
IMPORTANT

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 limited company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

**PROPOSED APPOINTMENT OF DIRECTOR
AND
NOTICE OF ANNUAL GENERAL MEETING**

A notice convening an annual 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 Thursday, 26 June 2008 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, please 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 annual 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.

8 May 2008

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DEFINITIONS

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

“AGM”	the annual general meeting for the year 2007 of the Company to be held at the Company’s conference room at No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province, the PRC on Thursday, 26 June 2008 at 9:00 a.m.;
“Articles of Association”	the existing articles of association of the Company;
“Board of Directors”	the board of Directors;
“Company”	Shandong Xinhua Pharmaceutical Company Limited, a joint stock limited company incorporated in the PRC with limited liability;
“Directors”	the directors of the Company including independent non-executive directors of the Company;
“Executive Directors”	the executive directors of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company;
“Independent Non-executive Directors”	the independent non-executive directors of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Non-executive Director”	the non-executive director of the Company;
“PRC”	the People’s Republic of China;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supervisors”	the supervisors of the Company; and
“Supervisory Committee”	the supervisory committee of the Company.

LETTER FROM THE CHAIRMAN



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

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

(Stock Code: 0719)

Directors:

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

Registered Address:

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

Independent Non-executive Directors:

Mr. Dai Qingjun
Mr. Xu Guojun
Mr. Sun Minggao

To: the Shareholders

Dear Sir or Madam,

8 May 2008

I. INTRODUCTION

The purpose of this circular is to provide you with the information regarding the resolutions to be proposed at the AGM. These include an ordinary resolution proposing the appointment of one new Director. A notice convening the AGM is set out on pages 6 to 8 of this circular.

LETTER FROM THE CHAIRMAN

II. PROPOSED APPOINTMENT OF DIRECTOR

The following are the particulars of Mr. Li Tianzhong, proposed to be appointed as a Non-executive Director at the AGM-

Mr. Li Tianzhong, aged 46, is a senior engineer. He graduated from Shandong Institute of Technology, specialising in industry automation and joined Shandong Xinhua Pharmaceutical Factory in 1983. Mr. Li previously held the positions of the engineer and director of the electricity workshop, manager of the trade department, supply and marketing department and drug department of the Company, the assistant to the general manager, director and deputy general manager of Xinhua Lukang Pharmaceutical Group Corporation, the director and deputy general manager of Shandong Xinhua Pharmaceutical Group Company Limited(“SXPGC”). He is currently the chairman of the labour union of SXPGC and the Company. He did not hold any other directorship in any listed companies in the past three years or any positions with the Company or other members of the Group. As at the date hereof, Mr. Li did not hold any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Li has no relationship with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date hereof, Mr. Li did not hold any shares of the Company and did not hold any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Li has not entered into any service contract with the Company. The proposed amount of his emoluments for 2008 to be approved by the Company’s shareholders at the AGM is approximately RMB220,000. The emolument of Mr. Li is determined by reference to his experience and the emoluments of other non-executive directors of the Company. The term of office of Mr. Li will commence from the date of approval by the Company’s shareholders at the AGM and will end on the expiry of the term of the fifth Board of Directors of the Company on 21 December 2008.

Further, there is nothing in respect of Mr. Li 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 of the Company.

III. REASON FOR THE PROPOSED APPOINTMENT

The proposed appointment of the new director will bring in a new member with a different background, experience and qualification to the Board of Directors in 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 new director complies with the applicable PRC laws and regulations as well as the Articles of Association.

LETTER FROM THE CHAIRMAN

IV. ANNUAL GENERAL MEETING

The notice convening the AGM is set out on pages 6 to 8 of this circular.

The register of members of the Company will be closed from 27 May 2008 to 26 June 2008 (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 before 4:00 p.m. on Monday, 26 May 2008 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Monday, 26 May 2008 and the Directors, the Supervisors and the senior officers of the Company are entitled to attend the AGM or any adjournment thereof. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the share register for the Company's H Shares not later than 4:00 p.m. on Monday, 26 May 2008.

The address of the share register for the Company's H Shares:
Hong Kong Registrar Limited
17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong.

A form of proxy for use at the AGM is enclosed herein. Whether or not you are able to attend the meeting, please 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 annual 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.

LETTER FROM THE CHAIRMAN

V. RIGHT TO DEMAND A POLL

Your right to demand a poll on the resolutions proposed at the AGM is set out below. The chairman of the AGM will exercise his power under Article 70 of the Articles of Association to put each of the resolutions proposed at the AGM to the vote by way of a poll.

