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If you are in any doubt about this supplemental 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 supplemental 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)

**SUPPLEMENTAL CIRCULAR TO SHAREHOLDERS RELATING TO
(I) THE ADOPTION OF REMEDIAL MEASURES IN RELATION TO DILUTION
ON CURRENT RETURNS BY THE PROPOSED PLACING; AND
(II) THE UNDERTAKINGS GIVEN BY THE COMPANY'S DIRECTORS AND
SENIOR MANAGEMENT IN CONNECTION WITH THE ADOPTION OF
REMEDIAL MEASURES RELATING TO DILUTION ON CURRENT RETURNS
BY THE PROPOSED PLACING**

AND

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

This supplemental circular should be read together with the circular issued by the Company to the shareholders of the Company dated 2 February 2016 (the "2016 Circular") and the notice convening the extraordinary general meeting of the Company to be held at 2:00 p.m. on Friday, 26 February 2016 at the Company's conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC (the "EGM").

A revised form of proxy (the "Revised Proxy Form") is also enclosed with this supplemental circular for use at the EGM. The Revised Proxy Form is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. The form of proxy despatched with the 2016 Circular is superseded by the Revised Proxy Form enclosed herewith.

Whether or not you are able to attend the meeting, we encourage you to complete and return the enclosed Revised Proxy Form 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 of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC.

Completion and return of a valid Revised Proxy Form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

11 February 2016

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LETTER FROM THE BOARD



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

11 February 2016

To the Shareholders

Dear Sir or Madam,

**SUPPLEMENTAL CIRCULAR TO SHAREHOLDERS RELATING TO
(I) THE ADOPTION OF REMEDIAL MEASURES IN RELATION TO DILUTION ON CURRENT
RETURNS BY THE PROPOSED PLACING; AND
(II) THE UNDERTAKINGS GIVEN BY THE COMPANY'S DIRECTORS AND SENIOR
MANAGEMENT IN CONNECTION WITH THE ADOPTION OF REMEDIAL MEASURES
RELATING TO DILUTION ON CURRENT RETURNS BY THE PROPOSED PLACING**

AND

SUPPLEMENTAL NOTICE OF EGM

I. INTRODUCTION

This supplemental circular should be read together with the 2016 Circular issued by Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") to the Shareholders which contains information relating to certain supplemental resolutions to be tabled before the EGM for Shareholders' approval.

LETTER FROM THE BOARD

Unless the context requires otherwise, capitalised terms used herein shall bear the same meanings as defined in the circular of the Company dated 14 December 2015 (the “**2015 Circular**”).

Reference is also made to the (i) announcements of the Company dated 8 October 2015 and 4 February 2016 (the “**Announcements**”); (ii) the 2015 Circular and 2016 Circular; the poll results announcement dated 29 December 2015 and the notice of extraordinary general meeting dated 11 January 2016 (the “**First Notice of EGM**”).

The purpose of this supplemental circular is to provide you with further information relating to (i) the proposed adoption of remedial measures (the “**Remedial Measures**”) in relation to dilution on current returns by the Proposed Placing; and (ii) undertakings (the “**Undertakings**”) given by Directors and senior management of the Company in connection with the adoption of the Remedial Measures and to provide you with a supplemental notice of the EGM and the Revised Proxy Form (as defined below).

A supplemental notice of EGM is set out on Appendix I of this supplemental circular with supplemental resolutions to be tabled before the EGM. All the resolutions originally proposed in the First Notice of EGM will remain unchanged and the 2016 Circular and the First Notice of EGM remain valid.

