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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 and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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

(Stock Code: 0719)

**(1) PROPOSED DISTRIBUTION OF SPECIAL DIVIDEND  
(2) PROPOSED RE-ELECTION OF DIRECTORS AND SUPERVISORS;  
AND  
(3) PROPOSED AMENDMENT OF BUSINESS SCOPE OF  
THE COMPANY AND AMENDMENTS TO THE ARTICLES  
OF ASSOCIATION AND THE RULES AND PROCEDURES  
FOR THE MEETINGS OF THE BOARD**

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A letter from the Board is set out on pages 1 to 20 of this circular.

A notice convening the 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 at 2:00 p.m. on Friday, 22 December 2017, together with a form of proxy, a ballot and the reply slip for attendance were dispatched to Shareholders of the Company on 6 November 2017. Whether or not you are able to attend the meeting, we encourage you to complete and return the form of proxy and ballot 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 secretary to the Board of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People's Republic of China or Hong Kong Registrars Limited, the share registrar of H Shares of the Company, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

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

30 November 2017

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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”                             | a director of the Company;                                                                                                                                               |
| “EGM”                                  | the extraordinary general meeting of the Company to be held on 22 December 2017;                                                                                         |
| “Group”                                | the Company and its subsidiaries;                                                                                                                                        |
| “H Shareholder”                        | a Shareholder of H Share(s);                                                                                                                                             |
| “HKD”                                  | Hong Kong dollars, the lawful currency of Hong Kong;                                                                                                                     |
| “Hong Kong”                            | Hong Kong Special Administrative Region of the PRC;                                                                                                                      |
| “Individual H Shareholder”             | an H Shareholder who is natural person;                                                                                                                                  |
| “Investors of SZSE Southbound Trading” | investors of the Shenzhen Stock Exchange (including corporations and natural persons) investing in the H Shares of the Company through Shenzhen-Hong Kong Stock Connect; |
| “Listing Rules”                        | the Rules Governing the Listing of Securities on the Stock Exchange;                                                                                                     |
| “PRC”                                  | the People’s Republic of China;                                                                                                                                          |

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## DEFINITIONS

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|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Re-election”                            | the re-election of the Directors and Supervisors to their respective offices of Directors or Supervisors for a new term of three years commencing from the date of approval of the Shareholders at the EGM;                                                                                     |
| “RMB”                                    | Renminbi, the lawful currency of the PRC;                                                                                                                                                                                                                                                       |
| “SFO”                                    | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);                                                                                                                                                                                                                    |
| “Shandong Xinhua Pharmaceutical Factory” | 山東新華製藥廠, the predecessor of the Group;                                                                                                                                                                                                                                                          |
| “Share”                                  | a share of the Company;                                                                                                                                                                                                                                                                         |
| “Shareholder”                            | a shareholder of the Company;                                                                                                                                                                                                                                                                   |
| “Special Dividend”                       | the proposed special dividend of RMB0.3 (tax included) in cash for every 10 Shares;                                                                                                                                                                                                             |
| “Stock Exchange”                         | The Stock Exchange of Hong Kong Limited;                                                                                                                                                                                                                                                        |
| “Supervisor”                             | a supervisor of the Company;                                                                                                                                                                                                                                                                    |
| “Supervisory Committee”                  | the supervisory committee of the Company; and                                                                                                                                                                                                                                                   |
| “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 owns 32.94% of the total issued share capital of the Company and is as of the date of this circular the largest Shareholder and a subsidiary of Hualu Holdings Group Company Limited. |

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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 Directors:*

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

*Independent Non-executive Directors:*

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

30 November 2017

*To Shareholders*

Dear Sir or Madam,

### **I. INTRODUCTION**

The purpose of this circular is to provide you with the information regarding the resolutions to be proposed at the EGM. These include (i) an ordinary resolution for approving the distribution and payment of special dividend; (ii) ordinary resolutions for approving the Re-election of Directors and Supervisors; and (iii) a special resolution for approving the amendment of the business scope of the Company and the amendments to the Articles of Association and the Rules and Procedures for the Meetings of the Board.

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## LETTER FROM THE BOARD

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### II. PROPOSED DISTRIBUTION AND PAYMENT OF SPECIAL DIVIDEND

Reference is made to the announcement of the Company dated 18 October 2017 in relation to the notice of the Meeting (the “**Meeting**”) of the Board for the recommendation of a Special Dividend, the announcement of the Company dated 30 October 2017 in relation to the proposed distribution of the Special Dividend and the announcement of the Company dated 7 November 2017 in relation to the change of book closure period and latest time for lodging transfers of securities in respect of the proposed Special Dividend.

