
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 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)

DISCLOSEABLE TRANSACTION
DISPOSAL OF PROPERTIES

A letter from the Board is set out on pages 1 to 5 of this circular.

The AGM will be held at 9:00 a.m. on 24 May 2013 at the Company's conference room at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC for the Shareholders to consider and, if thought fit, approve, among other things, the ordinary resolutions in respect of the Disposal and the Disposal Agreement. A notice convening the AGM together with the form of proxy and reply slip were issued on 9 April 2013. A revised notice convening the AGM together with the revised form of proxy were issued on 16 April 2013. Whether or not you are able to attend the meeting, we encourage you to complete and return the revised 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 AGM to the Company Secretary's Office of the Company at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC.

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

24 April 2013

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DEFINITIONS

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

“AGM”	the annual general meeting of 2012 to be held on 24 May 2013 to consider and, if thought fit, to approve and confirm, among other things, the ordinary resolutions in respect of the Disposal and the Disposal Agreement
“Appraisal Date”	25 June 2012
“Appraisal Reports”	the report named Lu Sheng Fang Di Chan (2012) Gu Zi No. 1018 and the report named Lu Sheng Ping Gu (2012) No. 0329 issued by Shandong Lusheng Real Estate Appraisal & Consulting Co., Ltd.
“Board”	the board of Directors of the Company
“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
“Completion”	the completion of the Disposal in accordance with the Disposal Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the Disposal payable by Zibo Land Reserve and Exchange Center to the Company
“Directors”	the directors of the Company
“Disposal”	the disposal of the Properties by the Company to Zibo Land Reserve and Exchange Center pursuant to the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the agreement on the acquisition of the Properties entered into between the Company and Zibo Land Reserve and Exchange Center on 22 March 2013
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Land”	a piece of state-owned land with an area of 84.5 mu held by the Company and located at 22 Dong Er Road, Zhangdian District (with the land certificate number of Zi Guo Yong [1999] Zi No.A00088)
“Latest Practicable Date”	17 April 2013, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Properties”	the Land together with the buildings and fixtures erected thereon
“RMB”	Renminbi, the current lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	the shares of the Company currently issued by the Company
“Shareholders”	the shareholders of the Company



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, The 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

24 April 2013

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
DISPOSAL OF PROPERTIES**

INTRODUCTION

Reference is made to the announcement of the Company dated 22 March 2013.

On 22 March 2013, the Company and Zibo Land Reserve and Exchange Center (淄博市土地儲備交易中心) entered into the Disposal Agreement to dispose of the Properties to Zibo Land Reserve and Exchange Centre for a Consideration of RMB56,650,800.

LETTER FROM THE BOARD

THE DISPOSAL AGREEMENT

Date

22 March 2013

Parties

- (1) The Company
- (2) Zibo Land Reserve and Exchange Centre

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Zibo Land Reserve and Exchange Centre and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Subject Assets

Pursuant to the Disposal Agreement, Zibo Land Reserve and Exchange Centre agreed to acquire, and the Company agreed to dispose of, the land use rights of the Land, being a piece of state-owned land with an area of 84.5 mu held by the Company and located at 22 Dong Er Road, Zhangdian District (with the land certificate No. of Zi Guo Yong [1999] Zi No.A00088), together with the buildings and fixtures erected thereon, for a Consideration of RMB56,650,800.

The Land is for industrial use.

Consideration

The Consideration for the Disposal in the amount of RMB56,650,800 in cash shall be payable by Zibo Land Reserve and Exchange Centre to the Company by way of one-off payment after the payback of the relevant reserve cost.

The Consideration of the Properties was determined after arms' length negotiations between the parties to the Disposal Agreement on normal commercial terms on basis of the Appraisal Reports, pursuant to which, as at the Appraisal Date, the appraised value of the Land was RMB36,840,100 whilst that of the buildings and fixtures erected thereon was RMB19,810,700.

LETTER FROM THE BOARD

Conditions Precedent

Completion of the Disposal Agreement is conditional upon the fulfilment of the following conditions:

- (a) the Shareholders approving the transaction contemplated by the Disposal Agreement in a general meeting of the Company; and
- (b) the obtaining of all consents, authorisations, permits and approvals from the Zibo government authorities in respect of the Disposal Agreement and the transaction contemplated thereunder.

If either of the conditions cannot be fulfilled on or before 30 June 2013, the Disposal Agreement shall lapse and cease to be of further effect.

Completion

Completion shall take place on or before 31 December 2013 after the fulfilment of all the conditions set out in the Disposal Agreement.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

As at 28 February 2013, the net book value of the Land was RMB6,100,800 and the net book value of the buildings and fixtures erected thereon was RMB3,105,900. Upon Completion, a gain in an estimated sum of approximately RMB47,000,000 before tax and expenses is expected to be accrued to the Company as a result of the Disposal.