II. THE ADOPTION OF REMEDIAL MEASURES IN RELATION TO DILUTION ON CURRENT RETURNS BY THE PROPOSED PLACING

Pursuant to related provisions in the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) (the “**Protection Opinion**”) and the “Guidance Opinion on Matters Pertaining to Dilution of Return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Restructuring” (ZhengJianHui Gong Gao [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) (證監會公告[2015]31號) (the “**Guidance Opinion**”), and to safeguard the right of information and to protect the interests of the minority investors, as well as to ensure that the Proposed Placing will be

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proceeded with smoothly, the Company has proposed to adopt the following measures to address the impact of dilution on current returns from the Proposed Placing on the key financial indicators of the Company:

(i) Impact of the dilution on current returns by the Proposed Placing on the key financial indicators of the Company

1. The following are the assumptions made in estimating the impact of dilution on current returns by the Proposed Placing:

- i. The Proposed Placing will be completed in June 2016, which is an estimate only, and the actual timing of completion will be subject to the approval of the Proposed Placing by the CSRC.
- ii. Without considering the distribution costs, the final size of issue under the Proposed Placing will be 77,000,000 A Shares, being the maximum number of A Shares that may be issued under the Proposed Placing (subject to the actual size of issue as approved by the CSRC) and the total amount of proceeds to be raised by the Company under the Proposed Placing will be RMB720,720,000, being the maximum amount of proceeds expected to be raised under the Proposed Placing.
- iii. According to the Company's positive profit alert for year 2015, the net profit attributable to the shareholders of the Company in 2015 would amount to between RMB76,087,500 and RMB91,305,000. On this basis, assuming that (1) the net profit attributable to the owners of the parent company (after deducting non-recurring profits of the Company in 2015) will amount to RMB54,353,300, which is arrived at by deducting the non-recurring profits (after tax) of the Company of RMB21,734,200 per the unaudited 2015 third quarter results of the Company from the net profit attributable to the owners of the parent company of RMB76,087,500 indicated in the positive profit alert, and that (ii) after deducting the non-recurring profits/losses in 2016, the net profits attributable to equity holders of the Company will fall within the following three conditions:
 - a) increase by 20% as compared to 2015;
 - b) remain at the same level as that of 2015;
 - c) decrease by 20% as compared to 2015;

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- iv. That the impacts of the proceeds from the Proposed Placing on the Company's operation and financial positions (such as finance costs and gains on wealth management) are not to be taken into consideration.
- v. There will be no material adverse change to the macro-economic environment and the industry in which the Company operates.
- vi. In estimating the net assets of the Company after the Proposed Placing, the impacts of the factors other than the proceeds and the net profit on the net assets of the Company will not be taken into account.
- vii. The above assumptions are solely made for the purpose of estimating the impact of the dilution on current return arising from the Proposed Placing on the key financial indicators of the Company, representing neither the Company's judgment on its operating conditions and trends in 2016 nor the Company's profit forecasts. Investors should not make investment decisions in reliance thereon. The Company will not be held liable for any loss arising from investment decisions made by an investor based on such assumptions and analysis.

2. *The impact on the financial indicators of the Company*

Based on the aforesaid assumptions and explanations, the Company has evaluated the impact of the Proposed Placing on the key financial indicators, details of which are as follows:

Item	For 2015/As at 31 December 2015	For 2016/As at 31 December 2016 (excluding the impact of the Proposed Placing)	For 2016/As at 31 December 2016 (including the impact of the Proposed Placing)
1. Basic assumptions			
Total share capital (0'000 shares)	45,731.28	45,731.28	53,431.28
Total proceeds from the Proposed Placing (RMB0'000)		72,702	
Estimated completion date of the Proposed Placing		June 2016	
Equity attributable to the owners of the parent company at the beginning of the period (RMB0'000)	182,069.02	188,763.14	188,763.14

