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

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

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

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

(Stock Code: 0719)

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS
AND
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

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

VEDA | CAPITAL
智 略 資 本

A letter from the Board is set out on pages 1 to 11 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 12 to 13 of this circular. A letter from Veda Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at the Company's conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People's Republic of China on Friday, 28 December 2012 at 9:00 a.m. together with the form of proxy and reply slip were issued on 13 November 2012. Whether or not you are able to attend the meeting, we encourage you to complete and return the form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the extraordinary general meeting to the company secretary's office of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People's Republic of China.

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

22 November 2012

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DEFINITIONS

In this circular, the following expressions shall 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;
“Continuing Connected Transactions”	the selling of certain products by the Company and/or its subsidiaries to SXPGC and/or its subsidiaries and the purchasing of accessories, raw materials and packaging materials by the Company and/or its subsidiaries from SXPGC and/or its subsidiaries for the years 2013, 2014 and 2015 under the SXPGC Agreement;
“CSRC”	China Securities Regulatory Commission of the PRC;
“Directors”	the directors of the Company including independent non-executive Directors;
“EGM”	The extraordinary general meeting of the Company to be held on 28 December 2012 for the purpose of approving, among other things, the SXPGC Agreement and the proposed annual caps under the SXPGC Agreement;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	the independent board committee of the Company comprising three independent non-executive Directors which is constituted for the purpose of considering the SXPGC Agreement and the proposed annual caps under the SXPGC Agreement;

DEFINITIONS

“Independent Shareholders”	the Shareholders other than SXPGC and its associates (as defined under the Listing Rules);
“Latest Practicable Date”	16 November 2012, 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;
“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;
“SXPGC”	山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Company Limited), a wholly-state owned company which holds and owns 36.32% of the total issued share capital of the Company and is currently the largest shareholder of the Company;
“SXPGC Agreement”	the written agreement entered into between the Company and SXPGC dated 26 October 2012;
“Veda Capital”	Veda Capital Limited, a licensed corporation to carry out type 6 regulated activities under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement; and
“Zibo”	Zibo City, situated in Shandong Province of the PRC.



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

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

(Stock Code: 0719)

Executive Directors:

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

Registered Address:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

22 November 2012

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS
AND
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

I. INTRODUCTION

The purpose of this circular is to provide you with the information regarding resolutions to be proposed at the EGM. These include (i) the Continuing Connected Transactions between the Company and/ or its subsidiaries and SXPGC and/ or its subsidiaries; and (ii) the proposed amendments to the Articles of Association.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS

A. BACKGROUND INFORMATION

On 28 October 2009, the Company entered into an agreement with SXPGC in relation to the Company and/or its subsidiaries purchasing and selling certain products and/or services from and to SXPGC and/or its subsidiaries for a period of three years from 1 January 2010 to 31 December 2012. An announcement was made on 28 October 2009.

As the above agreement will expire on 31 December 2012, the Company has entered into the SXPGC Agreement with SXPGC for a period of three years commencing from 1 January 2013.

B. SXPGC AGREEMENT

Date : 26 October 2012

Parties : (i) the Company

(ii) SXPGC

Principal terms and conditions

The SXPGC Agreement contains the following principal terms:

- (1) The Company and/or its subsidiaries shall purchase the following products and services from SXPGC and/or its subsidiaries at market prices, including but not limited, to the following:
 - (a) purchase of accessories in respect of the repairs and maintenance of equipment and tools, hardwares, valves, instruments and meters, bearings, pumps, chemical reagents, glass wares, and the repair and maintenance of the same;
 - (b) purchase of packaging materials including light plates, woodwork, packaging, blow molding, colour printing, paper tray and cardboard drums, bottles and other assorted packing materials; and
 - (c) purchase of trimethyl orthoformate, diethyl malonate, dimethyl malonate, chloroproionyl chloride, sodium methylate, chloroacetic acid, sulphuric acid, salicylic acid, dimethyl sulphate, sodium sulphate, reductant and other chemicals used primarily for the production of pharmaceutical products.

LETTER FROM THE BOARD

The prices for the products and services stated above shall be determined in accordance with market practice. However, all of the relevant prices shall not be higher than the selling prices in respect of such items as offered by SXPGC and/or its subsidiaries to any independent third parties.

- (2) The Company and/or its subsidiaries shall sell the following products to SXPGC and/or its subsidiaries:
- (a) supply of water, electricity and steam, at cost plus corresponding tax and management fees; and
 - (b) sundry items of by-products during the manufacturing processes which can be recycled, e.g. waste water, waste gas and other solid wastage, at market prices.