It is intended that the net proceeds of the Disposal are to be used for business development if and when it arises in future and as general working capital of the Company.

REASONS FOR THE DISPOSAL

Zibo Land Reserve and Exchange Centre reclaims the land use rights of the Land, together with the buildings and fixtures erected thereon in accordance with the Zibo urban construction plan and pursuant to the requirements of Article 58 of the PRC Land Administration Law (《中華人民共和國土地管理法》). The Land, with an area of 84.5 mu, will be included into the government reserve and administered by Zibo Land Reserve and Exchange Centre.

The Directors consider that it is a good opportunity for the Company to dispose of the Properties to increase the working capital of the Company as well as to activate idle assets. The Directors believe that the terms of the Disposal are fair and reasonable and are in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction and is subject to the notification and announcement requirements, but is exempted from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Pursuant to the Disposal Agreement, it is one of the conditions precedent for the Company to obtain Shareholders' approval in relation to the Disposal at a general meeting.

GENERAL INFORMATION

Information of the Company

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

Information of Zibo Land Reserve and Exchange Centre

Zibo Land Reserve and Exchange Center is an administrative institution under the Zibo government. It is principally engaged in the reclamation, acquisition and exchange of lands that are subject to revitalization and adjustment within the Zibo planning area; inclusion of lands into the government land reserve; management, development and use of the land reserve; and management, raising and use of land reserve funds.

Shareholders and potential investors should note that the Disposal contemplated under the Disposal Agreement may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

AGM

The AGM will be held at 9:00 a.m. on 24 May 2013 (Friday) at the Company's conference room at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC for the Shareholders to consider and, if thought fit, approve, among other things, the ordinary resolutions in respect of the Disposal and the Disposal Agreement. A notice convening the AGM together with the form of proxy and reply slip were issued on 9 April 2013. A revised notice convening the AGM together with the revised form of proxy were issued on 16 April 2013.

LETTER FROM THE BOARD

Resolutions in relation to the Disposal and the Disposal Agreement will be voted upon by poll in the AGM.

Whether or not you are able to attend the AGM, we encourage you to complete and return the revised 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 AGM to the Company Secretary's Office of the Company at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC. The completion and return of the revised form of proxy will not preclude you from attending and voting at the AGM.

An announcement will be made by the Company following the conclusion of the AGM to inform Shareholders of the poll results of the AGM.

RECOMMENDATION

The Board considers that the Disposal and the terms of the Disposal Agreement are in the ordinary course of business and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM for approving the Disposal and the Disposal Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,

By order of the Board

Shandong Xinhua Pharmaceutical Company Limited

Zhang Daiming

Chairman

A. SUMMARY OF THE APPRAISAL REPORT IN RELATION TO THE LAND**I. PURPOSE OF THE VALUATION**

To implement the procedures to transfer the land use rights of construction land for recovery and reserve purposes in accordance with the requirements of the Land Administration Law of the PRC and the Urban Real Estate Administration Law of the PRC, Zibo Land Reserve and Exchange Center of Zibo Stated-owned Land Resources Bureau commissioned Shandong Lusheng Real Estate Appraisal & Consulting Company Limited (山東魯盛土地房地產評估諮詢有限公司) to appraise the Land so as to provide the principal with a fair, just and reasonable basis for the price of the Land.

II. APPRAISAL DATE

25 June 2012

III. TARGET OF THE APPRAISAL

The target of the appraisal is the land occupying an area of 56,330.5 square metres (equivalent to 84.5 mu) located at 22 Dong Er Road, Zhangdian District, Zibo City. This valuation only includes the land use rights of the Land.

IV. DEFINITION OF THE LAND PRICE

1. Purpose: The Land is registered for industrial use and has been used for industrial purpose. According to the Classification of Current Land Use Purposes (《土地利用現狀分類》) and the purpose of this appraisal, it is established that the Land is for industrial use.
2. Current land use: According to the relevant information and on-site measurements taken by the appraisers, the buildings erected on the Land are mainly composite-structure plants, workshops, etc. They include a total of 59 structures with a gross floor area of 20,862.49 square metres and a floor area ratio of 0.4.
3. Duration of the land use rights of the state-owned construction land: As at the Appraisal Date, the Land was a transferred state-owned construction land. The land use rights of the Land would expire on 6 March 2046 with a remaining duration of 33.72 years from the appraisal date. Thus, the duration of the land use rights for appraisal purposes is 33.72 years.

V. INFORMATION ON THE RIGHTS TO THE LAND

As at the Appraisal Date, there were no rights of mortgage, guarantee, lease or other rights attached to the Land.

VI. METHODS OF APPRAISAL

The appraisal was conducted using both the benchmark land price coefficient revision method (基準地價係數修正法) and the cost approach method (成本逼近法). It was based on the two methods that the price of the land use rights of the Land was determined.