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Item	For 2015/As at 31 December 2015	For 2016/As at 31 December 2016 (excluding the impact of the Proposed Placing)	For 2016/As at 31 December 2016 (including the impact of the Proposed Placing)
2. Assuming that net profit attributable to the shareholders of the parent company after deducting non-recurring profits/losses increases by 20%			
Equity attributable to the owners of the parent company at the end of the period (RMB0'000)	188,763.14	194,370.91	266,442.91
Net profit attributable to the owners of the parent company after deducting non-recurring profits/losses (RMB0'000)	5,435.33	6,522.40	6,522.40
Basic earnings per share (RMB)	0.12	0.14	0.13
Diluted earnings per share (RMB)	0.12	0.14	0.13
Net assets per share (RMB)	4.13	4.25	4.99
Weighted average return on equity	2.95%	3.40%	2.86%
Fully diluted earnings per share (RMB)	0.12	0.14	0.12
Fully diluted return on equity	2.88%	3.36%	2.45%
3. Assuming that net profit attributable to the shareholders of the parent company after deducting non-recurring profits/losses remains stable			
Equity attributable to the owners of the parent company at the end of the period (RMB0'000)	188,763.14	193,283.84	265,355.84
Net profit attributable to the owners of the parent company after deducting non-recurring profits/losses (RMB0'000)	5,435.33	5,435.33	5,435.33
Basic earnings per share (RMB)	0.12	0.12	0.11
Diluted earnings per share (RMB)	0.12	0.12	0.11
Net assets per share (RMB)	4.13	4.23	4.97
Weighted average return on equity	2.95%	2.84%	2.39%
Fully diluted earnings per share (RMB)	0.12	0.12	0.10
Fully diluted return on equity	2.88%	2.81%	2.05%

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Item	For 2015/As at 31 December 2015	For 2016/As at 31 December 2016 (excluding the impact of the Proposed Placing)	For 2016/As at 31 December 2016 (including the impact of the Proposed Placing)
4. Assuming that net profit attributable to the shareholders of the parent company after deducting non-recurring profits/losses decreases by 20%			
Equity attributable to the owners of the parent company at the end of the period (RMB'000)	188,763.14	192,196.77	264,268.77
Net profit attributable to the owners of the parent company after deducting non-recurring profits/losses (RMB'000)	5,435.33	4,348.26	4,348.26
Basic earnings per share (RMB)	0.12	0.10	0.09
Diluted earnings per share	0.12	0.10	0.09
Net assets per share (RMB)	4.13	4.20	4.95
Weighted average return on equity	2.95%	2.28%	1.92%
Fully diluted earnings per share (RMB)	0.12	0.10	0.08
Fully diluted return on equity	2.88%	2.26%	1.65%

Notes:

- Pursuants to the requirements of the Guidance Opinion, the basic earnings per share and diluted earnings per share are calculated in accordance with the Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (2010 Revision) 《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露》(2010修訂). The net profit attributable to the parent company should exclude the influence of extraordinary items. According to the positive profit alert in respect of year 2015, the net profit attributable to owners of the parent company in 2015 is expected to be RMB76,087,500 to RMB91,305,000, assuming that the net profit attributable to the owners of the parent company after deducting non-recurring profits of the Company in 2015 amounts to RMB54,353,300, which is arrived at through deducting the non-recurring profits after tax of the Company at RMB21,734,200 in the unaudited third quarter results from the net profit attributable to shareholders of the parent company in the positive profit alert at RMB76,087,500.
- The above assumptions are solely made for the purpose of estimating the impact of the dilution on current returns as a result of the Proposed Placing on the main financial indicators of the Company and do not represent the Company's view of its profits in 2016 nor the Company's judgment on its operating conditions and trends in 2016. Investors should not make investment decisions in reliance thereon. The Company will not be held liable for any loss arising from investment decisions made by an investor based on such assumptions and analysis.

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3. In the above estimate, it is assumed that the proceeds from the Proposed Placing will be received in June 2016.
4. In the above estimate, the time of profit distribution for year 2016 will be in August 2016, and the amount of equity allocation will be the same as that in year 2015.
5. In the above estimate, adjustments have been made to the calculation of the earnings per share in accordance with the “Accounting Standards for Business Enterprises No. 34 – Earnings per Share” (《企業會計準則第34號- 每股收益》) and the Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露》(2010修訂)). Return on equity has been computed and adjusted in accordance with the Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露》)(2010修訂).
6. In the above estimate, the fully diluted earnings per share are calculated by dividing the profit for the year by the total number of shares at the end of the year. The fully diluted return on equity is calculated by dividing profit for the year by the equity attributable to the owners of the parent company at the end of the year.

