

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorized under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in Napo Pharmaceuticals, Inc. (the “Company”), please forward this document, together with the accompanying form of proxy at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

NAPO PHARMACEUTICALS, INC.

**Proposed cancellation of listing of Common Shares on the Official List
Amendment of Bylaws
Amendment of Certificate of Incorporation
Authorization of Reverse Stock Split**

Notice of Special Meeting of Stockholders

This document should be read in its entirety. Your attention is drawn to the letter that is set out in this Circular and that contains a recommendation from the Board of the Company that you vote in favor of each of the resolutions to be proposed at the Stockholders’ Meeting referred to below.

Notice of a Special Meeting of the Stockholders to be held at 10 a.m. on 17 September, 2008 at Napo Pharmaceuticals, Inc., 250 East Grand Avenue, Suite 90, South San Francisco, CA 94080 is set out at the end of this document. A form of proxy for use at the Stockholders’ Meeting accompanies this document and, to be valid, must be completed and returned in accordance with the instructions set out thereon as soon as possible but in any event so as to reach Napo Pharmaceuticals, Inc., 250 East Grand Avenue, Suite 90, South San Francisco, CA 94080, United States of America, not less than 48 hours before the time of the Stockholders’ Meeting.

This Circular is dated 5 September, 2008.

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DEFINITIONS

“Business Days”	any day which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in the City of London
“Bylaws”	the bylaws of the Company
“Cancellation”	the proposed cancellation of the listing of Common Shares on the Official List
“Cancellation Resolution”	the proposed resolution for Cancellation set out in the notice of Stockholders’ Meeting at the end of this document
“Common Shares”	shares in the common stock of the Company with a par value of US\$0.0001 each
“Company” or “Napo”	Napo Pharmaceuticals, Inc
“Current Bylaws”	the Company’s current Bylaws as at the date of this document
“Depository Interest”	a depository interest issued in the UK representing an underlying Common Share and settled in CREST
“Directors” or “Board”	the board of directors of the Company
“Listing Rules”	the listing rules of the UK Listing Authority
“London Stock Exchange”	London Stock Exchange plc
“New Bylaws”	the new bylaws proposed to be adopted by the Company pursuant to the Resolutions
“Official List”	the Official List of the UK Listing Authority
“Record Date”	the record date for the determination of Stockholders entitled to notice of, and to vote at, the Stockholders’ Meeting
“Resolutions”	the proposed resolutions set out in the notice of Stockholders’ Meeting at the end of this document and “Resolution” shall mean any one of them
“Stockholders”	holders of Common Shares
“Stockholders’ Meeting”	the Special Meeting of Stockholders convened for 10 a.m. on 17 September, 2008 (or any adjournment of it), notice of which is set out at the end of this document
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000

EXPECTED TIMETABLE

Date of this document	5 September, 2008
Record Date	5 September, 2008
Latest time and date for the receipt of completed forms of proxy for the Stockholders' Meeting	10 a.m. on 15 September, 2008
Stockholders' Meeting	10 a.m. on 17 September, 2008
Expected last day of dealings in Common Shares on Official List	15 October, 2008
Expected time and date of Cancellation	8 a.m. (London time) on 16 October, 2008

Unless otherwise stated, references to times in this document are to **San Francisco time (Pacific Daylight Time)**.

Each of the times and dates in the above timetable are subject to change. If any of the times and/or dates change, the revised times and/or dates will be notified to Stockholders by announcement on a Regulatory Information Service.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Sir William Young (<i>Chairperson</i>) Lisa Conte (<i>Chief Executive Officer</i>) Gregory Stock (<i>Non-executive Director</i>) Thomas Van Dyke (<i>Non-executive Director</i>) Jack Van Hulst (<i>Non-executive Director</i>)
Company Secretary	Charles Thompson
Registered office	Incorporating Services, Ltd 3500 South Dupont Highway Dover, DE 19901 USA
Head office and business address	250 East Grand Avenue, Suite 90 South San Francisco, California 94080 USA
Legal advisers to the Company	Reed Smith Richards Butler LLP Minerva House 5 Montague Close London SE1 9BB
Registrars	Computershare Investor Services (Channel Islands) Limited PO Box 83 Ordnance House 31 Pier Road St. Helier Jersey JE4 8PW Computershare Investor Services PLC The Pavilions Bridgewater Road Bristol BS13 8AE



Napo Pharmaceuticals, Inc.
250 East Grand Ave., Suite 90
South San Francisco, CA 94080

**LETTER FROM THE CHIEF EXECUTIVE OF
NAPO PHARMACEUTICALS, INC.**

Directors:

Sir William Young (*Chairperson*)
Lisa Conte (*Chief Executive Officer*)
Gregory Stock (*Non-executive Director*)
Thomas Van Dyke (*Non-executive Director*)
Jack Van Hulst (*Non-executive Director*)

Registered Office:

250 East Grand Avenue, Suite 90
South San Francisco, California 94080
USA

5 September, 2008

To Stockholders and, for information purposes only, to holders of options over Common Shares and holders of restricted stock units

Dear Stockholder,

Proposed cancellation of Listing of Common Shares on the Official List, amendment of the Bylaws, amendment of certificate of incorporation and authorization of reverse stock split

Introduction

Napo has today announced that it intends to apply to cancel the listing of its Common Shares on the Official List. It is anticipated that the effective date of the Cancellation will be 16 October, 2008.

