

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Company Registration No.: 91120000103100784F)

(Incorporated in the People's Republic of China)

UPDATE ON THE DEPOSIT OF NET PROCEEDS AND THE USE OF NET PROCEEDS

The board of directors (the “Board”) of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited collectively and individually accept full responsibility for the accuracy of the information given in this announcement, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated in this announcement are fair and accurate in all material respects as at the date of this announcement, and that there are no material facts the omission of which would make any statement in this announcement misleading.

The Board refers to the previous announcements by the Company on 12 June 2014, 12 August 2014, 7 January 2015, 28 January 2015, 27 March 2015, 28 April 2015, 8 June 2015, 15 July 2015, 22 July 2015, 14 August 2015, 26 August 2015, 1 September 2015, 7 September 2015, 28 September 2015, 9 October 2015, 15 October 2015, 30 October 2015, 10 November 2015, 17 November 2015, 8 December 2015, 11 December 2015, 23 December 2015, 19 January 2016, 8 March 2016 and 21 March 2016, 26 April 2016, 8 June 2016, 5 July 2016, 12 August 2016, 24 August 2016, 26 August 2016, 29 November 2016, 7 March 2017, 30 March 2017, 13 June 2017, 14 August 2017, 23 August 2017, 24 August 2017, 28 November 2017 and 8 January 2018 (the “**Prior Announcements**”), as well as the circular dated 1 August 2014 (the “**Circular**”) in relation to the Placement.

Capitalised terms not defined herein shall bear the same meaning as terms defined in the Prior Announcements and the Circular.

Pursuant to *Guideline No. 2 - Supervision Requirements of the Use and Management of the Proceeds of the Listed Companies* (《上市公司监管指引第2号—上市公司募集资金管理和使用的监管要求》) promulgated by the CSRC and the *Administrative Measures of the Shanghai Stock Exchange for the Capital Raised by Listed Companies (2013 Revision)* (《上海证券交易所上市公司募集资金管理办法(2013年修订)》), the Board of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “**Company**”) issued a report below in relation to the deposit of Proceeds and the Use of Net Proceeds as at 31 December 2017 (the “**Report**”).

1. BASIC INFORMATION ON THE PLACEMENT

1.1 Net Proceeds

Pursuant to the Written Approval from the CSRC, on 19 June 2015, the Company issued 29,564,356 A-shares with par value of RMB1 per share at an issue price of RMB28.28 per share, and the Proceeds from the Placement amounted to RMB836,079,987.68. After deducting the expenses of the Placement, the Net Proceeds was approximately RMB814,340,000.00.

Ruihua Certified Public Accountants LLP has, on 26 June 2015, issued the Proceeds Verification Report verifying that the Proceeds raised from the Placement are in the designated accounts of the

Company (Designated Account #1, Designated Account #2 and Designated Account #3 collectively, the “**Designated Accounts**”).

1.2 Amount of the Net Proceeds Used in Year 2017

In year 2017, an amount of RMB250,000,000.00 from the Net Proceeds was temporarily used for the cash flow of the Company, an amount of RMB167,467,758.60 from the Net Proceeds was used for the Projects, an amount of RMB400,000,000.00 from the Net Proceeds was used for Cash Management, and the Company obtained an amount of RMB38,548,244.32 in the form of financing income and interests derived from the Cash Management. The balance of the Net Proceeds is RMB435,420,485.72 as at 31 December 2017.

1.3 Amount of the Net Proceeds Used and the Balance as at 31 December 2017

As at 31 December 2017, the balance of the Net Proceeds is RMB435,420,485.72, the details of which are as follows:

NO	PROJECTS	AMOUNT(RMB)
1	Net Proceeds	814,340,000.00
2	Temporary Use For Cash Flow	-250,000,000.00
3	Expenditure on the Projects	-167,467,758.60
4	Used for the Cash Management	-400,000,000.00
5	Cash Management returned as scheduled	400,000,000.00
6	Financing incomes and interests derived from the Cash Management	38,548,244.32
7	Balance of the Net Proceeds	435,420,485.72
	Balance in the Designated Accounts	435,420,485.72

2. MANAGEMENT OF PROCEEDS

To further regulate the use and management of Proceeds, to improve the efficiency of the Use of Net Proceeds, and to protect the investors’ interests, and pursuant to the *Company Law of the PRC* (《中华人民共和国公司法》), *Securities Law of the PRC* (《中华人民共和国证券法》), *Administrative Measures for the Issuance of Securities by Listed Companies* (《上市公司证券发行管理办法》), *the Rules of Shanghai Stock Exchange on the Listing of Stocks* (《上海证券交易所股票上市规则》), *Administrative Measures of the Shanghai Stock Exchange for the Capital Raised by Listed Companies (2013 Revision)* (《上海证券交易所上市公司募集资金管理办法(2013年修订)》), the Articles of Association of the Company and related laws and regulations, the Company has adopted the Measures for the Management of Proceeds of the Company to regulate the use and management of the Proceeds, and to protect the investors’ interests. The Measures for the Management of Proceeds was approved by the Shareholders at an extraordinary general meeting of the Company held on 18 August 2014.