At the Meeting, the Board resolved to recommend a Special Dividend, based on the number of total issued Shares of 478,353,421 Shares of the Company as of the date of the Meeting, amounting to RMB14.351 million in total.

The distribution of the Special Dividend is subject to the approval of the Shareholders at the EGM by way of ordinary resolution. Subject to the approval of the Shareholders at the EGM:

- (a) the dividend to the H Shareholders will be denominated and declared in RMB and payable in HKD and the actual dividend amount per Share in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by the People’s Bank of China for the week before the date on which the EGM will be held (the day of the EGM inclusive); and
- (b) the register of members of the H Shares of the Company will be closed from Wednesday, 3 January 2018 to Monday, 8 January 2018 (both days inclusive) for determining the entitlement to the Special Dividend, during which no H Share transfer will be registered. All properly completed H Share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s H Share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 2 January 2018. Subject to the approval of the Shareholders at the EGM, the Special Dividend payable to the H Shareholders (whose names appear on the Company’s register of holders of H Shares on Monday, 8 January 2018) will be paid on or before Friday, 19 January 2018.

In accordance with the Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China which came into effect on 1 January 2008 and the Enterprise Income Tax Law of the People’s Republic of China which came into effect on 24 February 2017, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares. Subject to the approval of the Special Dividend at the EGM, the Company shall withhold and pay enterprise income tax in respect of the Special Dividend for the non-resident enterprise Shareholders listed on the register of members for H Shares on Monday, 8 January 2018.

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## LETTER FROM THE BOARD

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Subject to the approval of the Special Dividend at the EGM, any resident enterprise (as defined in the Enterprise Income Tax Law of the People's Republic of China) listed on the Company's register of the holders of H-shares that is duly set up in the PRC or is set up in accordance with the laws of a foreign country (or a region) with a PRC-based de facto management body, and does not wish the Company to withhold the said 10% enterprise income tax, shall submit to Hong Kong Registrars Limited a legal opinion issued by a lawyer qualified at the laws of the PRC (and inscribed with the seal of the relevant law firm) confirming its resident enterprise status no later than 4:30 p.m. on Monday, 8 January 2018.

Subject to the approval of the Special Dividend at the EGM, pursuant to the rules of exemption of foreign individuals from individual income tax on dividend distributed by foreign-invested enterprises, which are set out in the Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Caishui [1994] 20) (《財政部國家稅務總局關於個人所得稅若干政策問題的通知》(財稅[1994]20 號)) dated 13 May 1994, when the Company distributes the Special Dividend to Individual H Shareholders whose names are listed on the Company's register of holders of H Shares on Monday, 8 January 2018, the Company will distribute in full the Special Dividend to such Individual H Shareholders (not including Investors of SZSE Southbound Trading who are domestic individuals in the PRC).

For Investors of SZSE Southbound Trading, the Company has signed an Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited will, as the nominee of the Investors of SZSE Southbound Trading, receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant Investors of Southbound Trading through its depository and clearing system. The cash dividend for the Investors of SZSE Southbound Trading will be paid in RMB. Taxes shall be withheld pursuant to the Notice on the Tax Policies Related to the Pilot Program on the Interconnection Mechanism of the Shenzhen-Hong Kong Stock Market Transactions (關於深港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2016] No. 127). For dividends payable to domestic individual investors from investing in H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, an H share issuer shall withhold individual income tax at the rate of 20% on behalf of such investors. For dividends payable to domestic securities investment funds from investing in shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for domestic individual investors in the PRC. An H-share issuer shall not withhold income tax on dividends for domestic corporate investors and those domestic corporate investors shall report and pay the relevant tax by themselves.

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## LETTER FROM THE BOARD

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All Shareholders and investors are requested to read this circular carefully. Should you wish to change your Shareholder status, please consult your agent or trust institution in relation to the relevant procedures. Subject to the approval of the Special Dividend at the EGM, the Company will withhold the applicable tax as required by law on the abovementioned basis in accordance with the Company's register of members of H Shares on Monday, 8 January 2018.

The Company assumes no liability in respect of any claims arising from any delay in determining, or inaccurate determination of, the Shareholder status or any disputes over the tax withholding mechanism.

Subject to the approval of the Special Dividend at the EGM by way of ordinary resolution, the Company's H-Share dividend receiving agent is expected to pay the Special Dividend (net of the applicable withholding tax) to H Shareholders and dispatch the relevant cheques by ordinary post to the respective registered addresses of the entitled H Shareholders as shown on the register of members for H Shares on Monday, 8 January 2018 at their own risk.

### III. PROPOSED RE-ELECTION OF DIRECTORS AND SUPERVISORS

Reference is made to the announcement of the Company dated 30 October 2017 in relation to the proposed Re-election of Directors and Supervisors.