All of the relevant prices stated above shall not be lower than the selling price in respect of such items as offered by the Company and/or its subsidiaries to any independent third parties according to the SXPGC Agreement.

- (3) Payment Term : each party shall pay to the other party for the products ordered or services provided in a timely manner as specified in each purchase order placed by the Company, the Company's subsidiaries, SXPGC and SXPGC's subsidiaries from time to time. Payment shall normally be made within 60 days after invoicing.
- (4) The Company and/or its subsidiaries are not restricted from conducting transactions with any third parties for the sale and purchase of the relevant products and the provisions of services.
- (5) The term of the SXPGC Agreement runs from 1 January 2013 to 31 December 2015.

LETTER FROM THE BOARD

Proposed annual caps for the SXPGC Agreement

The proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement are as follows:

	2013 (RMB'000)	2014 (RMB'000)	2015 (RMB'000)
Sale of waste materials, supply of water, electricity and steam to SXPGC and/or its subsidiaries	20,000	25,000	30,000
Purchase of accessories, raw materials and packaging materials from SXPGC and/or its subsidiaries	<u>150,000</u>	<u>170,000</u>	<u>200,000</u>
Total	<u><u>170,000</u></u>	<u><u>195,000</u></u>	<u><u>230,000</u></u>

The Company determined the above annual caps under the SXPGC Agreement on basis of the following factors:

- (a) the historical figures in 2010, 2011 and January to September 2012 for the transactions between the Company and/or its subsidiaries and SXPGC and/or its subsidiaries (see table 1 below);
- (b) the demand set out by SXPGC and/or its subsidiaries;
- (c) the demand set out by the Company and/or its subsidiaries;
- (d) the development in the business of the Company and/or its subsidiaries; and
- (e) expected rise in market prices of chemical products in the future.

The proposed annual caps are significantly higher than the actual amount in 2011 because, as the economy of the PRC is growing and the Company is expanding, the Company predicts that there will be a significant increase in the market prices of the products and/or services and in the sale and purchase of the products and/or services to and from SXPGC and/or its subsidiaries in 2013, 2014 and 2015.

LETTER FROM THE BOARD

Table 1 — Historical figures in 2010, 2011 and January to September 2012 for the transactions between the Company and/or its subsidiaries and SXPGC and/or its subsidiaries

	2010	2011	January to September 2012
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Sale of waste materials, supply of water, electricity and steam to SXPGC and/or its subsidiaries	11,480	11,114	8,980
Purchase of accessories, raw materials and packaging materials from SXPGC and/or its subsidiaries	<u>64,437</u>	<u>52,972</u>	<u>45,630</u>
Total	<u><u>75,917</u></u>	<u><u>64,086</u></u>	<u><u>54,610</u></u>

Reasons for and benefits of the Continuing Connected Transactions under the SXPGC Agreement

In respect of the sale of the respective products to SXPGC and/or its subsidiaries, by virtue of the SXPGC Agreement, the Company and/or its subsidiaries can continue to generate revenue therefrom.

The Company has not entered into any similar sale transactions with other independent third parties. However, the Company has internal control in place in respect of connected transactions of the Company. Pursuant to such internal control, the principles of the pricing of products offered to connected persons under a continuing connected transaction shall be (i) based on market prices of the products and the pricing offer to the connected persons shall not be less than the price of the same product quoted by independent suppliers in the market; and (ii) on fair and reasonable basis.

In respect of the purchase of products and/or services from SXPGC and/or its subsidiaries, by virtue of the SXPGC Agreement, the Company and/or its subsidiaries can continue to secure a steady supply of raw materials and/or sundry products from SXPGC and/or its subsidiaries.

LETTER FROM THE BOARD

As provided in the SXPGC Agreement, the prices for the products and services purchased from SXPGC and/or its subsidiaries shall be determined in accordance with market practice, being the price for the products and services at the market price. In practice, the Company will make reference to the purchase price of similar products and services from other independent third parties so as to ensure that the price of the products and services offered by SXPGC and/or its subsidiaries is in line with the market price. The Company is able to obtain the relevant products and services from independent third parties in the event that the selling prices offered by SXPGC and/or its subsidiaries are higher than the prices offered by independent third parties and the terms offered by SXPGC and/or its subsidiaries are worse than the terms offered by independent third parties.

On the other hand, SXPGC has other customers for the products and service stated above besides the Company and its subsidiaries. In any event, according to the SXPGC Agreement, all of the relevant prices shall not be higher than the selling prices in respect of such items as offered by SXPGC and/or its subsidiaries to any independent third parties.