2.1 Deposit of the Proceeds

As at 31 December 2017, the details of the balance of the Net Proceeds are set out below:

ACCOUNT NAME	BANKS	BANK ACCOUNT NUMBER	BALANCE (RMB)
The Company	China Bohai Bank Co.,Ltd., Tianjin Duolun Road Branch	2000001695000328	276,668,878.53
The Company	Industrial and Commercial Bank of China, Tianjin Chengdu Road Branch	0302010529300330596	158,751,607.19
Da Ren Tang	China Construction Bank, Tianjin Hebei Branch	12001660800052535320	0.00
Sub-total			435,420,485.72

2.2. Supervision Agreements

There is no major difference between the sample supervision agreement and the Supervision Agreement #1, the Supervision Agreement #2 and the Supervision Agreement #3. The Company has deposited, used and managed the Proceeds pursuant to the relevant laws and regulations, and all the obligations under the Supervision Agreement #1, the Supervision Agreement #2 and the Supervision Agreement #3 have been duly performed as at 31 December 2017.

3. USE OF NET PROCEEDS

3.1 Use of Net Proceeds for the Projects

The details of the Use of Net Proceeds for the Projects are set out in Annex 1 to this announcement.

3.2 Use of the Proceeds for the Projects and the Replacement

As at 3 August 2015, Company had used an aggregate amount of RMB28,334,868.31 of its own funds (the "Funds") to commence the Projects, the details of which are set out below. Ruihua Certified Public Accountants LLP has issued the Proceeds Verification Report verifying that such amounts are in the Designated Accounts of the Company.

NO	Projects	Proposed amount to be invested (RMB)	Amount of the Net Proceeds to be invested (RMB)	Amount of expenditure as at 3 August 2015 (RMB)
1	Terminal Marketing Network and Promotional System Project	310,420,000.00	310,420,000.00	17,407,584.01
2	Bozhou Industrial Park Construction	250,000,000.00	127,500,000.00	0.00
	Chinese Medicine			

	Project	Extraction and Preparation Project			
		Project on Chinese Medicine Decoction Pieces	150,000,000.00	76,500,000.00	5,865,000.00
3	Wellness and Functional Vegetable Beverages Project		299,920,000.00	299,920,000.00	5,062,284.30
	Total		1,010,340,000.00	814,340,000.00	28,334,868.31

Pursuant to the 8th Board meeting for year 2015, which was duly convened on 26 August 2015, the Board had passed the resolution approving an equivalent amount of RMB28,334,868.31 from the Net Proceeds to be used to replace the Funds.

As at 31 December 2015, the Funds has been fully replaced with an equivalent amount from the Net Proceeds.

3.3 Temporary Use of the Part of Net Proceeds for the Cash Flow of the Company

As at 22 August 2017, the amount of RMB250,000,000.00 used from the Net Proceeds for the purposes of cash flow of the Company for the year 2016 has been returned to the Designated Accounts of the Company.

Pursuant to the 7th Board meeting for year 2017, which was duly convened on 23 August 2017, the Board had passed the resolution approving the Temporary Use and allowed the Company to use an amount of RMB250,000,000.00 from the Net Proceeds for the Company's cash flow purposes, within a 12-month period.

As at 31 December 2017, the amount of RMB250,000,000.00 from the Net Proceeds for the purposes of cash flow of the Company has not been returned to the Designated Accounts of the Company.

3.4 Cash Management of Net Proceeds

Pursuant to the 7th Board meeting for year 2017, which was duly convened on 23 August 2017, the Board had passed the resolution that, pending the deployment of the Net Proceeds, an amount of not more than RMB400,000,000.00 from the Net Proceeds may be deposited with banks and/or invested in short-term investment products with high security and good liquidity for 12 months after the date of Board approval for the same. The Independent Directors of the Company and the Placement Agent were agreeable to such resolution.