The terms of office of the eighth session of the Board and the Supervisory Committee (save for the Supervisors representative of the employees of the Company) are due to expire in late December 2017. The Board is pleased to announce that the Directors and the Supervisors (save for the Supervisors representative of the employees of the Company) will seek Re-election for a new term of three years commencing from the date of approval of the Shareholders at the EGM.

The Re-election is subject to the approval of the Shareholders by ordinary resolutions at the EGM. Biographical details of the candidates seeking Re-election are set out below.

#### **Candidates for executive Directors**

##### **Mr. Zhang Daiming**

Mr. Zhang Daiming, aged 55, is a senior economist. He graduated from Qingdao University of Science and Technology, specialising in organic chemical engineering and obtained a master's degree in economics from Shanghai University of Finance and Economics. Mr. Zhang joined Shandong Xinhua Pharmaceutical Factory in July 1987 and had served as a workshop technician, planner of the planning and statistics department of the Company, the deputy manager and manager of the international trade department of the Company and the deputy general manager of the Company. Mr. Zhang is the Chairman of the Company, the chairman of the board of directors of

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## LETTER FROM THE BOARD

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SXPGC, and Shandong Xinhua Pharmaceutical (Europe) GmbH, the executive director of Shandong Xinhua Import & Export Company Limited, the chairman of the board of director(s) of Zibo Xinhua Eastwest Pharmaceutical Company Limited, Zibo Xinhua-Perrigo Pharmaceutical Company Limited and Xinhua (Zibo) Real Estate Company Limited, Shandong Xinhua Pharmaceutical (USA) Company Limited, and Shandong Zibo XinCat Pharmaceutical Company Limited.

As at the date hereof, Mr. Zhang has not entered into any service contract with the Company. The proposed amount of his emoluments as a Director of the Company for 2017 is approximately RMB420,000, determined by reference to his experience and the emoluments of the other non-independent Directors.

### **Mr. Du Deping**

Mr. Du Deping, aged 48, is a senior engineer. He graduated from the Ocean University of China, specialising in chemistry and obtained a master's degree in medicinal chemistry from Shandong University. He joined Shandong Xinhua Pharmaceutical Factory in July 1991. He had served as a deputy head and head of the workshop, assistant to the general manager of the Company and deputy general manager of the Company. Mr. Du is currently a director and the general manager of the Company, and the chairman of the board of directors of Shandong Xinhua Pharmaceutical Chemical Design Company Limited, Xinhua Pharmaceutical (Shouguang) Company Limited and Shandong Xinhua Electrical and Mechanical Engineering Company Limited.

As at the date hereof, Mr. Du has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB400,000, determined by reference to his experience and the emoluments of other non-independent Directors.

### **Candidates for Non-executive Directors**

#### **Mr. Ren Fulong**

Mr. Ren Fulong, aged 55, is a researcher and practising pharmacist. He graduated from Shandong Changwei Medicine College in 1985. From 1985 to 1988, Mr. Ren was a resident physician. In 1991, Mr. Ren obtained his master of medicine from Beijing Medical University and joined Shandong Xinhua Pharmaceutical Factory in September the same year. He had served as the deputy director and the director of the Company's research institute, the assistant to the general manager and the deputy general manager of the Company, the deputy general manager of SXPGC and the general manager of the Company. Mr. Ren is currently the director of the Company, the director and general manager of SXPGC and the chairman of the board of directors of Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd..

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## LETTER FROM THE BOARD

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As at the date hereof, Mr. Ren has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB400,000, determined by reference to his experience and the emoluments of other non-independent Directors.

### **Mr. Xu Lie**

Mr. Xu Lie, aged 52, is a senior economist and professor level senior political engineer, and is a university graduate and is a master of management. He joined Shandong Xinhua Pharmaceutical Factory in August 1986 and has been the deputy office director and the office director, the deputy office head, and the manager of the human resource department. Mr. Xu is currently a Director and the chairman of the labor union of the Company, and a director and the chairman of the labor union of SXPGC.

As at the date hereof, Mr. Xu has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB320,000, determined by reference to his experience and the emoluments of other non-independent Directors.

### **Mr. Zhao Bin**

Mr. Zhao Bin, aged 58, graduated from Zhongnan University of Economics and Law with EMBA. He joined the People's Liberation Army in 1976 and had been a soldier, the ex-officio of deputy company, the ex-officio of company, the ex-officio of deputy battalion, deputy director and director of the political department of Jinan Military Region and Shandong Province Military Region. Mr. Zhao had been the investment manager and office general manager of Shandong Hualu Group Company Limited, deputy general manager of Shandong Hualu International Business Center Company Limited and general manager of the development planning department of Hualu Holdings Group Company Limited and the director of legal affairs office of Hualu Holdings Group Company Limited. Mr. Zhao is also a director of the company. Mr. Zhao is the assistant to the general manager and the director of discipline inspection and supervision of Hualu Holdings Group Company Limited.