The Directors also consider that given SXPGC and/or its subsidiaries and the Company and/or its subsidiaries are more proximate in location, the transportation costs associated with the purchase of products from SXPGC and/or its subsidiaries will be lower as compared to the transportation costs associated with the purchase of products from independent third parties. Moreover, SXPGC and/or its subsidiaries are also likely to be more responsive to the requests made by the Company and/or its subsidiaries given their close relationship.

In addition, the Directors have also considered the payment terms and are of the view that the payment terms offered by SXPGC and/or its subsidiaries are in line with the usual market practice in the pharmaceutical industry and are on normal commercial terms and fair and reasonable.

On the basis of the above, the Directors consider that the entering into the SXPGC Agreement is in the best interest of the Company and its shareholders as a whole. They also consider that the Continuing Connected Transactions contemplated under the SXPGC Agreement are on normal commercial terms and in the ordinary and usual course of business and that the terms of the Continuing Connected Transactions under the SXPGC Agreement are fair and reasonable and are no less favourable than those available to or from any independent third parties.

LETTER FROM THE BOARD

Implications under the Listing Rules

The highest annual cap in relation to the Continuing Connected Transactions under the SXPGC Agreement for the years 2013, 2014 and 2015 is RMB230,000,000.

The applicable percentage ratios (as defined in the Listing Rules) exceed 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 Continuing Connected Transactions contemplated under the SXPGC Agreement will constitute non-exempt continuing connected transactions and are subject to the reporting and announcement requirements under rules 14A.45 to 14A.47 of the Listing Rules, the independent shareholders' approval requirements under rule 14A.48 of the Listing Rules, the annual review requirements under rules 14A.37 to 14A.40 of the Listing Rules and the requirements set out in rules 14A.35(1) and 14A.35(2) of the Listing Rules.

Connected relationship

As at the Latest Practicable Date, SXPGC held 36.32% of the total issued share capital of the Company. Being the largest shareholder of the Company, SXPGC is therefore a connected person under the Listing Rules. The transactions contemplated under the SXPGC Agreement will constitute continuing connected transactions under the Listing Rules.

Information about the Company and SXPGC

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

SXPGC is a state-owned enterprise established in the PRC specialising in investment in the pharmaceutical industry, and associated chemical production, packaging and supply of chemical engineering equipment.

C. INDEPENDENT BOARD COMMITTEE

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

III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

A. THE AMENDMENTS

The proposed amendments to Article 147 of the Articles of Association as follows:

Original Article 147 of the Articles of Association:

“Article 147 The Company may distribute dividends in the form of:

- (1) cash;
- (2) shares.

Cash dividends and other distributions of domestic shares shall be paid in RMB yuan. Cash dividends and other distributions of H shares shall be declared in RMB yuan, and paid in Hong Kong dollars in accordance with the PRC rules and regulations governing the control of foreign exchanges.

The aggregate amount of distribution of profits in cash of the Company in the most recent three years should not be less than 30 percent of the realized annual distributable profits of the Company in the most recent three years. If the above ratio shall not be attained for any particular reason, the Board should make a special explanatory statement to the general meeting of the Company; if there are circumstances where the shareholders of the Company use the funds of the Company in a manner which violates the regulations, the Company should deduct the cash dividend of those shareholders in order to repay the funds it used.”

Be amended to:

“Article 147 The Company shall implement active profit distribution policy, and its profit distribution policy shall maintain continuity and stability. The Company’s profit distribution shall focus on providing investors with reasonable investment return as well as maintaining the sustainable development of the Company.

- (1) In the decision making and argumentation of profit distribution policy, the board of directors and general meetings may consider the opinions of independent directors and public investors, especially minority shareholders, by means such as phone, fax or email.