(ii) Caution of risk relating to the dilution on current returns as a result of the Proposed Placing

After applying the proceeds from the Proposed Placing, the net profit of the Company will increase. As it is expected that the Company will receive the proceeds from the Proposed Placing in or after June 2016, the influence on the finance costs for 2016 is considered to be limited. Profits of the Company and shareholders' return will still be subject to the operating conditions of the Company. In view that the Company's total share capital and net assets may substantially increase, the earnings per share, return on equity and other financial indicators will decrease to certain extent in the short run. Investors are advised to exercise caution in dealing in the Shares of the Company and be aware of the dilution risks on current returns after the Proposed Placing.

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(iii) The necessity and justification of the Proposed Placing

1. *To reduce finance costs, improve the financial position and enhance the profitability of the Company*

In recent years, along with the rising asset to liability ratio, the operational risk of the Company continues to increase. Since the Company carried out relocation works since 2008, its capital investment continues to rise, and the relocation project was mainly funded by bank loans. As at 31 December 2014, the audited current assets and current liabilities of the Company amounted to RMB1,462 million and RMB1,601 million respectively, and bank loans amounted to RMB1,450 million, of which short-term loans and non-current liabilities due within one year amount to RMB837 million, the amount of liabilities of the Company are relatively large, resulting in annual payment of interests amounting to RMB74.816 million, which was higher than the operating profit of the Company for the current year.

According to the statistical data from Wind and the industry statistics provided by Shenyin Wanguo (申銀萬國), as at 30 September 2015, the average asset to liability ratio, current ratio and quick ratio of 29 domestic producers of active pharmaceutical ingredients (the “API(s)”) were 43.45%, 1.53% and 1.14%, respectively, and these of the Company as at the end of the period were 56.51%, 1.14% and 0.81%, respectively. Comparing with the data of listed companies in the industry for the same period, the asset to liability ratio of the Company was relatively high and the liquidity was relatively low, which resulted in high financial risk. Details of the above are set out in the table below:

Stock Code	Stock Abbreviation	Asset to Liability Ratio (%)	Current Ratio	Quick Ratio
002365.SZ	Yongan Pharmaceutical	6.45	9.92	8.82
600666.SH	Aurora Optoelectronics	38.79	2.34	1.57
002099.SZ	HisoarPharmaceutical	20.05	2.14	1.27
300233.SZ	Jincheng Pharm	32.87	1.72	1.47
600812.SH	North China Pharmaceutical	67.43	0.80	0.57
300401.SZ	Garden Biochemical High-Tech	4.84	10.65	4.62
300452.SZ	Sunhere Pharmaceutical Excipients	19.10	5.16	4.86
603456.SH	Jiuzhou Pharmaceutical	37.55	1.13	0.54