As at the date hereof, Mr. Zhao has not entered into any service contract with the Company and does not plan to receive remuneration for being a Director for 2017.

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## LETTER FROM THE BOARD

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### Candidates for Independent non-executive Directors

#### Mr. Li Wenming

Mr. Li Wenming, aged 43, graduated from Faculty of Management of the Dalian University of Technology and obtained a Master of Business Administration. Mr. Li previously held the positions of officer of Henan Pingdingshan Zhanhe Health Bureau, market researcher of Beijing CHNMED Consulting Co., Ltd., manager of the pharmaceutical department of Beijing Peking University Founder Group. He is currently a partner of HeJun Consulting co., Ltd, and a deputy secretary general of China Association of Pharmaceutical Commerce, an non-executive director of Beijing AKEC Medical Co., Ltd., and a director of Beijing Tianheng Hospital Management Co., Ltd. He is a director of YunNan JianZhiJia Health Multiple Shop Co., Ltd., and GuangDong HuiQun Traditional Chinese Medicine Co., Ltd.. He has served as an independent non-executive Director of the Company since 2015.

As at the date hereof, Mr. Li has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB70,000, determined by reference to his experience and the emoluments of other independent non-executive Directors.

#### Mr. Du Guanhua

Mr. Du Guanhua, aged 59, is a doctor, professorial researcher and tutor to PhD candidates. Mr. Du graduated and obtained his PhD in Physiology from Peking Union Medical College. Mr. Du has been the head of National Center for Pharmaceutical Screening since July 1999, the chairman of Chinese Pharmacological Society since November 2007. Mr. Du has served as an independent non-executive director of the Company since 2015, and are currently also an independent director of Shandong Luoxin Pharmacy Stock Co., Ltd, and an independent director of Hebei Changshan Biochemical Pharmaceutical Co., Ltd..

As at the date hereof, Mr. Du has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB70,000, determined by reference to his experience and the emoluments of other independent non-executive Directors.

#### Mr. Chan Chung Kik, Lewis

Mr. Chan Chung Kik, Lewis, aged 44, was appointed as an independent non-executive director of the Company in 2014. He holds a bachelor degree in accounting from the University of Canberra, Australia, and is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. He has extensive experience in accounting, finance and corporate governance. Mr. Chan is currently the chief financial officer of Denox Environmental & Technology Holdings Limited (stock code: 01452), and an independent non-executive director of HongGuang

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## LETTER FROM THE BOARD

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Lighting Holdings Company Limited (stock code: 08343), Founder Holdings Limited (stock code: 00418), Peking University Resources (Holdings) Company Limited (stock code: 00618), and Wing Chi Holdings Limited (stock code: 06080). Mr. Chan has served as an independent non-executive director of Kwan On Holding Limited (stock code: 01559) from 16 March 2015 to 13 September 2016.

As at the date hereof, Mr. Chan has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB70,000 determined by reference to his experience and the emoluments of other independent non-executive Directors.

### **Candidates for Supervisors**

#### **Mr. Li Tianzhong**

Mr. Li Tianzhong, aged 55, is a senior engineer. He graduated from the Shandong Institute of Technology, specialised in industrial automation. He joined Shandong Xinhua Pharmaceutical Factory in July 1983. Mr. Li had been the engineer and director of the electric motor workshop, manager of the trade department of the Company, supply and marketing department and drug department of the Company, director of the Company, assistant to the general manager, director and deputy general manager of Xinhua Lukang Pharmaceutical Group Corporation, director and deputy general manager of Shandong Xinhua Pharmaceutical Group Company Limited. Mr. Li is currently the chairman of the supervisory committee of the Company and a deputy general manager of SXPGC.

As at the date hereof, Mr. Li has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB320,000, determined by reference to his experience and duties as the chairman of the Supervisory Committee.

#### **Mr. Tao Zhichao**

Mr. Tao Zhichao, aged 48, graduated from East China University of Political Science and Law and obtained a bachelor's degree in law. Mr. Tao was also conferred a master's degree in law from Shandong University. Mr. Tao is a partner of Shandong Zhigong Associates, and has served as an independent supervisor of the Company since June 2002.

As at the date hereof, Mr. Tao has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB30,000, determined by reference to his experience and the emolument of the other independent Supervisor.