LETTER FROM THE BOARD

- (2) The Company may adopt to distribute profit in cash, in shares or in a combination of both cash and shares or as otherwise permitted by the laws and regulations. The board of directors of the Company may propose the Company to declare interim dividends according to the Company's earnings and capital requirement conditions. Unless otherwise approved by the board of directors after demonstration, for which the independent directors have issued independent opinions, and passed by the supervisory committee by way of resolution, the time interval between any two rounds of dividend distribution shall not be less than six months.
- (3) Cash dividends and other distributions of the domestic shares shall be paid in RMB. Cash dividends and other distributions of overseas listed foreign shares listed in Hong Kong shall be declared in RMB and paid in Hong Kong dollars in accordance with PRC rules and regulations governing the control of foreign exchanges.
- (4) Upon the ending of an accounting year, the board of directors shall reasonably propose a profit distribution plan according to the Company's earnings, capital requirement and return to shareholder. In the argumentation of profit distribution plan, the board of directors shall have sufficient discussion with independent directors and supervisors, hear the opinions of minority shareholders through multiple channels, study carefully and discuss in detail the matters concerning the Company's cash dividends distribution, including the right timing and conditions for the distribution, the lowest payout ratio and the conditions for adjustment and the requirements for decision-making procedures. The profit distribution proposal, when being considered by the board of directors and supervisory committee of the Company, shall be subject to the approval by the majority of all directors, the independent directors and all supervisors respectively, in respect of which the independent directors shall issue explicit opinions. After being considered and approved by the board of directors, the profit distribution plan shall be proposed at the general meeting for shareholders' approval.
- (5) If the Company makes a profit for a year, while the board of directors of the Company does not propose any cash dividend plan for the year, the Company shall disclose in its periodic reports the reason(s) thereof and the use of the fund so retained. The independent directors shall issue independent opinion on this issue.
- (6) In the event that there will be no material investment projects or matters involving material cash outflow, the Company shall in principle make cash dividends distribution once a year on the premise of guaranteeing the normal business operation and long-term development of the Company. The aggregate amount of distribution of profits in cash of the Company in the most recent three years should not be less than 30 percent of the annual average net profit attributable to the holders of the Company in consolidated statements realized in the most recent three years. If the above ratio shall not be attained for any particular reason, the board of directors should make a special explanatory statement to the general meeting of the Company.

LETTER FROM THE BOARD

- (7) In the event that adjustments are needed to be made to the Company's profit distribution policy in light of the production and operation conditions, investment planning and long term developments as well as changes in external business environment of the Company, the adjusted profit distribution policy shall comply with the relevant regulations of securities regulatory authorities. The Company should seek the opinions of the independent directors and the supervisory committee of the Company in advance when proposing adjustment to profit distribution policy, and submit to the general meeting of the Company after the approval of the board of directors. Any resolution regarding adjustment to the profit distribution policy proposed at a general meeting for approval shall be passed by more than two-thirds of voting rights represented by the shareholders present at the meeting."

B. EFFECT OF THE AMENDMENTS

On 4 May 2012, the CSRC issued the "Notice Forwarding the Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies" (the "**CSRC Notice**") which requires listed companies to, inter alia, include in their articles of association certain dividends distribution policies and procedures with a view to improve the transparency in relation to cash dividends distribution of such listed companies. In this connection, on 14 May 2012, 13 June 2012 and 4 July 2012, CSRC Shandong Bureau issued three notices (the "**CSRC Shandong Bureau Notices**") respectively.

The effect of the aforementioned amendments is to comply with the relevant requirements under the CSRC Notice and the CSRC Shandong Bureau Notices.

IV. EXTRAORDINARY GENERAL MEETING

The Board has resolved to convene the EGM to consider and approve (i) the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement; and (ii) the proposed amendments to the Articles of Association. Notice of the EGM together with the form of proxy and reply slip were issued on 13 November 2012. Whether or not you are able to attend the EGM, we encourage you to complete and return the form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM, to the company secretary at the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

LETTER FROM THE BOARD

V. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the approval of (i) the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement; and (ii) the proposed amendments to the Articles of Association are in the best interests of the Company and its Shareholders as a whole and are fair and reasonable as far as the Shareholders are concerned.

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

After taking into account the reasons for and benefits of the SXPGC Agreement and the opinion of Veda Capital, the Independent Board Committee considers that the approval of the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement 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 resolution to be proposed at the EGM to approve the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement.

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

SXPGC is the direct controlling shareholder of the Company and holding 36.32% of the issued share capital of the Company. Pursuant to the Listing Rules, SXPGC and its associates will abstain from voting in the EGM to approve the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement and all matters contemplated thereunder.

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

Yours faithfully,
By order of the Board of Directors
Shangdong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman



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

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

(Stock Code: 0719)

Independent Non-executive Directors:

Mr. Zhu Baoquan

Mr. Bai Huiliang

Mr. Kwong Chi Kit, Victor

Registered Address:

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

22 November 2012

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND PROPOSED ANNUAL CAPS**

We refer to this circular dated 22 November 2012 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 SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement, are in the interests of the Company and the Shareholders as a whole and whether they are fair and reasonable so far as the 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, Veda Capital has been appointed as the independent financial adviser to advise you and us on this matter.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to (i) the letter of advice from Veda Capital as set out on pages 14 to 23 of this circular; and (ii) the letter from the Board on pages 1 to 11 of this circular, which set out information relating to, and the reasons for and benefits of the approval of the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement.