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Stock Code	Stock Abbreviation	Asset to Liability Ratio (%)	Current Ratio	Quick Ratio
002675.SZ	DongchengBiochemicals	11.65	4.62	3.35
000952.SZ	Guangji Pharmaceutical	69.65	0.84	0.64
600267.SH	HisunPharmaceutical	55.67	1.27	0.88
000990.SZ	Chengzhi Shareholding	49.39	1.29	1.16
300255.SZ	Changshan Pharm	31.23	2.07	0.87
000597.SZ	Northeast Pharm	70.12	0.82	0.63
002399.SZ	Hepalink Pharmaceutical	27.18	34.17	31.63
600488.SH	Tianyao Pharmaceutical	19.74	2.58	1.53
000788.SZ	PKU HealthCare	78.91	0.73	0.53
000756.SZ	Xinhua Pharmaceutical	56.51	1.14	0.81
000739.SZ	Apeloa Medical Technology	56.21	0.96	0.67
300363.SZ	Porton	52.03	0.86	0.58
002019.SZ	Xinfu Pharmaceutical	30.08	1.35	1.05
300261.SZ	Abachem	51.12	0.91	0.64
300267.SZ	Er-Kang Pharmaceutical	32.18	2.40	1.60
002001.SZ	NHU	23.40	2.57	1.92
002020.SZ	Jingxin Pharm	29.47	2.05	1.73
600521.SH	Huahai Pharmaceutical	34.43	1.63	1.05
600216.SH	Zhejiang Medicine	18.68	2.56	1.91
002626.SZ	Kingdomway	42.90	1.41	1.02
002550.SZ	Qianhong Bio-pharma	15.26	5.68	5.34
Industry				
average value	—	43.45	1.53	1.14
000756.SZ	Xinhua Pharmaceutical	56.51	1.14	0.81

After the proceeds to be raised are in place, RMB650 million of which will be used to repay bank borrowings, the asset to liability ratio of the Company as at 30 September 2015 will be reduced to approximately 41.87%, and the current ratio and quick ratio would be significantly improved, which will in turn enhance the ability of risk bearing of the Company. This will assist the Company in reducing debt financing costs and increasing its profitability.

LETTER FROM THE BOARD

2. *To replenish working capital, and strengthen and expand the Company's core business*

In recent years, the Company's principal business has grown steadily. The Company's business development trend has recorded 6.91% of compound growth rate in revenue for the last three years. As the Company has made more investment in its principal business, it poses a challenge for the Company's internal financial resources to meet the business development needs, which has resulted in the growingly apparent shortage in the working capital. Through the proceeds to be raised from the Proposed Placing, the Company's capital position will be strengthened to meet the capital demand for development of its principal business, thus optimizing and upgrading the core business structure and further pressing ahead the Company's future development strategy.

The proceeds from the Proposed Placing to be used for replenishing working capital will not exceed the estimated amount for replenishing working capital. The total proceeds from the Proposed Placing will be not more than RMB720.72 million, of which RMB650 million will be used for repayment of bank loans and the remaining amount will be used for replenishment of working capital. It is reasonable that the proceeds (after deducting the issue expenses such as underwriting fees) to be actually used by the issuer for replenishing working capital will not exceed the Company's need for additional working capital in the following three years.

3. *To satisfy working capital needs and improve market competitiveness*

The Company's level of accounts receivable and inventory management ability is currently in leading position in the relevant industry. However, the industry characteristics of pharmaceutical companies have resulted in high levels of accounts receivable and inventory of the Company in recent years. The Company's accounts receivable and inventory may continue their upward trend as the Company expands production and operation and transforms its marketing model.

It is expected that the proceeds from the Proposed Placing, when in place, will effectively satisfy the Company's capital needs for expanding operation scale, thus facilitating the Company in expansion of sale, and increase of market share and enhancement of competitiveness.

LETTER FROM THE BOARD

4. *Enhancement of the Company's competitiveness and realization of its development strategies*

In terms of business mode, the Company thoroughly implements the concept of public health and improves the value line of public health, actively pushes forward business mode innovation and spares no effort in developing E-commerce. In view of the State's emphasis on the development of the "Internet + Pharmaceuticals", the Company has entered into strategic cooperation agreements with Tmall, JD.com and Yihaodian to actively explore and set out plans for healthcare products and functional food, while accelerating the establishment of the B2C pharmaceutical supply system and retail system based on the E-commerce platform, and the establishment of an open-ended B2B transaction platform that will offer E-commerce services to small and medium manufacturers, distributors, buyers and retailers of the pharmaceutical industry. The proceeds raised will be used to replenish the liquidity, and will make financial support to the construction of sale system network of the Company, which will be helpful in pushing forward business mode innovation.