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## LETTER FROM THE BOARD

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### **Mr. Xiao Fangyu**

Mr. Xiao Fangyu, aged 48, graduated from department of mathematics Shandong University in 1992 and has the qualifications as asset appraiser and land valuer. He had been an officer and superintendent in the Bureau of Finance in Zichuan District, Zibo, and a senior manager of Shandong Zhenlu Accountants Office Co., Ltd., and department manager of Shandong North Asset Appraisal Firm. Mr. Xiao is a deputy director of Zhongxingcai Guanghua Certified Public Accountants LLP, and a general manager of Pan-China Assets Asset Appraisal Co., Ltd. (Shandong). He has served as an independent Supervisor of the Company since February 2016.

As at the date hereof, Mr. Xiao has not entered into any service contract with the Company. The proposed amount of his emoluments for 2017 is approximately RMB30,000, determined by reference to his experience and the emolument of the other independent Supervisor.

As of the date of this circular, Mr. Zhang Daiming personally holds 11,900 A Shares. Mr. Zhang Daiming, Mr. Du Deping, Mr. Ren Fulong and Mr. Xu Lie are participants in the Employee Stock Ownership Scheme of the Company in respect of 134,529 A Shares, 44,843 A Shares, 116,591 A Shares and 62,780 A Shares respectively.

Save as disclosed above, as at the date hereof, none of the above persons (i) has held any other positions in the Company or other members of the Group or any directorship in any other listed companies in the past three years; (ii) has any relationship with any other Director, Supervisor, senior management, substantial shareholder or controlling shareholder (as defined under the Listing Rules) of the Company; or (iii) has any interest in the shares of the Company within the meaning of Part XV of the SFO. All of the above persons have nothing 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.

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## LETTER FROM THE BOARD

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### IV. PROPOSED AMENDMENT OF SCOPE OF BUSINESS OF THE COMPANY AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND THE RULES AND PROCEDURES FOR THE MEETINGS OF THE BOARD OF DIRECTORS OF THE COMPANY

#### **Proposed Amendment of the Scope of Business**

To accommodate the needs of business development of the Company, the Board proposes to amend the scope of business of the Company from:

*“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.”*

**to:**

*“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; wholesale and retail of traditional Chinese medicine, traditional Chinese medicine decoction pieces, medical devices (Class I, II and III), contact lens and solutions, test strips (testing reagent), healthcare food, maternity and childcare products, dairy products (including infant milk formula), cosmetics, cleansing products, pre-packaged food, bulk food, general merchandise, elementary agricultural products, seafood, sexual health and family planning products; import and export business; chemical active pharmaceutical ingredients, chemical products, chemical reagents, pharmaceutical intermediates (the above three categories exclude hazardous and precursor chemicals); warehousing services (excluding hazardous goods) and Internet information consultancy and services; and e-commerce entrusted operation.”*

The proposed amendment of the scope of business is subject to approval by way of special resolution by the Shareholders at the EGM and the necessary approvals from the relevant authorities of the PRC.

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

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## LETTER FROM THE BOARD

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### **Proposed Amendments to the Articles of Association and the Rules and Procedures for the Meetings of the Board**

In view of the proposed amendment of the scope of business of the Company, the completion of the placing of A shares of the Company as disclosed in the announcements of the Company dated 11 October 2017 and 16 October 2017 and the actual circumstances of the Company and for the purpose of further enhancement of corporate governance, the Board proposes to amend the Articles of Association and the Rules and Procedures for the Meetings of the Board as follows:

#### **1. Article 13**

Currently read as:

*“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.”*

**is proposed to be amended as follows:**

*“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; wholesale and retail of traditional Chinese medicine, traditional Chinese medicine decoction pieces, medical devices (Class I, Class II and Class III), contact lens and solutions, test strips (testing reagent), healthcare food, maternity and childcare products, dairy products (including infant milk formula), cosmetics, cleansing products, pre-packaged food, bulk food, general merchandise, elementary agricultural products, seafood, sexual health and family planning products; import and export business; chemical active pharmaceutical ingredients, chemical products, chemical reagents, pharmaceutical intermediates (the above three categories exclude hazardous and precursor chemicals); warehousing services (excluding hazardous goods) and Internet information consultancy and services; and e-commerce entrusted operation.”*

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## LETTER FROM THE BOARD

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### 2. Article 19

Currently read as:

*“By approval of the company’s examination and approval department authorised by the State Council, the total number of ordinary shares of the Company in issue is 457,312,830 shares, including 217,440,000 state-owned shares issued to the sponsors of the Company at the time when the Company was established, 16,719,500 legal person shares and 33,153,330 employee shares. As approved by China Securities Regulatory Commission, the Company issued 150,000,000 overseas listed foreign shares in 1996 and 10,000,000 domestically listed domestic shares to the domestic public in 1997. As approved by China Securities Regulatory Commission, the Company issued 30,000,000 domestically listed domestic shares to the domestic public in 2001. Meanwhile, the state-owned shares of the Company held by Shandong Xinhua Pharmaceutical Group Company Limited reduced by 3,000,000 shares in accordance with Cai Shui Cai Qi Bian Han [2001] No. 78 issued by the Ministry of Finance. In accordance with Lu Guo Zi Chan Quan Han [2006] No.74 issued by Shandong Provincial State-owned Assets Supervision and Administration Commission, Shandong Xinhua Pharmaceutical Group Company Limited offered 26,653,665 shares to all holders of circulating A shares as consideration.*

*The Company’s total share capital comprises 457,312,830 ordinary shares, of which 187,786,335 domestic shares are held by Shandong Xinhua Pharmaceutical Group Company Limited, representing approximately 41.06% of the Company’s total ordinary shares; 150,000,000 overseas listed foreign shares are held by holders of overseas listed foreign shares, representing approximately 32.80% of the Company’s total ordinary shares; 16,719,500 domestic shares are held by domestic legal person shareholders, representing approximately 3.66% of the Company’s total ordinary shares; 102,806,665 listed domestic shares are held by the public shareholders, representing approximately 22.48% of the Company’s total ordinary shares.”*

**is proposed to be amended as follows:**

*“By approval of the companies examination and approval department authorised by the State Council, the total number of ordinary shares of the Company could issue was 457,312,830 shares, including 217,440,000 state-owned shares issued to the promoter of the Company at the time when the Company was established, 16,719,500 legal person shares and 33,153,330 employee shares. As approved by China Securities Regulatory Commission, the Company issued 150,000,000 overseas listed foreign shares in 1996 and 10,000,000 domestically listed domestic shares to the domestic public in 1997. As approved by China Securities Regulatory Commission, the Company issued 3,000,000 domestically listed domestic shares to the domestic public in 2001. Meanwhile, the state-owned shares of the Company held by*

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## LETTER FROM THE BOARD

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*Shandong Xinhua Pharmaceutical Group Company Limited disposed of 30,000,000 shares in accordance with Cai Shui Cai Qi Bian Han [2001] No. 78 issued by the Ministry of Finance. In accordance with Lu Guo Zi Chan Quan Han [2006] No.74 issued by Shandong Provincial State-owned Assets Supervision and Administration Commission, Shandong Xinhua Pharmaceutical Group Company Limited offered 26,653,665 shares to all holders of circulating A shares as consideration.*

*By the Approval Document [2017] No. 459 issued by the China Securities Regulatory Commission, for the year 2017 the Company was allowed to proceed with the non-public issuance of 21,040,591 domestic shares to be listed in the PRC. Upon completion of the issuance, the structure of share capital of the Company is: the total number of shares is 478,353,421 shares, of which all are ordinary shares and listed domestic shares in the PRC are 328,353,421 shares, representing approximately 68.64% of the total number of shares of the Company; overseas listed foreign shares are 150,000,000 shares, representing approximately 31.36% of the total number of shares of the Company.”*

### **3. Article 22**

Currently read as:

*“The registered capital of the Company is RMB457,312,830 yuan.”*

**is proposed to be amended as follows:**

*“The registered capital of the Company is RMB478,353,421 yuan.”*

### **4. Article 94**

Currently read as:

*“Shareholders’ general meetings shall be convened and chaired by the chairman. If the chairman is unable to attend the meeting for any reason, the vice-chairman shall convene the meeting and take the chair of the meeting. If both the chairman and the vice-chairman are unable to attend the meeting, the board of directors may upon agreement by more than half of the directors designate a director to act as the chairman of the meeting. If no chairman of the meeting was so designated, the shareholders present at the meeting may elect a person to act as chairman of the meeting, and if for any reason, the shareholders are unable to appoint a chairman of the meeting, the shareholder (or his proxy) present at the meeting holding the greatest number of shares carrying the right to vote shall be the chairman of the meeting.*

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## LETTER FROM THE BOARD

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*Shareholders' general meetings solely convened by the supervisory committee shall be chaired by the chairman of supervisory committee. If the chairman of supervisory committee is unable to or does not perform the duty, the vice-chairman shall take the chair of the meeting. If the vice-chairman is unable to or does not perform the duty, a supervisor may be recommended and elected by more than half of the supervisors to take the chair of the meeting.*

*Shareholders' general meetings solely convened by the shareholders shall be chaired by a representative recommended and elected by the shareholders convening the meeting.*

*In convening a shareholders' meeting, if the chairperson of the meeting violates the rules of procedures and causes the discontinuance of the meeting, the shareholders' general meeting may upon approval of over half of the shareholders with the right to vote present at the meetings, recommend and elect another person to take the chair and resume the meeting."*