VII. RESULTS OF THE APPRAISAL

Through site survey and information analysis of the real estate market in the region of the appraisal target conducted by the appraiser, in accordance with the basic principles and procedures for the appraisal of land prices and by using the appropriate appraisal method, the price of the land use rights in relation to the Land, being a piece of transferred state-owned construction land, under normal market conditions as at the Appraisal Date was appraised at RMB36,840,100.

**B. SUMMARY OF THE APPRAISAL REPORT IN RELATION
TO THE BUILDINGS AND FIXTURES ON THE LAND**

I. PURPOSE OF THE APPRAISAL

To provide a reference for determining the market price of a property.

II. APPRAISAL DATE

25 June 2012

III. TARGET OF THE APPRAISAL

The Company's buildings and fixtures erected on the Land (including industrial plants, warehouses, office buildings and other structures with a gross floor area of 20,862.49 square metres).

IV. DEFINITION OF THE VALUE

The price on the open market was adopted as the appraised value in this appraisal.

V. METHODS OF APPRAISAL

Based on the required standards and the purpose of this appraisal, along with the site survey conducted by the appraiser, the collection, sorting and analysis of the local price factors in respect of the appraisal target and other information, the appraisal target was industrial property. Based on the given purpose of the appraisal and the specific condition of the appraisal target, the value of the appraisal target on the open market was calculated using the cost method. The cost method involves deducting the depreciation (determined reasonably based on its year of construction and the state of usage and maintenance of the appraisal target) from the replacement price of the appraisal target (that is, the cost of reconstructing the appraisal target on the Appraisal Date, the taxes payable required and the normal development profit for the reconstruction thereof as at the Appraisal Date).

Replacement price= construction costs of the structure + administrative expenses + interest on investment + selling expenses + sales tax payable + development profit

VI. RESULTS OF THE APPRAISAL

According to the purpose of the appraisal, in accordance with appraisal principles and statutory appraisal procedures, based on currently available information and the calculation conducted, coupled with analysis of factors that might affect prices in the real estate market on basis of appraisal experience, the market value of the appraisal target as at the Appraisal Date was determined to be RMB19,810,700 (excluding the value of the relevant land use rights).

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 Hong Kong Stock Exchange.

3. DISCLOSURE OF INTEREST

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

Name	Number of A Shares	Percentage of the total issued share capital of the Company (%)
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Senior Officer:

Mr. Cao Changqiu	1,281	0.00028
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Save as disclosed above, as at the Latest Practicable Date:-

- (a) none of the Directors, Supervisors or 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 Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken 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 Hong Kong 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 2012, 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 had any direct or indirect interest in any assets which had since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (d) none of the Directors or their respective associates had any direct or indirect 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.	Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	State-owned A Shares	166,115,720	36.32
2.	HKSCC (Nominees) Limited	Listed H Shares	148,037,998	32.37

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 general manager of SXPGC. Mr. Xu Lie being a Director of the Company is also a director of SXPGC.

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

5. MATERIAL ADVERSE CHANGE

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

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and there was 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. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors and Supervisors has 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 a member of the Group within one year with payment of compensation, other than statutory compensation.

8. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Company, its holding company and the fellow subsidiaries of the controlling company of its controlling shareholder have 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 had 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 was proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. 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 (as would be required to be disclosed under Rule 8.10 of the Listing Rules if any of them was a controlling shareholder).

10. MATERIAL CONTRACT

As at the Latest Practicable Date, the following contracts (not being contracts that were entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular and is, or may be, material:

- (a) The Hualu Holdings Group Company Limited ("Hualu Holdings") 2011 Medium-Term Notes Fund-Raising Usage Agreement dated 30 December 2011 between Hualu Holdings and the Company pursuant to which Hualu Holdings agrees to provide a loan of RMB 500,000,000 to the Company out of the funds raised by Hualu Holdings under the medium-term notes issued by Hualu Holdings for the Company's repayment of bank loans, increasing of liquidity and major projects planned under the "12th Five-Year Plan". The period for the use of the RMB 500,000,000 shall be five years and the maturity date shall be 30 December 2016.

- (b) The Hualu Holdings Non-Public Debt Financing Instruments Fund-Raising Usage Agreement dated 15 January 2013 between Hualu Holdings and the Company pursuant to which Hualu Holdings agrees to provide a loan of RMB 200,000,000 to the Company out of the funds raised by Hualu Holdings for the Company's repayment of bank loans, increasing of liquidity and construction of the Company's projects. The period for the use of the RMB 200,000,000 shall be three years and the maturity date shall be 31 December 2015.

Save as disclosed above, there are no other contracts, not being contracts entered into in the ordinary course of business of the Group, that are, or may be, material, having been entered into by the Group within the two years immediately preceding the date of this circular.

11. VOTE BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of Shareholders of the Company at the AGM in relation to the Disposal and the Disposal Agreement 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 at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) In the case of any discrepancy, the Chinese version of this circular shall prevail over the English version.