In terms of research and development of technologies, mainly relying on the Company's own capacity and adopting various forms as research and development cooperation and research and development outsourcing, the Company has built up multiline research and development mode based on eight salient therapeutic fields, namely, antipyretic analgesic category, cardio-cerebrovascular category, antimetabolites, central nervous category, digestive system category, anti-infective category, anti-tumor category and healthcare products, among other things, to speed up the pace of technological innovation. In addition, the Company will put more effort in the APIs research and take the initiative to introduce new techniques and processing technologies in order to further improve the production efficiency and the techno-economic indicators for bulk APIs, in a bid to reduce the production costs, expand the market scale and reinforce its leading position in the industry.

Based on the current development situation and future development needs, the Company is pushing forward industrial upgrading and speeding up the pace of globalization strategy. A series of projects and development strategies are under implementation. After the proceeds raised has been put in place, it will play a strong supporting role in the smooth materialization of the Company's strategic planning.

With the use of proceeds raised, the Company's financial status will be continuously strengthened which is helpful to the effective implementation of the Company's strategies set out above and the enhancement of the Company's financial positions, profit-making ability and competitive edge.

LETTER FROM THE BOARD

(iv) Remedial Measures adopted by the Company in response to the potential dilution on current returns by the Proposed Placing

In order to ensure the effective utilization of the proceeds, prevent the risk of dilution on current returns and enhance its capabilities for yielding returns in the future, the Company will adopt certain remedial measures which include the following:

1. *Strengthening the management of the proceeds raised to ensure the utilization of proceeds as planned*

All of the proceeds raised by the Company from the Proposed Placing (after deducting issuance costs) will be used for repayment of bank loans and replenishment of the working capital. This will not only improve the asset-liability structure of the Company, but will also lower its financing costs, which will in turn substantially improve the working capital structure and alleviate the pressure on the Company's liquidity, thus improve the overall capital strength and profitability of the Company.

After the proceeds from the Proposed Placing are received, the Company will deposit such proceeds into a separate account and collaborate with the supervising banks and sponsors to inspect and monitor the utilization of proceeds, so as to ensure that the Company will utilize the proceeds in a compliant and effective manner.

2. *Transforming and upgrading the Company and making determined efforts to promote the globalization strategy*

The Company will devote its efforts to promoting its transformation and upgrading, optimizing its product structure, advancing in-depth innovations and reforms, speeding up the implementation of the centralized strategy to seize the new driving forces and opportunities in the market economy under the "new normal", with a view to achieving a stable and rapid growth in its operating results. At the same time, the Company will continue to increase the global production and supply of its preparations while enhancing the quality control, production technologies, machinery and equipment for its preparations through its cooperation with international OEM. The Company's subsidiaries in Europe and the US will be leveraged as platforms to accelerate the registration process of preparations under the Abbreviated New Drug Application (ANDA), and to speed up the development of its own preparations for export, eventually achieving the internationalization of its preparations.

LETTER FROM THE BOARD

3. *Enhancing research, development and innovation of technologies*

The Company will continue to maintain and improve its efforts in research and development, in an attempt to preserve the technological strengths of its products and ensure that the Company will consistently possess greater competitive strengths. The Company will be highly committed to the development of special API and will apply such research results in the market. Further, the project for the relocation and transformation of hormone products will be completed with the aim of facilitating the establishment of the production platform for biopharmaceuticals. Through the establishment of the production platform at the industrial center together with technological breakthroughs, the API business will be optimized and enhanced. In addition, the Company will take the initiative to introduce new techniques and processing technologies in order to further improve the production efficiency and the techno-economic indicators for bulk APIs, in a bid to reduce the production costs, expand the market scale and reinforce its leading position in the industry.