As at 31 December 2017, the details of the Cash Management are set out below:

NO	BANK	AMOUNT (RMB)	VALUE DATE	MATURITY DATE	WHETHER IT HAS BEEN RETURNED AS SCHEDULED
1	China Bohai Bank Co.,Ltd., Tianjin Branch	200,000,000	28 November 2016	3 March 2017	returned as scheduled
2	Merchants Bank of China Tianjin Jiefang Road Branch	200,000,000	29 November 2016	3 March 2017	returned as scheduled
3	Merchants Bank of China Tianjin Jiefang Road Branch	200,000,000	6 March 2017	9 June 2017	returned as scheduled
4	China Bohai Bank Co.,Ltd., Tianjin Branch	200,000,000	6 March 2017	9 June 2017	returned as scheduled
5	Fubang Huayi Bank, Tianjin Branch	200,000,000	12 June 2017	21 August 2017	returned as scheduled
6	China Bohai Bank Co.,Ltd., Tianjin Branch	200,000,000	12 June 2017	21 August 2017	returned as scheduled
7	China Bohai Bank Co.,Ltd., Tianjin Branch	200,000,000	24 August 2017	24 November 2017	returned as scheduled
8	Fubang Huayi Bank, Tianjin Branch	200,000,000	24 August 2017	24 November 2017	returned as scheduled
9	Fubang Huayi Bank, Tianjin Branch	200,000,000	27 November 2017	27 March 2018	returned as scheduled
10	China Bohai Bank Co.,Ltd., Tianjin Branch	200,000,000	27 November 2017	29 December 2017	returned as scheduled

3.5 Disclosure on any permanent use of amounts for the cash flow of the Company or repayment of bank loans exceeding the total amount of Proceeds

Not applicable.

3.6 Disclosure on any use of Proceeds for new projects (including assets acquisition) exceeding the total amount of Proceeds

Not applicable.

3.7 Balance of the Proceeds

As at 31 December 2017, as the Projects have not been completed, the final balance of the Proceeds is still unavailable.

3.8 Other Use of Proceeds

There is no other use of Proceeds of the Company.

4. PROPOSED CHANGE TO THE CURRENT USE OF NET PROCEEDS

There is no proposed change to the current Use of Net Proceeds.

5. DISCLOSURE ON THE USE OF NET PROCEEDS

The Company has complied with the relevant rules and regulations of the CSRC and the Shanghai Stock Exchange to accurately and completely disclose the information in relation to the deposit of Proceeds and the Use of Net Proceeds.

6. VERIFICATION OPINIONS FROM RUIHUA CERTIFIED PUBLIC ACCOUNTANTS LLP

Ruihua Certified Public Accountants LLP is of the view that the Report has satisfied the requirements of the *Supervision Requirements of the Use and Management of the Proceeds of the Listed Companies* (《上市公司监管指引第 2 号—上市公司募集资金管理和使用的监管要求》) promulgated by the CSRC and the *Administrative Measures of the Shanghai Stock Exchange for the Capital Raised by Listed Companies (2013 Revision)* (《上海证券交易所上市公司募集资金管理办法 (2013 年修订)》).

7. VERIFICATION OPINIONS FROM THE PLACEMENT AGENT

The Placement Agent is of the view that the Use of Net Proceeds has fulfilled all the necessary internal procedures, and has satisfied the requirements of the Rules of Measures for the *Administration of the Sponsor Business of Securities Issuance and Listing* (《证券发行上市保荐业务管理办法》), the *Shanghai Stock Exchange on the Listing of Stocks* (《上海证券交易所股票上市规则》), and the *Rules of the Shanghai Stock Exchange for the Capital Raised by Listed Companies* (《上海证券交易所上市公司募集资金管理规定》). The Use of Net Proceeds does not change the intended Use of Net Proceeds, is not prejudicial to the interests of the Shareholders, and does not violate any relevant laws and regulations.