The purpose of this letter is to give you further information regarding the reasons why the Directors of the Company are proposing to seek the Cancellation and to seek your approval to the Cancellation at the Stockholders' Meeting convened for this purpose. The notice of Stockholders' Meeting is set out at the end of this document. The Directors are also proposing that, subject to the approval of the Cancellation and effective following cancellation, the Company adopt the New Bylaws, which are in a form that is suitable for an unlisted company, to amend its certificate of incorporation to increase its authorized share capital, and authorize the Directors to effect a reverse stock split of the Company's Common Shares.

Background to and reasons for Cancellation

Over the past year, the Directors have been seeking efficient and cost effective ways to raise further equity capital to allow the Company to continue the development of its various projects. Regrettably, against the background of the current financial market, the Company has had difficulty raising sufficient capital at an acceptable cost and the Directors consider that the low market capitalization of the Company and the low liquidity of trading in the Common Shares has made an investment in the Company unattractive to certain investors.

A further obstacle to the development of the Company is the cost of being listed on the Official List, particularly in terms of compliance, administration and legal costs. The Directors estimate the compliance, administration and legal costs associated with the Company's listing to be approximately US\$ one million per annum, with the regulatory costs of financing activities and potential corporate alliances substantially increasing this amount. After careful consideration, the Board has come to the conclusion that the regulatory and financial requirements of a listing on the Official List are too onerous for a company the size of the Company and the Company's time and money are better spent in concentrating on progressing its clinical trials to a successful conclusion.

As previously announced, the Company has been in negotiations with potential corporate partners in recent months to address the commercialization of crofelemer. Until recently, the Company had been negotiating term sheets with three separate potential partners but the Company now intends to move forward with one of these partners. Consequently on 26 August 2008, the Company signed a non-binding term sheet (the "Term Sheet") with a pharmaceutical company for the commercialization in North America and Mexico of crofelemer for the indication of chronic diarrhoea in persons living with HIV/AIDS ("CRO-HIV"). The Term Sheet also relates to the potential commercialization of crofelemer for adult acute infectious diarrhoea ("CRO-ID"), crofelemer for pediatric diarrhoea ("CRO-PED") and crofelemer for diarrhoea predominant irritable bowel syndrome ("CRO-IBS").

The identity of the counterparty to the Term Sheet (the "Partner") remains confidential and the Term Sheet does not contain any legally binding obligations (other than as to confidentiality) on either the Company or the Partner. Under the Term Sheet it is envisaged that upon the signature of a definitive licensing agreement, which is expected to occur in October 2008, the Partner will provide up-front funds to the Company and the Partner will subscribe for a strategic equity interest in Napo. The Directors believe that the likely level of the proposed up-front payment will not be sufficient to provide sufficient capital to complete the CRO-HIV trial. The Company therefore plans to raise additional funds through a combination of debt, equity and additional licensing agreements to complete the funding for the CRO-HIV trial. The Company has received indications of interest in providing additional funds from investors which are conditional upon, *inter alia*, the Cancellation and the entry into definitive agreements with the Partner.

Once the Company's CRO-HIV Phase 3 study has been successfully completed, the Company's priority will be to seek liquidity and appropriate value recognition for its Stockholders. The Directors believe that the value of the Company, particularly on completion of the CRO-HIV Phase 3 study, will be better realized if it were no longer listed on the Official List.

The Company requires additional funds whether the Cancellation Resolution is voted down or passed. The Company has sufficient funds to finance the Company's working capital requirements, into September 2008 and will supplement these funds through debt financings with existing shareholders which the Directors believe, together with the up-front payment from the corporate partnering arrangements, will provide the Company the platform to raise funds through the interim analysis of the CRO-HIV trial. For further details of the Company's financial position and the importance of the vote to approve the Cancellation please refer to page 13.

The Board is of the opinion that this next stage of the Company's development is better managed as an unlisted company. On this basis, the Directors consider that it would be in the best interests of the Company to seek cancellation of the Company's Common Shares from the Official List.

Under the Listing Rules, it is a requirement that cancellation of admission to the Official List must be approved by not less than 75 % of the holders of Common Shares (being entitled to do so) voting in person or by proxy. Accordingly, the notice of Stockholders' Meeting set out at the end of this document contains a Resolution to approve the application to the UK Listing Authority for Cancellation. If the Resolution is approved, it is expected that Cancellation will take effect on 16 October, 2008 (which will be not less than 20 Business Days following the passing of the Resolution).

Trading update

The net proceeds of the fundraising completed in late June 2008 ("Net Funds") are not sufficient to complete the Phase 3 adaptive design trial for CRO-HIV. The Net Funds have provided the Company with funds into September 2008. The Company intends to supplement its funds through debt financings, including debt financings with existing shareholders, licensing activities and potential equity investments.

The Net Funds, together with existing resources and other funds which the Directors expect to raise through the definitive agreements signed pursuant to the transaction outlined in the Term Sheet will be used primarily for working capital purposes and to continue to finance the costs of the CRO-HIV Phase 3 U.S. trial. Any licensing fees generated under a definitive agreement with the Partner will need to be supplemented with subsequent debt or equity issuances as well as other licensing activities in order for Napo to have sufficient funds to complete the CRO-HIV Phase 3 clinical trial. The Company has received indications of interest in providing additional funds from investors which are conditional upon, *inter alia*, the Cancellation and the entry into definitive agreements with the Partner.