4. *Fostering innovations in the business model*

The Company has taken the initiative to foster innovations in its business model. In view of the nation's emphasis on the development of the "Internet + Pharmaceuticals", the Company has entered into strategic cooperation agreements with Tmall, JD.com and Yihaodian to actively explore and set out plans for healthcare products and functional food, while accelerating the establishment of the B2C pharmaceutical supply system and retail system based on the E-commerce platform, and the establishment of an open-ended B2B transaction platform that will offer E-commerce services to small and medium manufacturers, distributors, buyers and retailers of the pharmaceutical industry.

5. *Enhancing the system for investors' returns*

Pursuant to the relevant requirements under the Notice on the Relevant Matters of Further Implementation of Cash Distribution by Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and the Regulatory Guidelines for Listed Companies No. 3 – Cash Distribution of Listed Companies (《上市公司監管指引第3號上市公司現金分紅》) promulgated by the CSRC, the second extraordinary general meeting in 2015 of the Company convened on 29 December 2015 considered and approved the Resolution in Relation to Amendments to the Articles of Association of Shandong Xinhua Pharmaceutical Company Limited and the Resolution in Relation to the Shareholders' Return Plan for the Next Three Years (2015–2017) of Shandong Xinhua Pharmaceutical Company Limited.

LETTER FROM THE BOARD

The above measures will further optimize the relevant details of the profit distribution mechanism set out in the Articles of Association and strengthen the system for investors' returns.

III. THE UNDERTAKINGS GIVEN BY THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT IN CONNECTION WITH THE ADOPTION OF REMEDIAL MEASURES RELATING TO DILUTION ON CURRENT RETURNS BY THE PROPOSED PLACING

To ensure the Company's Directors and/or senior management will faithfully and diligently discharge their duties and safeguard the legitimate rights and interests of the Company and all of its shareholders, the Directors and the senior management have undertaken the following ("**Undertakings**"):

1. they will not transfer benefits to other enterprises or individuals at nil consideration or under unfair terms, nor shall they jeopardize the Company's interest in other ways;
2. they will act to constrain duty-related consumption;
3. they will not appropriate the Company's assets to make investment or for consumption which is irrelevant to their duties;
4. they will procure that the remuneration system formulated by the Board or the remuneration committee will be correlated to the implementation of the Company's Remedial Measures; and
5. in the event of the implementation of any share option incentive scheme by the Company in future, they will procure that the conditions for exercising options under such scheme will be correlated to the implementation of the Company's Remedial Measures.

After the date of issuing the relevant letter of undertakings, if there are other requirements by regulatory authorities such as the CSRC and SZSE (collectively the "**Securities Regulatory Authorities**") in relation to the Remedial Measures and/or the Undertakings, the Directors and the senior management undertake that they will then make supplementary undertakings according to the latest regulations.

LETTER FROM THE BOARD

In case of violation, non-performance or incomplete performance of the letter of undertakings, the Directors and the senior management will assume the corresponding legal responsibilities in accordance with the relevant regulations of the Securities Regulatory Authorities.

IV. EXTRAORDINARY GENERAL MEETING

As a result of this supplemental circular subsequent to the despatch of the 2016 Circular and the relevant form of proxy (the “**First Proxy Form**”), the Revised Proxy Form is prepared and enclosed with this supplemental circular.

Special arrangements about completion and submission of the Revised Proxy Form are also set out in Appendix II to this supplemental circular. Shareholders who have appointed or intend to appoint proxy/proxies to attend the EGM are requested to pay particular attention to the special arrangements set out therein.

Whether or not you are able to attend the EGM, we encourage you to complete and return the enclosed Revised Proxy Form 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 Company Secretary’s Office at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC.

Completion and return of the First Proxy Form and/or Revised Proxy Form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case maybe) if you so wish.

Mr. Zhang Daiming is a Shareholder of the Company and will participate in the Proposed Placing. Mr. Zhang Daiming is therefore materially interested in the Proposed Placing. Pursuant to the Listing Rules, Mr. Zhang Daiming and his associates will be required to abstain from voting on the supplemental resolutions to be tabled before the EGM.