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 SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement. We have considered the factors and reasons considered by, and the opinions and recommendations of, Veda Capital as set out on pages 14 to 23 of this circular. We concur with the view of Veda Capital that the SXPGC Agreement and the annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms and fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the approval of the SXPGC Agreement and the annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee of

Shangdong Xinhua Pharmaceutical Company Limited

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

LETTER FROM VEDA CAPITAL

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



Veda Capital Limited
Suite 3214, 32/F
COSCO Tower
183 Queen's Road Central
Hong Kong

22 November 2012

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of and proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement, details of which are set out in the circular to the Shareholders dated 22 November 2012 (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 October 2012, the Company and SXPGC entered into the SXPGC Agreement in relation to the Company and/or its subsidiaries purchasing and selling certain products and/or services from and to SXPGC and/or its subsidiaries for a period of three years commencing from 1 January 2013.

As at the Latest Practicable Date, SXPGC held 36.32% of the total issued share capital of the Company. Being the largest shareholder of the Company, SXPGC is therefore a connected person under the Listing Rules. As a result, the transactions contemplated under the SXPGC Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

LETTER FROM VEDA CAPITAL

The applicable percentage ratios (as defined in the Listing Rules) of the highest annual cap in relation to the Continuing Connected Transactions under the SXPGC Agreement exceed 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 Continuing Connected Transactions contemplated under the SXPGC Agreement will constitute non-exempt continuing connected transactions and are subject to the reporting, announcement, independent shareholders' approval and the annual review requirements under the Listing Rules.

SXPGC and its associates will be required to abstain from voting at the EGM which will be convened and held, among other things, to seek approval from the Independent Shareholders in relation to the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement.

The Independent Board Committee has been established to advise the Independent Shareholders on the SXPGC Agreement and the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement.

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Background and reasons for the SXPGC Agreement

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemical and other products.

As noted from the annual report of the Company for the year ended 31 December 2011 (the “**AR2011**”), SXPGC is mainly engaged in the engineering design, real estate and restaurants; packaging, and manufacturing of chemical equipment; production and sale of chemical engineering apparatus and instruments; sales of chemical products (except for hazardous chemicals) and import and export business (within the scope approved).

On 28 October 2009, the Company entered into an agreement with SXPGC in relation to the Company and/or its subsidiaries purchasing and selling certain products and/or services from and to SXPGC and/or its subsidiaries for a period of three years from 1 January 2010 to 31 December 2012 (the “**Existing SXPGC Agreement**”). As the Existing SXPGC Agreement will expire on 31 December 2012, the Company has entered into the SXPGC Agreement with SXPGC for a period of three years commencing from 1 January 2013.

As noted from the Board Letter, by virtue of the SXPGC Agreement, the Company and/or its subsidiaries can continue to generate revenue from selling the respective products to SXPGC and/or its subsidiaries and to secure a steady supply of raw materials and/or sundry products from SXPGC and/or its subsidiaries. Given that SXPGC and/or subsidiaries and the Company and/or its subsidiaries are more proximate in location, the transportation costs associated with the purchase of products from SXPGC and/or its subsidiaries will be lower as compared to the transportation costs associated with the purchase of products from independent third parties.

As further noted from the Board Letter, the Directors consider that the entering into the SXPGC Agreement is in the best interest of the Company and its shareholders as a whole. They also consider that the Continuing Connected Transactions contemplated under the SXPGC Agreement are on normal commercial terms and in the ordinary and usual course of business and that the terms of the Continuing Connected Transactions under the SXPGC Agreement are fair and reasonable and are no less favourable than those to or from any independent third parties.

LETTER FROM VEDA CAPITAL

As advised by the Company, the transactions under the Existing SXPGC Agreement are continuing now and are expected to continue in the future. Also, we are given to understand from the management of the Company that it is not easy to find companies to purchase waste materials for recycling as not many companies in the market would do so.

Having considered (i) the nature of business of the Group and SXPGC; (ii) that the purchasing and selling of certain products and/or services from and to SXPGC have started few years ago and are continuing now; (iii) that the transactions under the Existing SXPGC Agreement are expected to be continued in the future, (iv) the benefits of the Continuing Connected Transactions and the situation that not many companies in the market would purchase waste materials for recycling, we concur with the view of the Directors that the entering into of the SXPGC Agreement is in the interests of the Company and the Shareholders as a whole.