Update on Ongoing Partnership Discussions

The Company's goal is to obtain commercial partners for the Company's western rights to crofelemer, and in particular the first expected indication to market in the U.S., crofelemer for chronic diarrhea in people living with HIV/AIDS). The New Drug Application ("NDA") for this indication is expected to be filed in mid-2009.

As described on page 7, the Company entered into the Term Sheet with the Partner on 26 August, 2008 for the licensing and commercialization of crofelemer in North America and

Mexico for the indication of CRO-HIV. The Term Sheet provides that upon the signature of a definitive licensing agreement, the Partner will provide up-front funds to the Company and the Partner will subscribe for a strategic equity interest in Napo. The Term Sheet also includes North American and Mexican rights to the indications of CRO-ID, CRO-IBS and CRO-PED, should crofelemer be successfully developed for those indications. The Term Sheet provides for various milestone payments to be made to Napo upon certain events surrounding the development and commercialization of CRO-HIV. There are also milestone provisions for CRO-ID, CRO-IBS and CRO-PED.

Concurrently, the Company continues to discuss licensing terms with at least two other potential licensees. The Company owns the rights to CRO-HIV in Europe and Japan, and is discussing the licensing of crofelemer in territories outside North America and Mexico. The Company believes that licensing activities in these territories is another potential source of funding for its operations. Any license agreement will be subject to mutual diligence and a definitive agreement.

The Company hopes to sign definitive agreement with the Partner in October 2008.

Effect of the Proposal on Stockholders

The principal effects the Cancellation would have on Stockholders are:

- (a) there would no longer be a formal market mechanism enabling Stockholders to trade their shares through the market and the CREST facility will be cancelled. The Common Shares may therefore be more difficult to sell compared to shares of companies listed on the Official List. It may also be more difficult for Stockholders to determine the market value of their stockholdings in the Company at any given time;
- (b) the Company would not be bound to announce material events, nor to announce interim or final results;
- (c) the Company would no longer be required to comply with any of the corporate governance requirements applicable to UK-listed companies;
- (d) the Company will no longer be subject to the Disclosure Rules and Transparency Rules and *inter alia* will no longer be required to disclose major shareholdings in the Company;
- (e) the Company will no longer be subject to the Listing Rules and stockholders will no longer be required to vote on certain matters as provided in the Listing Rules including, *inter alia*, major transactions (the size of which results in a 25% threshold being reached under any one of the class tests), related party transactions and the approval of certain documents (for example employee equity incentive plans), however the Company will remain subject to Delaware law, which mandates stockholder approval for certain transactions (for example the sale of all or substantially of the Company's assets or certain merger transactions). Further the Company will no longer be required to comply with Listing Rules relating to specific types of equity transaction, such as rights issues and the 10% discount and fractional entitlement rules; and

- (f) the Cancellation may have either positive or negative taxation consequences for Stockholders. Stockholders who are in any doubt about their tax position should consult their own professional independent adviser immediately.

The Board will, however, continue to hold general meetings in accordance with the applicable Delaware statutory requirements and the Company's Bylaws.

If the Cancellation Resolution is passed, the CREST facility will be cancelled. If there are any holders of Depositary Interests, further instructions about the cancellation process will be included in the announcement following the Special Stockholders' Meeting.

Adoption of New Bylaws

Conditional upon Resolution 1 being approved (Cancellation), the Company is also proposing to adopt the New Bylaws, primarily to take account of the Cancellation. The principal changes introduced in the New Bylaws are to eliminate the pre-emptive rights currently provided in Article X of the Current Bylaws. As proposed in the New Bylaws, in connection with the issuance of equity securities for cash, the Company will no longer be required to first offer such shares to existing stockholders in proportion to their respective stockholdings (as is currently required by Article X of the Current Bylaws). Other changes are conforming changes, or are of a minor, technical or clarifying nature.

The adoption of the New Bylaws is conditional upon, and the New Bylaws will not take effect unless, and until, Cancellation has occurred.

To amend the Bylaws in the manner proposed to eliminate the pre-emptive rights in Article X, the Current Bylaws require the approval of Stockholders holding 75% or more of the Common Shares represented in person or by proxy at the Stockholders' Meeting and entitled to vote thereon. Accordingly, the notice of Stockholders' Meeting set out at the end of this document contains a Resolution to approve the adoption of the New Bylaws.

A copy of the Current Bylaws and the New Bylaws will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of the Company's counsel, Reed Smith Richards Butler LLP, Minerva House, 5 Montague Close, London, SE1 9BB, United Kingdom, from the date of this notice until the close of the Stockholders' Meeting and shall be available at the Stockholders' Meeting from 15 minutes before and during the meeting.

Amendment of Certificate of Incorporation

Conditional upon Resolution 1 being approved (Cancellation), the Company is also proposing to amend the Company's Fourth Amended and Restated Certificate of Incorporation to increase the authorized number of Common Shares from 90 million shares to 115 million shares, representing a 28 % increase in the authorized number of Common Shares, and is seeking authorization for the Board to consolidate the Company's Common Shares by effecting a reverse stock split in a ratio ranging from one-for-two to one-for-five of all the Company's issued and outstanding Common Shares, the final ratio to be determined within the discretion of the Board.