**is proposed to be amended as follows:**

*"Shareholders' general meetings shall be convened and chaired by the chairman. If the chairman is unable to attend the meeting for any reason, the board of directors may upon agreement by more than half of the directors designate a director to act as the chairman of the meeting. If no chairman of the meeting was so designated, the shareholders present at the meeting may elect a person to act as chairman of the meeting, and if for any reason, the shareholders are unable to appoint a chairman of the meeting, the shareholder (or his proxy) present at the meeting holding the greatest number of shares carrying the right to vote shall be the chairman of the meeting.*

*Shareholders' general meetings solely convened by the supervisory committee shall be chaired by a supervisor recommended and elected by more than half of the supervisors.*

*Shareholders' general meetings solely convened by the shareholders shall be chaired by a representative recommended and elected by the shareholders convening the meeting.*

*In convening a shareholders' meeting, if the chairperson of the meeting violates the rules of procedures and causes the discontinuance of the meeting, the shareholders' general meeting may upon approval of over half of the shareholders with the right to vote present at the meetings, recommend and elect another person to take the chair and resume the meeting."*

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## LETTER FROM THE BOARD

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### **5. Article 119**

Currently read as:

*“The Company shall establish a board of directors. The board of directors consists of 10 directors comprising 4 independent non-executive directors, 1 chairman and 1 vice-chairman.”*

**is proposed to be amended as follows:**

*“The Company shall establish a board of directors. The board of directors consists of 8 directors, of which 3 shall be independent non-executive directors. The board of directors shall have a chairman.”*

### **6. Article 120**

Currently read as:

*“All directors shall be elected by the shareholders’ general meeting and shall serve a term of 3 years. Upon the expiry of his term of office, a director may be re-elected to serve consecutive terms. Before a director’s term of office expires, the shareholders’ general meeting shall not dismiss him from his position without due cause.*

*Notice of an intention to nominate a person for election as a director and a notice in writing by that person of his acceptance of such nominations shall be given to the Company at least 7 days before the date on which the general meeting is convened.*

*The period for lodgment of such notice will commence no earlier than the day after the dispatch of the notice of meeting appointed for such election and end no later than 7 days prior to the date of such meeting.*

*The chairman and vice-chairman shall be appointed and removed by a majority of the directors. The chairman and vice-chairman shall serve a term of 3 years from the date of election and may be re-elected to serve consecutive terms upon the expiry of the term of office.*

*Subject to compliance with the relevant laws and administrative regulations, a shareholders’ general meeting may by way of an ordinary resolution remove any director before the expiry of his term of office (but without prejudice to any claim for compensation pursuant to any contract).*

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## LETTER FROM THE BOARD

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*A director may concurrently hold the position of manager or other management positions (except the position of a supervisor), provided that the directors holding position of manager or other management positions and directors acted by representatives of employees shall not amount to over 1/2 of the total directors of the Company.*

*A director is not required to hold shares in the Company.”*

**is proposed to be amended as follows:**

*“All directors shall be elected by the shareholders’ general meeting and shall serve a term of 3 years. Upon the expiry of his term of office, a director may be re-elected to serve consecutive terms. Before a director’s term of office expires, the shareholders’ general meeting shall not dismiss him from his position without due cause.*

*Notice of an intention to nominate a person for election as a director and a notice in writing by that person of his acceptance of such nominations shall be given to the Company at least 7 days before the date on which the general meeting is convened.*

*The period for lodgment of such notice will commence no earlier than the day after the dispatch of the notice of meeting appointed for such election and end no later than 7 days prior to the date of such meeting.*

*The chairman shall be appointed and removed by a majority of the directors. The chairman shall serve a term of 3 years from the respective dates of their election and may be re-elected to serve consecutive terms upon the expiry of their terms of office.*

*Subject to compliance with the relevant laws and administrative regulations, a shareholders’ general meeting may by way of an ordinary resolution remove any director before the expiry of his term of office (but without prejudice to any claim for compensation pursuant to any contract).*

*A director may concurrently hold the position of manager or other management positions (except the position of a supervisor), provided that the directors holding position of manager or other management positions and directors acted by representatives of employees shall not amount to over 1/2 of the total directors of the Company.*

*A director is not required to hold shares in the Company.”*

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## LETTER FROM THE BOARD

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### 7. **Article 128**

Currently read as:

*“The chairman of the board of directors shall have the following functions and powers:*

- (1) to chair shareholders’ general meetings and to convene and chair meetings of the board of directors;*
- (2) to supervise the implementation of board resolutions;*
- (3) to sign certificates of securities issued by the Company; and*
- (4) any other functions and powers conferred by the board of directors.*