Article 70 of the Articles of Association sets out the procedure by which shareholders of the Company may demand a poll:-

“At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless any of the following persons demand a poll before or after such resolution is decided by a show of hands:-

- (i) the chairman of the meeting;
- (ii) at least two members with voting rights or two proxies for the time being entitled to vote at the meeting; and
- (iii) any member or members (including proxies) representing one-tenth or more of the total voting rights of all the members having the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried, and an entry in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution. The shareholder demanding a poll can withdraw such demand.”

VI. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The proposed appointment of the new directors has been reviewed by an Independent Board Committee, which is comprised of three Independent Non-executive Directors, Mr. Dai Qingjun, Mr. Xu Guojun and Mr. Sun Minggao. 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.

VII. RECOMMENDATION OF THE BOARD OF DIRECTORS

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

LETTER FROM THE CHAIRMAN

VIII. RESPONSIBILITY STATEMENT

The Board of Directors 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 notice.

Yours faithfully,
By order of the Board of Directors
Shandong Xinhua Pharmaceutical Company Limited
Guo Qin
Chairman

NOTICE OF ANNUAL GENERAL MEETING



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

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

(Stock Code: 0719)

**NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR 2007
AND
CLOSURE OF THE REGISTER OF MEMBERS**

The board of directors (the "Board of Directors") and each of the directors (the "Directors") of Shandong Xinhua Pharmaceutical Company Limited (the "Company") hereby confirm that there are no false representations, material omissions or misleading statements contained in this notice, and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this notice.

NOTICE IS HEREBY GIVEN that the Board of Directors has resolved that the annual general meeting for the year 2007 of the Company (the "AGM") 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 Thursday, 26 June 2008 at 9:00 a.m. to transact the following businesses:

1. To review and approve the report of the Board of Directors for the year 2007;
2. To review and approve the report of the supervisory committee of the Company (the "Supervisory Committee") for the year 2007;
3. To review and approve the audited financial statements for the year 2007;
4. To review and approve the final dividend for the year 2007 as proposed by the Board of Directors on 18 April 2008;
5. To review and approve the reappointment of ShineWing (HK) CPA Limited (Certified Public Accountants in Hong Kong) and Shine Wing (Certified Public Accountants in the PRC) as the international and domestic auditors respectively for the year 2008 and authorise the Board of Directors to fix their remuneration;
6. To review and approve the remuneration of the Directors and the supervisors of the Company for the year 2008;
7. To appoint Mr. Li Tianzhong as non-executive Director of the Company (see Note 8 below).

Shandong Xinhua Pharmaceutical Company Limited
The Board of Directors

8 May 2008

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from 27 May 2008 to 26 June 2008 (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 before 4:00 p.m. on Monday, 26 May 2008 and on the register of members of the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Monday, 26 May 2008 and the Directors, the Supervisors and the senior officers of the Company are entitled to attend the AGM or any adjournment thereof. In order to qualify for the proposed final dividend, all share transfer accompanied by the relevant share certificates must be lodged with the share register for the Company's H Shares not later than 4:00 p.m. on Monday, 26 May 2008.

The address of the share register for the Company's H Shares:

Hong Kong Registrars Limited,

17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

2. Shareholders of the Company who intend to attend the AGM are asked to send the completed and signed reply slip for attendance dispatched to the Company's shareholders together with the circular dated 8 May 2008 to the Company Secretary's office of the Company (see Note 7 below) on or before 5 June 2008, 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 AGM. The completion and deposit of a form of proxy will not preclude any shareholder from attending and voting in person at the AGM or any adjournment thereof.
3. A shareholder of the Company entitled to attend and vote at the AGM 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 AGM. 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 8 May 2008 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 AGM.
5. Shareholders of the Company or their proxies shall present proof of identity upon attending the AGM. Should a proxy be appointed, the proxy shall also present his/her form of proxy.
6. The AGM is expected to last half a day. Shareholders who attend the AGM shall bear their own travelling and accommodation expenses.

NOTICE OF ANNUAL GENERAL MEETING

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 2196025

Facsimile : 86 533 2287508

8. Particulars of the individual proposed to be appointed as director of the Company is set out in the section headed "Proposed Appointment of Director" in this circular.

As at the date of this notice, the Board of Directors comprises:

Directors

Ms. Guo Qin (*Chairman*)

Mr. Liu Zhenwen

Mr. Ren Fulong

Mr. Zhao Songguo

Independent Non-executive Directors

Mr. Dai Qingjun

Mr. Xu Guojun

Mr. Sun Minggao