The result of the reverse stock split, when effected, will be to reduce the number of issued and outstanding Common Shares. No fractional Common Shares shall be issued. Instead, Stockholders who would otherwise be entitled to fractional shares will receive cash equal to that fraction multiplied by the then fair market value of the Common Shares as determined in the sole discretion of the Board.

To amend the Certificate of Incorporation to increase the authorized share capital as proposed, and to implement the reverse stock split, when declared by the Board, the Current Bylaws require the approval of Stockholders holding a majority of the voting rights of the Company represented in person or by proxy at the Stockholders' Meeting and entitled to vote thereon. Accordingly, the notice of Stockholders' Meeting set out at the end of this document contains Resolutions to approve the amendment of the Certificate of Incorporation to increase the authorized share capital and to authorize the Board to amend the Certificate of Incorporation to effect the reverse stock split, when declared.

The amendment of the certificate of incorporation and the authorization of the Board to effect the reverse stock split are both conditional upon, and will not take effect unless, and until, Cancellation has occurred.

As at the date of this letter, the Company has:

- (a) issued 54,206,383 Common Shares (excluding treasury shares);
- (b) outstanding options over a total of 8,600,306 Common Shares;
- (c) outstanding warrants over a total of 5,579,979 Common Shares;
- (d) outstanding conversion rights over 14,478,283 Common Shares pursuant to convertible loan notes; and
- (e) outstanding conversion rights over 3,196,250 Common Shares pursuant to restricted stock awards.

The Board wishes to increase the authorized share capital of the Company to allow it to take full advantage of equity fundraisings and other strategic opportunities that arise following the Cancellation becoming effective. The reverse stock split will take effect after any increase in authorized share capital resolved pursuant to Resolution 3.

Adjournment or Postponement of the Meeting

In the event that there are not sufficient votes in favor of the foregoing proposals, the Directors of the Company may recommend adjournment or postponement of the Stockholders' Meeting to solicit additional proxies in favor of the Resolutions. To allow a recommendation or adjournment, approval by Stockholders holding a majority of the voting rights of the Company represented in person or by proxy at the Stockholders' Meeting and entitled to vote thereon is required.

Other Business

At the present date, the only business the Board intends to present or knows that others will present at the Stockholders' Meeting is that set forth above. If any other matter or matters are properly brought before the Stockholders' Meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their judgment.

Action to be taken by Stockholders

All Stockholders are cordially invited to attend the Stockholders' Meeting; however, it is not necessary that you attend the meeting. Whether or not you plan to attend the meeting, your vote is important. **If you will be unable to attend, you are urged to sign the enclosed proxy and return it in the envelope provided, in order that your shares may be represented.** You may also sign, date and return the enclosed proxy as soon as possible and in any event by 10 a.m. on 15 September, 2008 via facsimile to our confidential fax machine at (+1) 650 873 8367. If you choose to return the proxy via facsimile, please include a cover page providing your name and any updates to your contact information.

Undertakings and Proxies

The Directors of the Company have undertaken and certain of its Stockholders have granted proxies to vote in favor of the Resolutions in respect of all Common Shares that they beneficially hold as at the Record Date (as at the date of this document, amounting in aggregate to 25,807,762 Common Shares, representing approximately 47.6 % of the issued and outstanding Common Stock of the Company).

Financial position of the Company

The Company requires additional funds whether the Cancellation Resolution is voted down or passed. The Net Funds previously received by the Company have only provided sufficient funds to finance the Company's working capital requirements into September 2008.

The Company requires additional working capital to finance its short term working requirements to give the Directors sufficient time to resolve its longer term working capital needs. In respect of those short term working capital requirements, whether the Cancellation Resolution is voted down or passed, the Directors are considering all short term funding options including a series of interim smaller fundraisings involving the issue of convertible loan notes to certain existing shareholders. The Directors hope to be able to announce the entry into such an arrangement prior to the holding of the Shareholders' Meeting.

In respect of the longer term working capital requirements, in the Directors' opinion, the Company will be able to augment the short term funding referred to above with additional funds, once it completes a definitive licensing agreement, including debt, equity and additional licensing activity. The Company hopes to sign a legally binding agreement with the Partner in October 2008, and possibly other third parties, and to combine the entry into such agreement(s) with a new debt or equity fund raising. The Directors believe that if the Cancellation Resolution

is passed, Napo will be positioned to consider a range of options for a new debt or equity fund raising. An update on the Company's ongoing partnership discussions is set out on page 7.

If the Company is unable to secure a partnership with an up-front payment or any other additional short term finance, the Directors would have to consider terminating or suspending some or all of its drugs trials from early October 2008. Even if a partnership with an up-front payment is secured but no other financing is forthcoming, the Directors would have to consider terminating or suspending some or all of its drugs trial in three to four months following the entry into a licensing agreement. The trials, particularly the CRO-HIV trial, are a significant part of the Company's long-term strategy for achieving value for Stockholders. Any suspension or termination of such trials will terminate any partnering and/or licensing arrangements currently being contemplated on any term sheets under discussion. If the Company is no longer progressing its CRO-HIV trial, there would likely be a substantial reduction in the value, if any, achieved for the Company and its shareholders through any partnering or licensing of the Company's intellectual property assets because the Directors believe that a partially completed trial would significantly impair the sale value of such assets.