*Where the chairman is unable to exercise his functions and powers, he may appoint the vice-chairman to act on his behalf.”*

**is proposed to be amended as follows:**

*“The chairman of the board of directors shall have the following functions and powers:*

- (1) to chair shareholders’ general meetings and to convene and chair meetings of the board of directors;*
- (2) to supervise the implementation of board resolutions;*
- (3) to sign certificates of securities issued by the Company; and*
- (4) other functions and powers conferred by the board of directors.”*

### 8. **Proposed inclusion of a new article as Article 2 in Chapter 1 General Provision of the Articles of Association:**

*“In accordance with the Company Law and the Constitution of the Communist Party of China (the “Party”), the Company hereby sets up Party organizations and related working organs, and maintains an adequate level of staffing to handle Party affairs as well as sufficient funding necessary for the activities of the Party organizations. The Party organizations serves core political leadership functions in the Company.”*

The current Article 2 and the subsequent existing articles of the Articles of Association will be renumbered accordingly.

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## LETTER FROM THE BOARD

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**9. *Proposed inclusion of a new article as Article 125 in Chapter 10 Board of Directors of the Articles of Association:***

*“When making decisions on such significant matters as direction of reform and development, key objectives, and priority operational arrangements of the Company, the board of directors should listen to the view of the Party organization beforehand. When the board of directors appoints the management personnel of the Company, the Party organization may consider and provide its view on the candidates for management positions nominated by the board of directors or the president, or recommend candidates to the board of directors and/or the general manager.”*

The current Article 125 and the subsequent existing articles of the Articles of Association will be renumbered accordingly.

**10. *Proposed inclusion of a new article as Article 2 in Chapter 2 The Authority and Authorisation of the Board of Directors of the Rules and Procedures for the Meetings of the Board***

*“When making decisions on such significant matters as direction of reform and development, key objectives, and priority operational arrangements of the Company, the board of directors should listen to the view of the Party organization beforehand. When the board of directors appoints the management personnel of the Company, the Party organization may consider and provide its view on the candidates for management positions nominated by the board of directors or the president, or recommend candidates to the board of directors and/or the general manager.”*

The current Article 2 and the subsequent existing articles of the Rules and Procedures for the Meetings of the Board will be renumbered accordingly.

Subject to the approval of Shareholders at the EGM, these proposed amendments will have the effect of amending seven articles and adding two new articles. The numbering of the relevant chapters and articles will be adjusted accordingly. The full terms of the proposed amendments to the Articles of Association have been cited above.

The proposed amendments to the Articles of Association and the Rules and Procedures for the Meetings are subject to approval by way of special resolution by the Shareholders at the EGM.

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## LETTER FROM THE BOARD

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### **V. EXTRAORDINARY GENERAL MEETING**

The Board has resolved to convene the EGM for the Shareholders to consider and, if thought fit, to pass the ordinary resolutions in relation to the distribution and payment of the Special Dividend; the ordinary resolutions in relation to the Re-election of Directors and Supervisors; and the special resolution in relation to the proposed amendment of business scope of the Company and amendments to the Articles of Association and the Rules and Procedures for the Meeting of the Board. As disclosed in the Notice of the EGM dated 6 November 2017, for the purpose of determining the H Shareholders entitled to attend and vote at the EGM, the register of members of the H Shares of the Company is scheduled to close from 23 November 2017 to 22 December 2017 (both days inclusive), during which period no H Share transfers will be registered. Shareholders whose names appear on the register of members of the H Shares of the Company in the Hong Kong Registrars Limited at 4:30 p.m. on Wednesday, 22 November 2017, Shareholders whose names appear on the register of members of A Shares of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Friday, 15 December 2017, the Directors, the Supervisors, the senior management, the legal counsels and the auditors of the Company are entitled to attend the EGM or any adjournment thereof. A notice of the EGM together with a form of proxy, a ballot and a reply slip for attendance were dispatched to the Shareholders on 6 November 2017. Whether or not you are able to attend the EGM, we encourage you to complete and return the form of proxy and ballot 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 office of the secretary to the Board of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC or to Hong Kong Registrars Limited, the share registrar of H Shares of the Company, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

### **VI. 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.

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## LETTER FROM THE BOARD

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### VII. RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board considers the proposed distribution and payment of the Special Dividend, the proposed Re-election of Directors and Supervisors, and the proposed amendment of the business scope of the Company and amendments to the Articles of Association and the Rules and Procedures for the Meetings of the Board of the Company are in the interest of 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.

### VIII. 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 of Directors  
**Shandong Xinhua Pharmaceutical Company Limited**  
**Zhang Daiming**  
*Chairman*