Principal terms of the SXPGC Agreement

Date: 26 October 2012

Parties: The Company and SXPGC

Principal terms and conditions: (1) The Company and/or its subsidiaries shall purchase the following products and services (collectively, the “**Purchase Products and Services**”) from SXPGC and/or its subsidiaries at market prices, including but not limited, to the following:

- (a) purchase of accessories in respect of the repairs and maintenance of equipment and tools, hardwares, valves, instruments and meters, bearings, pumps, chemical reagents, glass wares, and the repair and maintenance of the same;
- (b) purchase of packaging materials including light plates, woodwork, packaging, blow molding, colour printing, paper tray and cardboard drums, bottles and other assorted packing materials; and

LETTER FROM VEDA CAPITAL

- (c) purchase of trimethyl orthoformate, diethyl malonate, dimethyl malonate, chloroproionyl chloride, sodium methylate, chloroacetic acid, sulphuric acid, salicylic acid, dimethyl sulphate, sodium sulphate, reductant and other chemicals used primarily for the production of pharmaceutical products.

The prices for the products and services stated above shall be determined in accordance with the market practice. However, all of the relevant prices shall not be higher than the selling prices in respect of such items as offered by SXPGC and/or its subsidiaries to any independent third parties.

- (2) The Company and/or its subsidiaries shall sell the following products (collectively, the “**Sale Products**”) to SXPGC and/or its subsidiaries:

- (a) supply of water, electricity and steam, at cost plus corresponding tax and management fees; and
- (b) sundry items of by-products during the manufacturing processes which can be recycled, e.g. waste water, waste gas and other solid wastage, at market prices.

All of the relevant prices stated above shall not be lower than the selling price in respect of such items as offered by the Company and/or its subsidiaries to any independent third parties according to the SXPGC Agreement.

- (3) The Company and/or its subsidiaries are not restricted from conducting transactions with any third parties for the sale and purchase of the relevant products and the provisions of services.
- (4) The term of the SXPGC Agreement runs from 1 January 2013 to 31 December 2015.

Payment term:

Each party shall pay to the other party for the products ordered or services provided in a timely manner as specified in each purchase order placed by the Company, the Company’s subsidiaries, SXPGC and SXPGC’s subsidiaries from time to time. Payment shall normally be made within 60 days after invoicing.

LETTER FROM VEDA CAPITAL

We have reviewed the SXPGC Agreement and noted that pursuant to the SXPGC Agreement, the transactions contemplated thereunder shall be conducted on normal commercial terms and by arm's length negotiation, or on terms no less favourable to the Company than those available to or from other parties and the pricing of the products/services be agreed by reference to, amongst others, the then prevailing market prices of the products/services at the relevant time. As noted from the Board Letter, the payment terms under the SXPGC Agreement are in line with the usual market practice in the pharmaceutical industry.

We have obtained and reviewed the receipts provided by the Company, on sample basis with sample size of approximately 75.00% with SXPGC and approximately 50.00% with the independent third parties, of the total transactions for six months preceding the Latest Practicable Date, the transactions relating to the purchases of the Purchase Products and Services entered into by the Group with SXPGC and the transactions relating to the purchases of the products and services similar to the Purchase Products and Services with other suppliers who are independent third parties of the Company. We noted that the terms offered by SXPGC are no less favourable than those offered by other suppliers.

Also, we have reviewed the Existing SXPGC Agreement and noted that, except for the duration term of the SXPGC Agreement which runs from 1 January 2013 to 31 December 2015, other terms of the SXPGC Agreements are same as the terms of the Existing SXPGC Agreement.

As discussed with the Company, we are given to understand that the Company has set up internal control in respect of connected transactions of the Company and pursuant to such internal control, the principles of the pricing of products offer to connected persons under a continuing connected transaction shall be (i) based on market prices of the products and the pricing offer to the connected persons shall not be less than the price of same product quoted by independent suppliers in the market; and (ii) on fair and reasonable basis.