The Directors are actively negotiating with creditors to reduce and/or delay the sums owed to the Company's creditors. If no additional funds are raised and no license/partnership agreement is signed by the Company, then the Company may have to cease trading in October 2008. If the Company is unsuccessful in reducing or delaying payments to its creditors, the Company may have to cease trading prior to October 2008. If the Company is successful in raising additional short term financing, such eventuality may be delayed.

Importance of vote

If the Cancellation Resolution is voted down:

- (a) the Directors' view is that in the current market and whilst the Company remains listed on the Official List the Company's prospects of closing an equity or debt fundraise securing the Company's long term future are poor. The Directors believe that following the Cancellation, the Company will be better placed as an unlisted company to approach investors to raise the necessary funds to continue with its strategy of securing a commercial partner.

Although, the Company's prospects of a substantial equity or debt fundraise whilst admitted to the Official List are limited, in light of the Company's current working capital position, the Directors are considering all options including a series of interim smaller fundraisings, involving the issue of convertible loan notes to certain existing shareholders. If the Company is successful in securing any interim equity or debt fundraisings, this will not affect the Directors' long-term analysis of the Company's fundraising prospects whilst admitted to the Official List. If the Company is unsuccessful in obtaining interim financing, the Company may have to cease trading within a month of the date of the document or terminate or suspend its drugs trials as described on this page 13;

- (b) it is highly unlikely that the Partner will agree to develop negotiations based on the Term Sheet into a definitive agreement. The consequences of the failure by the Company to enter into a definitive agreement with the Partner or any other third party are described in the paragraph commencing with the words "If the Company is unable" on page 13.

- (c) the Company will have to continue to comply with the regulatory and financial requirements of a listing on the Official List. Time and money will continue to be spent by the Company on compliance; and
- (d) if the Company remains subject to continuing obligations of the Listing Rules, the Company will be required to prepare a detailed circular to Shareholders to obtain the consents necessary to complete the transaction set out in the Term Sheet (if the Partner were to agree to this) or any similar transaction. The Company does not currently have finance available to it to prepare the relevant documentation in accordance with applicable law and practice.

As described above, the Company requires short, medium and long term finance:

- the Company is seeking short term finance through a series of interim smaller fundraisings which are not conditional upon whether the Cancellation Resolution is voted down or passed. The Company hopes to enter into such financings prior to the holding of the Shareholders' Meeting;
- the Company is seeking medium term finance through the entry into partnering agreement(s) and in particular by progressing the transaction with the Partner described in the Term Sheet which will provide the Company with an up front payment. If the Cancellation Resolution is voted down, there is in all likelihood no prospect of any agreement being entered into with the Partner or any other third party to provide medium term finance and the Company may have to cease trading and terminate or suspend some or all of its drugs trials from early October 2008; and
- following, or in combination with, the completion of its partnering arrangements, the Company intends to carry out a private fund raising round to provide long term finance. The Company has received indications of interest in providing additional funds from investors which are conditional upon, *inter alia*, the Cancellation and the entry into definitive agreements with the Partner. The Directors believe that whilst the Company's funding requirements remain the same whether the Company is listed or unlisted, the Company's only realistic prospect of achieving long term financial security is as an unlisted company.

Recommendation to Stockholders

The Board considers that the adoption of the Resolutions that will be proposed at the Stockholders' Meeting are in the best interests of the Company and its Stockholders as a whole, and recommends unanimously that Stockholders vote in favor of each of the Resolutions, as the Directors have undertaken to do in respect of their own beneficial shareholdings (amounting in aggregate to 780,616 Common Shares, representing approximately 1.4 % of the issued and outstanding common stock of the Company).

Thank you for your attention to the foregoing and your continued support of Napo Pharmaceuticals, Inc.

By Order of the Board of Directors and the Chief Executive Officer,

A handwritten signature in black ink that reads "Lisa R. Conte". The signature is written in a cursive style with a horizontal line underneath it.

Lisa Conte
Chief Executive Officer

Dated: 5 September, 2008

Mailed to Stockholders on 5 September, 2008.



Napo Pharmaceuticals, Inc.
250 East Grand Avenue, Suite 90
South San Francisco, CA 94080

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
NAPO PHARMACEUTICALS, INC.**

Dear Napo Pharmaceuticals, Inc. Stockholder,

You are cordially invited to attend a Meeting of Stockholders (the "Stockholders' Meeting") of Napo Pharmaceuticals, Inc., a Delaware corporation (the "Company"), which the Board of Directors and the Company's CEO have scheduled to be held on 17 September, 2008 at 10 a.m., local time, at Napo Pharmaceuticals, Inc., 250 East Grand Avenue, Suite 90, South San Francisco, CA 94080

