number of total votes that a Shareholder can exercise is decided by the following factors: (i) the number of shares held by such Shareholder, and (ii) the number of Directors to be elected. A Shareholder can give all his or her votes to one candidate of Director or divide his or her votes among several candidates of Directors. Directors are elected at the EGM based on the total number of votes he or she receives.*

Shandong Xinhua Pharmaceutical Company Limited
The Board of Directors

5 November 2008

Notes:

1. The register of members of the Company will be closed from 22 November 2008 to 22 December 2008 (both days inclusive), during which period no H share transfers will be effected. Shareholders of the Company whose names appear on the register of members of the Company in the Hong Kong Registrars Limited before 4:00 p.m. on 21 November 2008 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on 21 November 2008 and the Directors, the Supervisors and the senior officers of the Company are entitled to attend the EGM or any adjournment thereof.
2. Shareholders of the Company who intend to attend the EGM are asked to send the completed and signed reply slip for attendance dispatched to the Shareholders together with the circular dated 5 November 2008 to the Company secretary's office of the Company (see Note 7 below) on or before 1 December 2008, by hand, by post or by facsimile. The written reply will not affect the right of the Shareholders (see Note 1 above) to attend and vote at the EGM. The completion and deposit of a form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or any adjournment thereof.
3. A Shareholder of the Company entitled to attend and vote at the EGM may appoint one or more proxies (whether the person is a shareholder of the Company or not) to attend and vote on his/her behalf at the EGM. When a Shareholder appoints more than one proxy, such proxies may only vote on a poll. Each holder of H shares (or his/her proxy or proxies) shall be entitled to one vote for each share held.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Shareholders of the Company must appoint a proxy or proxies in writing i.e. the original proxy form dispatched to the Shareholders together with the circular dated 5 November 2008 or a copy of it, which shall be signed by the person appointing the proxy or proxies or by his/her duly authorised attorney. If the form of proxy is signed by an attorney, the document appointing the attorney must be certified by a notary public. If the appointing Shareholder is a legal person, the legal person's seal or the signature of its director(s) or representative(s) duly authorised in writing is required. To be valid, a notarially certified power of attorney or other authority (if any) and the form of proxy must be received by the Company secretary's office of the Company (see Note 7 below) 24 hours prior to the commencement of the EGM. A form of proxy for use at the EGM is dispatched to the Company's Shareholders together with the circular dated 5 November 2008.
5. Shareholders of the Company or their proxies shall present proof of identity upon attending the EGM. Should a proxy be appointed, the proxy shall also present his/her form of proxy.
6. The EGM is expected to last half a day. Shareholders who attend the EGM shall bear their own traveling and accommodation expenses.
7. The address of the Company Secretary's office of the Company is as follows:

No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, the PRC

Postal Code : 255005

Telephone : 86 533 2196025

Facsimile : 86 533 2287508

As at the date of this notice, the Board of Directors comprises:

Executive Directors:

Ms. Guo Qin (*Chairman*)

Mr. Ren Fulong

Mr. Zhao Zongguo

Independent Non-executive Directors:

Mr. Dai Qingjun

Mr. Xu Guojun

Mr. Sun Minggao

Non-executive Directors:

Mr. Liu Zhenwen

Mr. Li Tianzhong