Save as disclosed above, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, no other Shareholders have a material interest in the Proposed Placing and no Shareholders are required to abstain from voting at the EGM in respect of the supplemental resolutions to be tabled before the EGM.

As the Proposed Placing may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

V. RECOMMENDATION

The Directors are of the view that all resolutions proposed are necessary and in the interests of the Company and the Shareholders. Accordingly, the Directors recommend all Shareholders to vote in favour of the aforementioned resolutions at the EGM.

VI. RESPONSIBILITY STATEMENT

This supplemental circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this supplemental circular is accurate and complete in all material respects and not misleading or fraudulent, and there are no other matters the omission of which would make any statement herein or this supplemental circular misleading.

VII. GENERAL INFORMATION

This supplemental circular does not constitute an offer or an invitation to induce any person to acquire, subscribe for or purchase any securities of the Company.

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



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)

SUPPLEMENTAL NOTICE OF EGM

References are made to the circular dated 2 February 2016 of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) and the notice of extraordinary general meeting of the Company (the “**EGM**”) dated 11 January 2016 (the “**Original Notice**”), which set out the time and venue of the EGM and contain the resolutions to be tabled before the EGM for shareholders’ approval.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM of the Company will be held as originally scheduled at 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. to consider and, if thought fit, pass the following resolutions as ordinary resolutions in addition to the resolutions set out in the Original Notice:

ORDINARY RESOLUTIONS

2. The adoption of remedial measures in relation to dilution on current returns by the non-public issue of A-shares of the Company be approved.
3. The undertakings given by the Company’s directors and senior management in connection with the adoption of remedial measures relating to dilution on current returns by the non-public issue of A-shares of the Company be approved.

By order of the Board of Directors
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

11 February 2016

SPECIAL ARRANGEMENTS ABOUT COMPLETION AND SUBMISSION OF THE REVISED PROXY FORM

A Shareholder who has not yet lodged the First Proxy Form with the Company Secretary's Office at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the People's Republic of China is requested to lodge the Revised Proxy Form if the Shareholder wishes to appoint proxy/proxies to attend the EGM on its/his/her behalf. In this case, the First Proxy Form should not be lodged with the Company Secretary's Office. A Shareholder who has already lodged the First Proxy Form with the Company Secretary's Office should note that:

- (i) if no Revised Proxy Form is lodged with the Company Secretary's Office, the First Proxy Form, if correctly completed, will be treated as a valid proxy form lodged by the Shareholder. The proxy/proxies so appointed by the Shareholder will be entitled to vote in accordance with the instructions previously given by the Shareholder or at its/his/her discretion or to abstain from voting (if no such instructions are given) on any resolution properly put to the EGM including the relevant resolutions in relation to the Proposed Placing;
- (ii) if the Revised Proxy Form is lodged with the Company Secretary's Office not less than 24 hours prior to the time appointed for holding the EGM (the "**Closing Time**"), the Revised Proxy Form, if correctly completed, will be treated as a valid proxy form lodged by the Shareholder and will revoke and supersede the First Proxy Form previously lodged by the Shareholder; and
- (iii) if the Revised Proxy Form is lodged with the Company Secretary's Office after the Closing Time, or if lodged before the Closing Time but is incorrectly completed, the proxy appointment under the Revised Proxy Form will be invalid. The First Proxy Form, if correctly completed, will be treated as a valid proxy form lodged by the Shareholder. The proxy/proxies so appointed by the Shareholder under the First Proxy Form will be entitled to vote in the manner as mentioned in (i) above as if no Revised Proxy Form was lodged with the Company Secretary's Office. Completion and return of the First Proxy Form and/or the Revised Proxy Form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) if you so wish. Shareholders who have appointed or intend to appoint proxy/proxies to attend the EGM are requested to pay attention to the special arrangements set out above.