The purpose of this Stockholders' Meeting is to obtain stockholder approval to (1) cancel the listing of the Company's common stock on the Official List of the United Kingdom Listing Authority, (2) conditional upon passing resolution (1) and effective upon the cancellation of the listing of the Company's Common Stock, adopt new Bylaws of the Company in order to eliminate pre-emptive rights for future issuances of Common Shares, (3) conditional upon passing resolution (1) and effective upon the cancellation of the listing of the Company's Common Stock, amend the Company's Fourth Amended and Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock from 90 million shares to 115 million shares, (4) conditional upon passing resolution (1) and effective upon the cancellation of the listing of the Company's Common Stock, authorize the Board to effect a reverse stock split of the Company's Common Stock in a ratio ranging from one-for-two to one-for-five of all the Company's issued and outstanding Common Stock, the final ratio to be determined within the discretion of the Board, and to amend the Company's certificate of incorporation accordingly, and (5) if necessary, adjourn or postpone the Stockholders' Meeting to solicit additional proxies if there are not sufficient votes in favor or the foregoing resolutions. The Stockholders' Meeting will be convened in order to consider and, if acceptable, pass the following resolutions that will be proposed at the Stockholders' Meeting:

Resolution No. 1. **Resolved**, that the Company cancel the listing of shares of its common stock on the Official List of the United Kingdom Listing Authority.

THE BOARD RECOMMENDS A VOTE FOR THE CANCELLATION OF THE COMPANY'S LISTING ON THE OFFICIAL LIST AS SET FORTH ABOVE.

Resolution No. 2. **Resolved**, that conditional upon the passing of Resolution No. 1, immediately following cancellation of the Company's listing on the Official List of the UK Listing Authority the Company adopt new Bylaws in substitution for and to the exclusion of the Current Bylaws, in the form presented at the meeting, it being understood that the new Bylaws do not provide for pre-emptive rights (provided in Article X of the Current Bylaws),

such that in connection with the issuance of equity securities for cash, the Company will no longer be required to first offer such shares to existing stockholders in proportion to their respective stockholdings.

THE BOARD RECOMMENDS A VOTE FOR THE ADOPTION OF THE NEW BYLAWS AS SET FORTH ABOVE.

Resolution No. 3. **Resolved**, that conditional upon the passing of Resolution No. 1, immediately following cancellation of the Company's listing on the Official List of the UK Listing Authority the first sentence of Article IV of the Company's Fourth Amended and Restated Certificate of Incorporation be amended in its entirety to read as follows so as to increase the authorized number of shares of Common Stock from 90 million shares to 115 million shares and for the officers of the Company to file a Certificate of Amendment with the Delaware Secretary of State to implement such increase and to take such further action as they deem necessary or advisable to carry out the intent of this resolution:

“The total number of shares of all classes of stock which the Corporation has authority to issue is One Hundred Fifteen Million (115,000,000) shares, consisting of One Hundred Fifteen Million (115,000,000) shares of Common Stock, par value \$0.0001 per share (the "Common Stock").”

THE BOARD RECOMMENDS A VOTE FOR THE INCREASE IN THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK AS SET FORTH ABOVE.

Resolution No. 4. **Resolved**, that conditional upon the passing of Resolution No. 1, immediately following cancellation of the Company's listing on the Official List of the UK Listing Authority, that the Board of Directors of the Company be authorized to effect a reverse stock split of the Common Stock of the Company in a ratio ranging from one-for-two to one-for-five of all the Company's issued and outstanding Common Stock, the final ratio to be determined within the discretion of the Board, with Stockholders who would otherwise be entitled to fractional shares receiving cash equal to that fraction multiplied by the then fair market value of the Common Stock as determined in the sole discretion of the Board, and for the officers of the Company to file a Certificate of Amendment with the Delaware Secretary of State to implement such increase and to take such further action as they deem necessary or advisable to carry out the intent of this resolution, when such reverse stock split, if any, is declared by the Board.

THE BOARD RECOMMENDS A VOTE FOR THE AUTHORIZATION OF THE BOARD OF DIRECTORS TO EFFECT THE REVERSE STOCK SPLIT AS SET FORTH ABOVE.

Resolution No. 5. **Resolved**, that the Company adjourn or postpone the Stockholders' Meeting, if necessary to solicit additional proxies, if there are not sufficient votes in favor of the foregoing resolutions.

THE BOARD RECOMMENDS A VOTE FOR THE ADJOURNMENT OR POSTPONEMENT OF THE STOCKHOLDERS' MEETING AS SET FORTH ABOVE.

THE DIRECTORS BELIEVE THE ADOPTION OF THE RESOLUTIONS THAT WILL BE PROPOSED AT THE STOCKHOLDERS' MEETING TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AS A WHOLE. ACCORDINGLY THE DIRECTORS RECOMMEND THAT YOU VOTE IN FAVOR OF EACH RESOLUTION.

THE DIRECTORS HAVE UNDERTAKEN TO VOTE IN FAVOR OF EACH RESOLUTION IN RESPECT OF THEIR OWN BENEFICIAL SHAREHOLDINGS (AMOUNTING IN AGGREGATE TO 780,616 COMMON SHARES, REPRESENTING APPROXIMATELY 1.4 % OF THE ISSUED AND OUTSTANDING COMMON STOCK OF THE COMPANY).

The new Bylaws referred to in Resolution no. 2 above will be available from the date of this notice until the close of the Stockholders' Meeting at the offices of the Company's counsel, Reed Smith Richards Butler LLP, Minerva House, 5 Montague Close, London, SE1 9BB, United Kingdom, and shall be available at the Stockholders' Meeting from 15 minutes before and during the meeting.

