
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

**PROPOSED APPOINTMENT OF TWO NEW DIRECTORS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

A notice convening an extraordinary general meeting of the Company to be held at the Company's conference room at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The People's Republic of China on Monday, 20 September 2010 at 9:00 a.m. is set out on pages 6 to 8 of this circular. Whether or not you are able to attend the meeting, we encourage you to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the extraordinary general meeting to the Company Secretary's office of the Company at 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The People's Republic of China.

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

5 August 2010

CONTENTS

	<i>Page</i>
DEFINITIONS	ii
LETTER FROM THE BOARD	
I. Introduction	1
II. Proposed Appointment of two new Directors	2
III. Reason for the Proposed Appointment	3
IV. Extraordinary General Meeting	4
V. Vote by poll	4
VI. Recommendation of the Independent Board Committee	4
VII. Recommendation of the Board of Directors	5
VIII. Responsibility Statement	5
NOTICE OF EXTRAORDINARY GENERAL MEETING	6

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company;
“Board”	the board of Directors;
“Company”	山東新華製藥股份有限公司 (Shandong Xinhua Pharmaceutical Company Limited), a joint stock company incorporated in the PRC with limited liability;
“Directors”	the directors of the Company;
“EGM”	The extraordinary general meeting of the Company to be held on 20 September 2010;
“Factory”	Shandong Xinhua Pharmaceutical Factory;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.



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:

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

Registered Address:

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

Non-executive Directors:

Mr. Xu Lie
Mr. Zhao Bin

Independent Non-executive Directors:

Mr. Zhu Baoquan
Mr. Sun Minggao
Mr. Kwong Chi Kit, Victor

5 August 2010

To the 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. This include: ordinary resolutions proposing the appointment of two new Directors and proposing the authorisation to the Board to fix the emoluments of the two new Directors for 2010. A notice convening the EGM is set out on pages 6 to 8 of this circular.

LETTER FROM THE BOARD

II. PROPOSED APPOINTMENT OF TWO NEW DIRECTORS

The following are the particulars of Mr. Zhang Daiming and Mr. Du Deping, proposed to be appointed as executive Directors at the EGM:

1. Mr. Zhang Daiming

Mr. Zhang Daiming, aged 48, is a senior economist. He graduated from Qingdao Science and Technology University, specialising in organic chemical engineering and obtained a master's degree in economics from Shanghai Financial and Economic University. Mr. Zhang joined the Factory in 1987 and was previously the deputy manager and manager of international trade department of the Company. Mr. Zhang is a deputy general manager of the Company, the chairman of Shandong Xinhua Import and Export Company Limited, the chairman of Shandong Xinhua Pharmaceutical (Europe) GmbH, a director of Shandong Xinhua Medical Trade Company Limited, a director of Zibo Xinhua Eastwest Pharmaceutical Company Limited, and a director of Zibo Xinhua- Perrigo Pharmaceutical Company Limited. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions in the Company or other members of the Group. Mr. Zhang has no relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

As at the date hereof, Mr. Zhang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Zhang has not entered into any service contract with the Company. It will be proposed at the EGM to authorise the Board to fix Mr Zhang's emolument for 2010 which will be determined by reference to his experience and the emoluments of other executive directors of the Company. An announcement will be made when Mr. Zhang's emolument for 2010 is fixed. The term of office of Mr. Zhang will commence from the date of approval given by the Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

Save as disclosed herein, there is nothing in respect of Mr. Zhang that 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.

LETTER FROM THE BOARD

2. Mr. Du Deping

Mr. Du Deping, aged 41, is a senior engineer. He graduated from the Ocean University of PRC, specialising in chemistry and obtained a master's degree in medicinal chemistry from Shandong University. He joined the Factory in 1991. He was previously a deputy head and head of the workshop, and assistant to the general manager of the Company. Mr. Du is currently a deputy general manager of the Company. Save as disclosed above, he did not hold any other directorship in any listed companies in the past three years or any other positions in the Company or other members of the Group. Mr. Du has no relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

As at the date hereof, Mr. Du does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Du has not entered into any service contract with the Company. It will be proposed at the EGM to authorise the Board to fix Mr Du's emolument for 2010 which will be determined by reference to his experience and the emoluments of other executive directors of the Company. An announcement will be made when Mr. Du's emolument for 2010 is fixed. The term of office of Mr. Du will commence from the date of approval given by the Shareholders at the EGM and will end on the expiry of the term of the sixth Board of the Company.

Save as disclosed herein, there is nothing in respect of Mr. Du that 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.

III. REASON FOR THE PROPOSED APPOINTMENT

The proposed appointment of the two new Directors will bring in new members with different background, experience and qualification to the Board and is line with the future development of the Company's business. As advised by the Company's PRC legal advisers in respect of PRC law, the proposed appointment of the two new Directors complies with the applicable PRC laws and regulations as well as the Articles of Association.