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

Proposed annual caps for the SXPGC Agreement

As set out in the Board Letter, the proposed annual caps in relation to the Continuing Connected Transactions under the SXPGC Agreement are as follows:

	2013 (RMB'000)	2014 (RMB'000)	2015 (RMB'000)
Sale of waste materials, supply of water, electricity and steam to SXPGC and/or its subsidiaries	20,000	25,000	30,000
Purchase of accessories, raw materials and packaging materials from SXPGC and/or its subsidiaries	150,000	170,000	200,000
Total	<u>170,000</u>	<u>195,000</u>	<u>230,000</u>

LETTER FROM VEDA CAPITAL

The Company determined the above annual caps under the SXPGC Agreement on basis of the following factors:

- (a) the historical figures in 2010, 2011 and January to September 2012 for the transactions between the Company and/or its subsidiaries and SXPGC and/or its subsidiaries (see table 1 below);
- (b) the demand set out by SXPGC and/or its subsidiaries;
- (c) the demand set out by the Company and/or its subsidiaries;
- (d) the development in the business of the Company and/or its subsidiaries; and
- (e) expected rise in market prices of chemical products in the future.

Table 1:

	2010	2011	January to September 2012
	(RMB'000)	(RMB'000)	(RMB'000)
Sale of waste materials, supply of water, electricity and steam to SXPGC and/or its subsidiaries	11,480	11,114	8,980
Purchase of accessories, raw materials and packaging materials from SXPGC and/or its subsidiaries	64,437	52,972	45,630
Total	<u>75,917</u>	<u>64,086</u>	<u>54,610</u>

We noted from table 1 that the total amount of the transactions in 2011 represented a slightly decrease of approximately 15.58% as compared to that in 2010. As advised by the Company, such decrease was mainly due to (i) the drop of market prices of some products purchased by the Company and (ii) that the Company reduced the quantities of products purchased resulting from the weakening market demands on relevant products in 2011.

LETTER FROM VEDA CAPITAL

We observed that the proposed annual caps are significantly higher than the historical figures for the transactions in 2012 on annual basis of approximately RMB72,813,000. As advised by the Company, the Company predicts that there will be a significant increase in the transaction amounts since the 4th quarter of 2012 and the estimated annual transaction amounts in 2012 is approximately RMB114,220,000 of which the estimated annual transaction amounts relating to the sale of Sale Products and the purchase of the Purchase Products and Services is approximately RMB14,260,000 and approximately RMB99,960,000 respectively. We have enquired the management of the Company for the reason of estimation of a significant increase in the transaction amounts in 4th quarter of 2012 and we are given to understand that with reference to market practices in previous years, the demand for pharmaceutical products of the Company is uneven throughout a year and performs a seasonal effect that the 4th quarter of every year is usually a peak season as compare with other quarters in the same year and thus demand of the Company for the Purchase Products and Services is expected to increase significantly in the 4th quarter of 2012. In addition, the Company advises that recent market prices of the Purchase Products and/or Services and raw materials are increasing and the Company expects that the prices will continue to increase due to economic recovery. Given (i) the transactions amounts are in line with the demand for pharmaceutical products; (ii) the seasonal effect of the demand for recent increasing trend of market prices of the Purchase Products and/or Services and raw materials, we consider that the estimated annual transactions amount in 2012 is justifiable.

We also observed that the proposed annual cap in 2014 represents an increase of approximately 15% as compared to that in 2013 and the proposed annual cap in 2015 represents an increase of approximately 18% as compared to that in 2014.

According to the World Economic Outlook (WEO) published by the International Monetary Fund in April 2012, it highlights that after suffering a major setback during 2011, global prospects are gradually strengthening again although downside risks remain elevated. Real GDP in many emerging and developing economies was somewhat weaker than expected, but growth surprised on the upside in the advanced economies. It is noted that the GDP in China has expanded by 9.2% in 2011. It is noted from WEO that, the China GDP is projected to increase by 8.2% and 8.8% in 2012 and 2013 respectively.

Also, as supported by the information published by the National Bureau of Statistics (<http://www.stats.gov.cn/>) on 18 October 2012, it is shown that the 3rd quarter gross domestic product (GDP) stood at RMB35,348 billion, with a year-on-year growth of 7.7%. This figure shows that PRC economy has picked up and is estimated that the condition will continue to improve in the 4th quarter of 2012.

LETTER FROM VEDA CAPITAL

Besides, we have reviewed the recent purchase transactions of raw materials by the Company and noted that the prices of the raw materials have been increasing gradually. According to the National Bureau of Statistics and the China Federation of Logistics and Purchasing (www.chinawuliu.com.cn), the PRC purchasing managers' index (PMI) rose to 49.8 in September 2012 from 49.2 in August 2012, an increase after four consecutive drops. The PMI is an indicator of the economic health of the manufacturing sector. In addition, from January 2012 to September 2012, the foreign trade in the PRC went up by 6.2% from a year earlier, with exports rising 7.4% and imports gaining 4.8%, suggesting a recovery in the oversea market and a moderate improvement of domestic demand.