The Board of Directors knows of no other business that will be presented at the Stockholders' Meeting. If any other business is properly brought before the Stockholders' Meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgments of the persons voting the proxies.

Voting by Proxy

All Stockholders are cordially invited to attend the Stockholders' Meeting; however, it is not necessary that you attend the meeting. Whether or not you plan to attend the meeting, your vote is important. **If you will be unable to attend, you are urged to sign the enclosed proxy and return it in the envelope provided, in order that your shares may be represented.** You may also sign, date and return the enclosed proxy promptly via facsimile to our confidential fax machine at (+1) 650 873 8367. If you choose to return the proxy via facsimile, please include a cover page providing your name and any updates to your contact information.

To be valid, proxy forms must be received by the Company no later than 48 hours before the Stockholders' Meeting.

If no specific instructions are given with respect to matters to be acted upon at the Stockholders' Meeting, the Company's Common Shares represented by a properly executed proxy will be voted: **FOR** the Resolutions.

Stockholders who execute proxies retain the right to revoke them at any time prior to the voting thereof. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised by: (i) delivering to the Company (to the attention of Charles Thompson, CFO) a written notice of revocation or a duly executed proxy bearing a later date; or (ii) attending the Stockholders' Meeting and voting in person.

Record Date; Voting Rights; Quorum

The close of business (5 p.m.) on 5 September (London time), 2008, has been fixed as the Record Date for the determination of Stockholders entitled to notice of, and to vote at, the Stockholders' Meeting.

As of the close of business on the Record Date, the Company had 54,206,383 Common Shares issued and outstanding and entitled to vote at the Stockholders' Meeting. Each Common Share carries the right to one vote at a special stockholder meeting of the Company.

The presence at the Stockholders' Meeting of at least fifty per cent. (50 %) of the total number of shares outstanding, either in person or by proxy, will constitute a quorum for the transaction of business at the Stockholders' Meeting.

Charles Thompson, the Company's CFO, will act as Inspector of Elections and will tabulate votes cast by proxy and in person at the Stockholders' Meeting. Abstentions are each included in the determination of the number of shares present and voting, and each is tabulated separately. In determining whether a proposal has been approved, abstentions are counted as **votes against** the proposal. If no specific instructions are given with respect to matters to be acted upon at the Stockholders' Meeting, the Company's Common Shares represented by a properly executed proxy will be voted: **FOR** the cancellation of the Company's listing on the Official List as described in Resolution No. 1.; **FOR** the adoption of the New Bylaws as described in Resolution No. 2; **FOR** the increase in the authorized share capital of the Company as described in Resolution No. 3; **FOR** the authorization of the Board to effect a reverse stock split of the Company's common stock as described in Resolution No. 4; and **FOR** the adjournment or postponement of the Stockholders' Meeting, if necessary, as described in Resolution No. 5.

Pursuant to Rule 5.2.5(2) of the Listing Rules (in respect of Resolution No. 1) and Section 2(a) of Article X of the Company's Bylaws (in respect of Resolution No. 2), Resolutions No. 1 and No. 2. must be approved by the affirmative vote of holders of seventy-five per cent. (75%) or more of the Common Shares represented in person or by proxy at the Stockholders' Meeting and entitled to vote thereon. Pursuant to Article II of the Current Bylaws, Resolutions No. 3, No. 4 and No. 5 must be approved by Stockholders holding a majority of the voting rights of the Company represented in person or by proxy at the Stockholders' Meeting and entitled to vote thereon.

Thank you for your attention to the foregoing and your continued support of Napo Pharmaceuticals, Inc.

By Order of the Board of Directors and CEO,



Lisa Conte
Chief Executive Officer

Dated: 5 September, 2008

Mailed to Stockholders on 5 September, 2008



Napo Pharmaceuticals, Inc.
 250 East Grand Avenue, Suite 90
 South San Francisco, CA 94080

PROXY

(Insert name and address of Stockholder)

Before completing this form, please read the explanatory notes overleaf

I /We being the undersigned holder of record of shares of Common Stock of Napo Pharmaceuticals, Inc., a Delaware corporation (the “Company”), does hereby constitute and appoint Charles Thompson or, in Mr. Thompson’s absence, Lisa Conte or his or her nominee or (see note 4)

as my/our true and lawful attorney and proxy with full power of substitution to represent me/us at the meeting of the Stockholders of the Company to be held at 10 a.m. on 17 September, 2008 at Napo Pharmaceuticals, Inc., 250 East Grand Avenue, Suite 90, South San Francisco, CA 94080 and at any and all adjournments thereof (the “Stockholders’ Meeting”), and in my/our name, and in my/our place and stead, to vote all of my/our shares of Common Stock of the Company, and to execute consents, waivers and any and all other documents necessary or appropriate in connection therewith, on all matters that may come before the meeting or otherwise be submitted to the stockholders of the Company for their consent or approval in lieu of coming before such meeting, including as indicated below.

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorize my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter that is put before the meeting.