By order of the Board
30 March 2018

Annex 1: Details on Use of Net Proceeds (Year 2017)

(RMB)

Amount of the Proceeds				814,340,000		Annual Expenditures of Proceeds for Year 2017					47,388,000	
Amount of the Change to the Use of Net Proceeds				-		Total Expenditures of Proceeds					167,467,800	
Percentage of the Amount of the Change to the Use of Net Proceeds				-								
Proposed investment projects	Projects that have been changed (including partial changes)	Proposed investment amount	Investment amount after adjustment	Proposed investment amount as at 31 Dec 2017 (1)	Amount Of annual expenditures	Total investment amount as at 31 Dec 2017 (2)	Difference between total amount as at 31 Dec 2016 and proposed investment amount as at 31 Dec 2017 (3)=(2)-(1)	Progress of the Projects (%) (4)=(2)/(1)	The expected date of the Projects to be put into service	Annual achieved benefits	Whether the expected benefits were achieved	Whether there is a material change in the feasibility of the Projects
Terminal Marketing Network and Promotional System Project	-	310,420,000	310,420,000	310,420,000	47,400,100	151,668,400	-158,751,600	48.86	January 2018	-	-	no
Bozhou Industrial Park Construction Project-Chinese Medicine Extraction and Preparation Project	-	127,500,000	127,500,000	127,500,000	-	-	-127,500,000	-	April 2016	-	-	no
Bozhou Industrial Park Construction Project-Project on Chinese Medicine	-	76,500,000	76,500,000	76,500,000	-	5,865,000	-70,635,000	7.67	April 2016	-	-	no

Decoction Pieces												
Wellness and Functional Vegetable Beverages Project	-	299,920,000	299,920,000	299,920,000	-12,100	9,934,400	-289,985,600	3.32	September 2016	-	-	no
Total	-	814,340,000	814,340,000	814,340,000	47,388,000	167,467,800	-646,872,200	-	-	-	-	-
Reasons for not following the Projects Schedule	<p>i. The reason for not following the schedule of the Terminal Marketing Network and Promotional System Project: In light of the current market conditions in the pharmaceutical industry, the Company has taken caution on incurring sales expenses. Going forward, the Company will make greater efforts to strive towards market expansion.</p> <p>ii. The reasons for not following the schedule of the Bozhou Industrial Park Construction Project: The Bozhou Industrial Park Construction Project is carried out by a subsidiary of the Company, Tianjin Da Ren Tang (Bozhou) Chinese Medicine Co., Ltd. (the “Bozhou Company”). As agreed, the Company and the other shareholders of the Bozhou Company shall invest in the Bozhou Industrial Park Construction Project on a pro-rata basis in accordance with each of their shareholding proportion in the form of share capital increase. However, as at the date of this announcement, the relevant decision-making procedures of the Bozhou Company in relation to the share capital increase have not been completed such that the Proceeds cannot be injected into the Bozhou Company. The Company is now using its own funds to continue the Bozhou Industrial Park Construction Project. Pursuant to the 1st Board meeting for year 2017, which was duly convened on 29 March 2017, the Board passed the resolution that the Company will use its own funds to acquire 20% equity interest in the Bozhou Company and the resolution in relation to change of shareholding in the Bozhou Company..The Company will procure parties to complete the share capital increase of the Bozhou Company upon the completion of the relevant changes to the shareholding proportion.</p> <p>iii. The reasons for not following the schedule of the Wellness and Functional Vegetable Beverages Project: The Company has been focusing on the situation and development trend of the beverage industry. As the downward pressure on China's economy has continued to mount and the beverage industry is suffering a decline, the Company has been cautious towards the investment in the Wellness and Functional Vegetable Beverages Project. In order to protect the shareholders' interest, the Company will endeavor to come to a decision as to the future direction of the Project as soon as possible, after analysing the future development trend of the beverage industry.</p>											
Information on Material Change of the Feasibility of the Projects	N.A											
Company's Earlier Expenditures on the Projects and the Replacement	As at 31 December 2017, the Company had used an aggregate amount of RMB 28,334,868.31 of the Proceeds to replace the same amount of its own funds which were used earlier to commence the Projects.											

Temporary Use of the Part of Net Proceeds for the Cash Flow of the Company	As at 31 December 2017, the amount of RMB250,000,000.00 from the Net Proceeds that were used for the cash flow of the Company has not been returned to the Designated Accounts of the Company.
Cash Management of the Net Proceeds	As at 31 December 2017, the amount of RMB400,000,000.00 were used for the Cash Management and the relevant investment products have not expired.
Amounts exceeding the Proceeds for the Cash Flow and Bank Loan of the Company	N.A
Balance of the Proceeds and the Reasons	N.A
Other Use of the Proceeds	N.A

Note 1: The Annual Expenditures of Proceeds includes the Amount of Annual Expenditures and the Replacement amount.

Note 2: The Proposed Investment Amount as at 31 December 2017 is subject to the latest disclosure of the investment plan of the Proceeds.

Note 3: The method of calculation for Annual Achieved Benefits is the same as the method of calculation for the Proposed Benefits.