LETTER FROM THE BOARD

IV. EXTRAORDINARY GENERAL MEETING

The Directors have resolved to convene the EGM to consider and to appoint two new Directors by Shareholders. Notice of the EGM is set out on pages 6 to 8 of this circular. The register of members of the Company will be closed from 21 August 2010 to 20 September 2010 (both days inclusive), during which period no H share transfers will be effected. Shareholders of the Company whose names appear on the register of members of the Company in the Hong Kong Registrars Limited at 4:30 p.m. on Friday, 20 August 2010 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Friday, 20 August 2010 and 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 is enclosed herein. Whether or not you are able to attend the EGM, we encourage you to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM, to the company secretary at the Company at 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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

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 INDEPENDENT BOARD COMMITTEE

The proposed appointment of the two new Directors has been reviewed by an Independent Board Committee, which comprises three Independent Non-executive Directors, Mr. Zhu Baoquan, Mr. Sun Minggao and Mr. Kwong Chi Kit, Victor. The Independent Board Committee advises that such appointment is fair and reasonable, and in the interests of the Company and its shareholders as a whole, and further advises that Shareholders should vote in favour of such proposed appointment.

LETTER FROM THE BOARD

VII. RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board considers that the proposed appointment of the two new Directors is fair and reasonable so far as the Shareholders are concerned.

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

Shangdong Xinhua Pharmaceutical Company Limited

Guo Qin

Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

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

(Stock Code: 0719)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**EGM**”) of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) will be held at the Company’s conference room at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, The People’s Republic of China (the “**PRC**”) on 20 September 2010 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

“That

1. Mr. Zhang Daiming and Mr. Du Deping be elected as executive directors of the Company by cumulative voting* (see Note 8 below); and

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

2. The board of directors be authorised to fix Mr. Zhang Daiming’s and Mr. Du Deping’s emoluments for 2010.”

Shandong Xinhua Pharmaceutical Company Limited

The Board of Directors

5 August 2010

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from 21 August 2010 to 20 September 2010 (both days inclusive), during which period no H share transfers will be effected. Shareholders of the Company whose names appear on the register of members of the Company in the Hong Kong Registrars Limited at 4:30 p.m. on 20 August 2010 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on 20 August 2010 and the directors, supervisors and senior officers of the Company are entitled to attend the EGM or any adjournment thereof.
2. Shareholders of the Company who intend to attend the EGM are asked to send the completed and signed reply slip for attendance dispatched to the Company's shareholders together with the circular dated 5 August 2010 to the company secretary's office of the Company (see Note 7 below) on or before 30 August 2010, by hand, by post or by facsimile. The written reply will not affect the right of the shareholders (see Note 1 above) to attend and vote at the EGM. The completion and deposit of a form of proxy will not preclude any shareholder of the Company from attending and voting in person at the EGM or any adjournment thereof.
3. A shareholder of the Company entitled to attend and vote at the EGM may appoint one or more proxies (whether the person is a shareholder of the Company or not) to attend and vote on his/her behalf at the EGM. When a shareholder appoints more than one proxy, such proxies may only vote on a poll. Each holder of H shares (or his/her proxy or proxies) shall be entitled to one vote for each share held.
4. Shareholders of the Company must appoint a proxy or proxies in writing i.e. the original proxy form dispatched to the Company's shareholders together with the circular dated 5 August 2010 or a copy of it, which shall be signed by the person appointing the proxy or proxies or by his/her duly authorised attorney. If the form of proxy is signed by an attorney, the document appointing the attorney must be certified by a notary public. If the appointing shareholder is a legal person, the legal person's seal or the signature of its director(s) or representative(s) duly authorised in writing is required. To be valid, a notarially certified power of attorney or other authority (if any) and the form of proxy must be received by the company secretary's office of the Company (see Note 7 below) 24 hours prior to the commencement of the EGM.
5. Shareholders of the Company or their proxies shall present proof of identity upon attending the EGM. Should a proxy be appointed, the proxy shall also present his/her form of proxy.
6. The EGM is expected to last for half day. Shareholders who attend the EGM shall bear their own traveling and accommodation expenses.
7. The address of the company secretary's office of the Company is as follows:

14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, PRC
Postal Code: 255005
Telephone: 86 533 2196024
Facsimile: 86 533 2287508
8. Particulars of the individuals proposed to be appointed as directors of the Company are set out in the section headed "Proposed appointment of two new directors" in this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the board of directors of the Company comprises:

Executive Directors:

Ms. Guo Qin (*Chairman*)

Mr. Ren Fulong

Mr. Zhao Songguo

Independent Non-executive Directors:

Mr. Zhu Baoquan

Mr. Sun Minggao

Mr. Kwong Chi Kit, Victor

Non-executive Directors:

Mr. Xu Lie

Mr. Zhao Bin