RESOLUTIONS	For	Against	Vote withheld
That the Company cancel the listing of its common shares on the Official List of the United Kingdom Listing Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
That, conditional upon the passing of the resolution relating to the Cancellation of listing, immediately following Cancellation of the Companies listing on the Official List of the UK Listing Authority the Company adopt new Bylaws in substitution for and to the exclusion of the Current Bylaws, in the form presented at the meeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

RESOLUTIONS	For	Against	Vote withheld
<p>That, conditional upon the passing of the resolution relating to the Cancellation of listing, immediately following Cancellation of the Companies listing on the Official List of the UK Listing Authority the first sentence of Article IV of the Company's Fourth Amended and Restated Certificate of Incorporation be amended in its entirety to read as follows so as to increase the authorized number of shares of Common Stock from 90 million shares to 115 million shares and for the officers of the Company to file a Certificate of Amendment with the Delaware Secretary of State to implement such increase and to take such further action as they deem necessary or advisable to carry out the intent of this resolution:</p> <p>"The total number of shares of all classes of stock which the Corporation has authority to issue is One Hundred Fifteen Million (115,000,000) shares, consisting of One Hundred Fifteen Million (115,000,000) shares of Common Stock, par value \$0.0001 per share (the "Common Stock")."</p>	□	□	□
<p>That conditional upon the passing of Resolution No. 1, immediately following cancellation of the Company's listing on the Official List of the UK Listing Authority, that the Board of Directors of the Company be authorized to effect a reverse stock split of the Common Stock of the Company in a ratio ranging from one-for-two to one-for-five of all the Company's issued and outstanding Common Stock, the final ratio to be determined within the discretion of the Board, with Stockholders who would otherwise be entitled to fractional shares receiving cash equal to that fraction multiplied by the then fair market value of the Common Stock as determined in the sole discretion of the Board, and for the officers of the Company to file a Certificate of Amendment with the Delaware Secretary of State to implement such increase and to take such further action as they deem necessary or advisable to carry out the intent of this resolution, when such reverse stock split, if any, is declared by the Board.</p>	□	□	□
<p>That the Company adjourn or postpone the Stockholders' Meeting if necessary, to solicit additional proxies if there are not sufficient votes in favor of the foregoing resolutions.</p>	□	□	□

I/We hereby grant unto said proxy all of the powers that I/we would possess if personally present at such meeting, or in executing any such consents, waivers or other documents, and ratifies and confirms all that such proxy or his or her nominee may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of

_____ (Insert date).

If executed by an entity:

If executed by an individual:

(NAME OF STOCKHOLDER ENTITY)

(SIGNATURE)

By _____
(SIGNATURE)

(PRINT NAME)

(PRINT NAME)

(TITLE)

Notes to the proxy form

1. As a stockholder of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Stockholders' Meeting. You can only appoint a proxy using the procedures set out in these notes.
2. Pursuant to Section 10 of Article II of the Company's Bylaws, the Company specifies that only those stockholders registered on the Company's register of stockholders at:
 - 5.00 pm (London time) on 5 September, 2008; or
 - if the Stockholders' Meeting is adjourned, at 6.00 pm (London time) on the day two days prior to the adjourned meeting,

shall be entitled to attend and vote at the Stockholders' Meeting.

3. Appointment of a proxy does not preclude you from attending the Stockholders' Meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
4. A proxy does not need to be a stockholder of the Company but must attend the Stockholders' Meeting to represent you. To appoint as your proxy a person other than Charles Thompson or Lisa Conte, insert their full name in the box. If you sign and return this proxy form with no name inserted in the box, Charles Thompson, or in his absence, Lisa Conte will be deemed to be your proxy. Where you appoint as your proxy someone other than Charles Thompson or Lisa Conte, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than Charles Thompson or Lisa Conte and give them the relevant instructions directly.

If no specific instructions are given with respect to matters to be acted upon at the Stockholders' Meeting, Common Stock represented by a properly executed proxy will be voted: **FOR** the resolutions.

5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, send a facsimile to our confidential fax machine at (+1) 650 873 8367 (for the attention of Charles Thompson) and on the cover page provide your name and how many additional proxy forms you require.
6. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter that is put before the Stockholders' Meeting.
7. To appoint a proxy using this form, the form must be:
 - completed and signed;
 - sent to the Company at the above address or via facsimile to the confidential fax machine at (+1) 650 873 8367; and
 - received by the Company no later than 48 hours before the Stockholders' Meeting.
8. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of stockholders in respect of the joint holding (the first-named being the most senior).
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Where you have appointed a proxy and would like to change the instructions, please send a facsimile to the Company's confidential fax machine at (+1) 650 873 8367 (for the attention of Charles Thompson) and on the cover page provide your name, mailing details and request a new proxy form.

Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

12. Stockholders who execute proxies retain the right to revoke them at any time prior to the voting thereof. In order to revoke a proxy instruction you will need to inform the Company by sending a notice clearly stating your intention to revoke your proxy appointment by facsimile to the Company's confidential fax machine at (+1) 650 873 8367 (for the attention of Charles Thompson).

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Stockholders' Meeting in person, your proxy appointment will automatically be terminated.

13. You may not use any electronic address provided in this proxy form to communicate with the Company for any purposes other than those expressly stated.
14. Stockholders who have general queries about the Stockholders' Meeting should send a facsimile to the Company's confidential fax machine at (+1) 650 873 8367 (for the attention of Charles Thompson) and on the cover page provide your name, contact details and set out the query. You may not use any electronic address provided either:
 - in this notice of Stockholders' Meeting; or
 - any related documents (including the Chief Executive Officer's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.