In general, the demand in the pharmaceutical industry does rely on the economy condition and the core factor is noted as the unemployment rate. Unemployment affects the industry in two major ways, with the unemployed do not have the funds to buy the pharmaceutical products and many people rely on jobs to provide health insurance. With now a better global economy prospect, employment rate will then go up, which makes the demand of pharmaceutical products increase too. Also, with both PMI and foreign trade index in the PRC improve, these reflect the demand of goods in the PRC is at the same time picking up which directly push up the material prices in general. As advised by the Company, they are also optimistic that the exports volume in the country will continue in a rising trend which in turn, the growing of the raw materials price.

In 2009, the State Council of the PRC announced the country's healthcare reforms, aimed to expand the sponsored medical insurance network to cover 90% of the population, with each person covered by the system will receive an annual subsidy of RMB120 in 2010. In 2011, the annual subsidy has increased to RMB200 per person, which was a 20% year-on-year improvement. At the same time, the PRC government will build hospitals and improve medical services at the county level and remote areas, and expedite the reform of state-run hospitals, strengthening their administration, operation and supervision. Besides, according to a newsletter published by the 17th China International Pharmaceutical Industry Exhibition (<http://www.china-pharm.net>), an exhibition co-organized by China Center for Pharmaceutical International Exchange and Messe Dusseldorf (Shanghai) Co., Ltd., it is noted that the PRC is the largest emerging pharmaceutical market in the world. Based on the IMS Health (a leading provider of information, services and technology for the healthcare industry) forecast, the PRC will enjoy a higher growth rate than other markets, and will become the second largest pharmaceutical market in the world by 2020, only after the U.S.. By then, the market volume in the PRC will reach US\$109.5 billion with the market share increasing from 3% to 7.5%.

We noted in the AR2011, the Company will focus on marketing and raise the Company's status in the pharmaceutical market, by focusing on key products, markets and customers, aiming to boost sales of new products and achieve substantial increase in new products export while maintaining the market share of its dominant products. At the same time, the Company will continuously expand investment in research and development, accelerate research and development of new products, complete product upgrading as early as possible and to enhance its research and innovation capabilities, in order to enhance technological progress to further invigorate corporate growth.

LETTER FROM VEDA CAPITAL

We have also reviewed the three-year business plan of the Company, outlining that the Company targets to expand their core products' market segment by 50% and increase their core products' production volume by 50% within three years by the innovation of production technology. To cope with the expansion in both market segment and production volume, the Company indicates that there will be a significant increase in the consumption of certain raw materials.

Having considered (i) the historical transactions amounts in 2010, 2011, January to September 2012 and the estimated annual transactions amount in 2012 between the Company and SXPGC and/or its subsidiaries; (ii) the projected increase in the market price of the products and/or services and raw materials due to global economic recovery; (iii) the positive effect of the policy implementation on the pharmaceutical industry by the PRC government; (iv) the expected increase in raw materials as indicated by the business plan of the Company; and (v) the Company's targets to develop the pharmaceutical market and boost sales of new products, we are of the view that the basis adopted to determine the proposed annual caps of the Continuing Connected Transactions under the SXPGC Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

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

Yours faithfully,
For and on behalf of
Veda Capital Limited

Julisa Fong
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

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

3. DISCLOSURE OF INTEREST

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

Name	Number of A Shares	Percentage of the total issued share capital of the Company (%)
Senior officer:		
Mr. Cao Changqiu	1,281	0.00028

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 2011, 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 Veda Capital had any direct or indirect interest in any assets which had since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (d) none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the businesses of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

No.	Name of Shareholder	Class of shares	Number of shares held	Percentage of the total issued share capital (%)
1.	SXPGC	State-owned A Shares	166,115,720	36.32
2.	HKSCC (Nominees) Limited	Listed H Shares	147,943,998	32.35

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

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

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

7. CONSENTS OF EXPERT

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

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

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

To the best knowledge of the Directors, as at the Latest Practicable Date, Veda Capital did not have any direct or indirect interest in any asset which had been acquired or disposed of by or leased to the Company, or was proposed to be acquired or disposed of by or leased to the Company, since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up.

8. SERVICE CONTRACTS

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

9. MATERIAL INTEREST

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

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

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

10. COMPETING INTEREST

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

11. VOTE BY POLL

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

12. MISCELLANEOUS

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

13. DOCUMENTS FOR INSPECTION

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

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