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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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)

**ELECTION OF SUPERVISOR,  
PROPOSED CHANGE OF SCOPE OF BUSINESS OF THE COMPANY AND  
CORRESPONDING AMENDMENTS TO  
THE ARTICLES OF ASSOCIATION**

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A letter from the Board is set out on pages 1 to 5 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, 26 February 2016 at 2:00 p.m. and a form of proxy were dispatched on 12 January 2016. 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 office of the Company Secretary's Office 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.

In the case of any discrepancy, the Chinese text of this circular shall prevail over the English text.

2 February 2016

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## DEFINITIONS

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*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;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be held on 26 February 2016;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supervisor(s)”	the supervisor(s) of the Company; and
“Supervisory Committee”	the supervisory committee of the Company.

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

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

*Registered Address:*

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

*Non-executive Director:*

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

*Independent Non-executive Directors:*

Mr. Li Wenming  
Mr. Du Guanhua  
Mr. Chan Chung Kik, Lewis

2 February 2016

*To the Shareholders*

Dear Sir or Madam,

**ELECTION OF SUPERVISOR,  
PROPOSED CHANGE OF SCOPE OF BUSINESS OF THE COMPANY AND  
CORRESPONDING 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) an ordinary resolution proposing the election of a Supervisor; and (ii) a special resolution proposing to change the scope of business of the Company and corresponding amendments to Article 13 of the Articles of Association.

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## LETTER FROM THE BOARD

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### II. ELECTION OF SUPERVISOR

Reference is made to the announcements of the Company dated 26 October 2015 and 7 January 2016 in relation to the resignation of Mr. Zhang Yueshun as a Supervisor for health reasons. In this connection, it is proposed that Mr. Xiao Fangyu is to be elected as a Supervisor at the EGM to replace Mr. Zhang Yueshun. The new term of office of the elected Supervisor will commence from the date of approval by the Shareholders at the EGM and will end on the expiry of the term of the eighth session of the Supervisory Committee.

#### **Particulars of Mr. Xiao Fangyu**

Mr. Xiao Fangyu (肖方玉), aged 47, graduated from the Department of Mathematics of Shandong University in 1992, and is an asset appraiser and a land valuer. He has been an officer and a director of Zichuan District Finance Bureau of Zibo city, Shandong Province\* (山東省淄博市淄川區財政局), a senior manager of Shandong Zhen Lu Certified Public Accountants Company Limited\* (山東振魯會計師事務所) and a department head of Shandong Beifang Asset Appraisal Firm\* (山東北方資產評估事務所). He currently serves as a deputy director of Jinan Branch of Zhong Xing Cai Guang Hua CPA Office Company Limited\* (中興財光華會計師事務所) and the general manager of Shandong Branch of Beijing Pan-China Assets Appraisal Company Limited\* (天健興業資產評估有限公司). Save as disclosed above, Mr. Xiao did not hold any other directorship in any listed companies in the past three years or any positions in the Company or other members of the Group. Mr. Xiao has no relationship with any Directors, senior management or substantial or controlling shareholders of the Company.

As at the date hereof, Mr. Xiao does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong). Mr. Xiao has not entered into any service contract with the Company. The proposed amount of Mr. Xiao's emoluments for 2016 is approximately RMB30,000, determined by reference to his experience and the emoluments of other Supervisors. The term of office of Mr. Xiao will commence from the date of approval by the Shareholders at the EGM and will end on the expiry of the term of the eighth session of the Supervisory Committee.

Save as disclosed herein, there is nothing in respect of Mr. Xiao which needs to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules nor is there anything that needs to be brought to the attention of the Shareholders.

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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### III. PROPOSED CHANGE OF SCOPE OF BUSINESS OF THE COMPANY AND CORRESPONDING AMENDMENTS TO ARTICLE 13 OF THE ARTICLES OF ASSOCIATION

#### A. CHANGES AND AMENDMENTS

##### 1. *Proposed Change of the Scope of Business*

**The Board proposes to change the scope of business of the Company from:**

“production of medicine, chemical raw materials, food additive, healthcare food, solid beverage, pharmaceutical equipment, medicine inspection instruments and apparatus; technology transfer, service, consultancy and training for projects independently developed by the Company; sale of the enterprise’s own products.”

**to:**

“production of medicine, chemical raw materials, food additive, healthcare food, solid beverage, veterinary products, fish oil, pharmaceutical equipment, medicine inspection instruments and apparatus; technology transfer, service, consultancy and training for projects independently developed by the Company; sale of the enterprise’s own products.”

The amended scope of operations of the Company shall be that as approved by the relevant authorities.

##### 2. *Proposed Amendments to the Articles of Association*

In view of the proposed change in the scope of business of the Company, the Board proposes to make corresponding amendments to the Articles of Association as follows:

#### **Article 13**

**Originally read as:**

“The scope of operations of the Company shall be that approved by the companies registration authorities of the State Council.

The scope of the Company’s businesses covers production of medicine, chemical raw materials, food additive, healthcare food, solid beverage, pharmaceutical equipment, medicine inspection instruments and apparatus; technology transfer, service, consultancy and training for projects independently developed by the Company; sale of the enterprise’s own products.”

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## LETTER FROM THE BOARD

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**Proposed to be amended as:**

“The scope of business of the Company shall be that approved by the companies registration authorities.

The scope of the Company’s businesses covers production of medicine, chemical raw materials, food additives, healthcare food, solid beverages, veterinary products, fish oil, pharmaceutical equipment, medicine inspection instruments and apparatus; technology transfer, service, consultancy and training for projects independently developed by the Company; sale of the enterprise’s own products.”

**B. EFFECTS OF THE AMENDMENTS**

The effect of the aforementioned changes and amendments is to cater for the needs of business development of the Company.

**IV. EXTRAORDINARY GENERAL MEETING**

The Board has resolved to convene the EGM to consider and, if thought fit, to pass the resolutions in relation to the election of Xiao Fangyu as a Supervisor, the change of the scope of business of the Company and the corresponding amendments to Article 13 of the Articles of Association. Notice of the EGM was dispatched on 12 January 2016. The register of members of the Company will be closed from 29 January 2016 to 26 February 2016 (both days inclusive), during which period no H share transfers will be effected. Shareholders whose names appear on the register of members of the Company in the Hong Kong Registrars Limited at 4:30 p.m. on 28 January 2016 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on 19 February 2016, the Directors, the Supervisors and the senior officers of the Company are entitled to attend the EGM or any adjournment thereof. A form of proxy for use at the EGM was also dispatched on 12 January 2016. 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’s Office 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 meeting should you so wish.

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## LETTER FROM THE BOARD

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### V. VOTE BY POLL

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

### VI. RECOMMENDATION OF THE BOARD

The Board considers that the proposed election of the Supervisor, the proposed change of the scope of business of the Company and the proposed corresponding amendments to Article 13 of the Articles of Association are 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, the Board recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM to approve the proposed election of the Supervisor, the proposed change of the scope of business of the Company and the proposed corresponding amendments to Article 13 of the Articles of Association.

### VII. RESPONSIBILITY STATEMENT

The Board and each of the Directors confirm that there are no false representations, material omissions or misleading statements contained in this circular, and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this circular.

Yours faithfully,  
By order of the Board  
**Shandong Xinhua Pharmaceutical Company Limited**  
**Zhang Daiming**  
*Chairman*