

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Company Registration No.: 91120000103100784F)

(Incorporated in the People's Republic of China)

PROPOSED CHANGE IN THE USE OF PLACEMENT 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, 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, 8 January 2018 and 30 March 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.

1. NET PROCEEDS

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 had, on 26 June 2015, issued the Proceeds Verification Report verifying that the Proceeds raised from the Placement were in the designated accounts of the Company.

The details of the Use of Net Proceeds for the Projects are set out below:

No.	Name of project	Proposed amount to be invested (RMB)	Amount of the Net Proceeds to be invested (RMB)
1	Terminal Marketing Network and Promotional System Project	310,420,000.00	310,420,000.00

No.	Name of project		Proposed amount to be invested (RMB)	Amount of the Net Proceeds to be invested (RMB)
2	Bozhou Industrial Park Construction Project	Chinese Medicine Extraction and Preparation Project	250,000,000.00	127,500,000.00
		Project on Chinese Medicine Decoction Pieces	150,000,000.00	76,500,000.00
3	Wellness and Functional Vegetable Beverages Project		299,920,000.00	299,920,000.00
	Total		1,010,340,000.00	814,340,000.00

As at 30 June 2018, the amount of Net Proceeds applied towards the Use of Net Proceeds is set out below:

N O	Projects		Amount of the Net Proceeds to be invested (RMB)	Actual Amount of the Net Proceeds to be invested (RMB)
1	Terminal Marketing Network and Promotional System Project		310,420,000.00	157,168,400.00
2	Bozhou Industrial Park Construction Project	Chinese Medicine Extraction and Preparation Project	127,500,000.00	0.00
		Project on Chinese Medicine Decoction Pieces	76,500,000.00	5,865,000.00
3	Wellness and Functional Vegetable Beverages Project		299,920,000.00	9,934,400.00
	Total		814,340,000.00	172,967,800.00

2. PROPOSED CHANGE IN THE USE OF NET PROCEEDS

The Company would like to announce, pursuant to Rule 704(30) of the listing manual of the Singapore Exchange Securities Trading Limited, that it proposes to change the Use of Net Proceeds. The Company intends to substitute the "Wellness and Functional Vegetable

Beverages Project” (the “**Original Project**”) with the “Phase I Dripping Pill Manufacturing Base Project” (the “**New Project**”). The total investment amount required for the New Project is approximately RMB308.8 million, of which RMB289,985,600 is intended to be channeled from the Net Proceeds.

Pursuant to the 4th Board meeting for the financial year ending 31 December 2018, which was duly convened on 9 August 2018, the Board approved the proposed change in the Use of Net Proceeds as set out in the immediately preceding paragraph. The independent directors of the Company, the board of supervisors of the Company, and the Placement Agent have issued their relevant opinions. The proposed change in the Use of Net Proceeds will not constitute an interested person transaction under the Listing Manual.

Pursuant to the listing rules of the Shanghai Stock Exchange, the Company is required to seek Shareholders’ approval for the proposed change in the Use of Net Proceeds, and accordingly, an extraordinary general meeting will be convened for such purpose.

3. DETAILS ON THE ORIGINAL PROJECT

3.1 Background information on the Original Project

To build the Company’s presence, and to enrich its product lines, in the wellness industry, the Company had planned to build a production project with an annual production output of 50,000 tonnes, to produce functional herbal beverages. The total amount of investment required for this project would have been approximately RMB299.92 million, and the construction period would have been two (2) years. The amount of Net Proceeds that was allocated for the same was RMB299.92 million.

3.2 Investment budget and details of the Original Project

The total amount of investment required for the Original Project would have been approximately RMB299.92 million, comprising construction costs of approximately RMB182.3 million, initial working capital of approximately RMB6.92 million, new product R&D investment costs of approximately RMB30 million, as well as channel and promotional costs of approximately RMB80 million. The Original Project would have occupied an area of approximately 10,000 square meters, and the construction costs would have mainly encompassed the construction products, power rooms and ancillary facilities, the purchase of water purification systems, and equipment for production lines for PET products, pop cans, and glass bottles.

3.3 Status of project examination, approval, and registration

The project registration and environmental impact assessment procedures in respect of the Original Project had been completed. The Original Project would have been built on land already owned by the Company and thus, no additional land would have to be acquired in respect thereof.

3.4 Economic evaluation of the Original Project

The internal rate of return (after tax) for the Original Project would have been approximately 20.33%, and the payback period (after tax) would have been approximately 7.05 years (excluding construction period).

3.5 Actual amount invested in the Original Project

As at 30 June 2018, an amount of RMB9,934,400 from the Net Proceeds had been used for the Original Project, accounting for approximately 3.31% of the total investment amount committed towards the Original Project. As such, the Company intends to use the balance of the total investment amount previously committed towards the Original Project, being the amount of RMB289,985,600, for the purpose of the New Project. Upon receipt of Shareholders' approval for the proposed change in the Use of Net Proceeds, the total amount of RMB289,985,600 from the Net Proceeds will be allocated for the New Project.

4. DETAILS ON THE NEW PROJECT

4.1 Background information on the New Project

In order to meet the development requirements of the Company, the Company, on the basis of the original production scale of Tianjin Zhong Xin Pharmaceutical Factory No. 6, renovated and expanded the plant through independent research and development. The Company plans to build an intelligent manufacturing base (Phase I) with an annual production capacity of 300 million bottles, for the production of dripping pills. The New Project will be implemented by the Company's subsidiary, Tianjin Zhong Xin Pharmaceutical Factory No. 6. The total investment amount required for the New Project is approximately RMB308.8 million, and the construction period is expected to take approximately two (2) years. Upon receipt of Shareholders' approval for the proposed change in the Use of Net Proceeds, an amount of RMB289,985,600 from the Net Proceeds will be allocated for the New Project, and the Company will use its own internal resources to fund the balance of the investment required.

4.2 Necessity of the New Project

Through the development of many years, the domestic sales market of the pharmaceutical industry has entered the order-based sales mode. Therefore, pharmaceutical enterprises need to have the ability to respond flexibly to market changes, to meet the market demand, and to shorten the manufacturing cycle of the products.

The existing factory building and the facilities and equipment of Tianjin Zhong Xin Pharmaceutical Factory No. 6 were set up in 1993 and 2004 respectively. After many years of development, the area, the layout and the equipment capacity of the process building have become unable to meet the needs of the development of the Company and its markets. As such, the Company intends to reconstruct the factory building, adjust the layout, develop and introduce process equipment, and upgrade the level of automation and intelligence within the premises, through the execution of the New Project. Further, the Company will also strive to improve the production capacity of multiple varieties, reduce the production cycle, reduce labor costs, meet the market demand, and ensure the long-term and stable development of the enterprise.

Tianjin Zhong Xin Pharmaceutical Factory No. 6 has marketable products with advanced technology, and it also strives to improve the production environment, raise the level of hardware, and expand the development mentality of the mainstream domestic market.

Completion of the New Project will better meet the development needs of the enterprises. The

expansion of the factory building and the introduction of advanced technology equipment of dripping pills through independent research and development, as well as external purchase, will further enhance the market competitiveness of the Company.

4.3 Investment budget and details of the New Project

The total investment amount required for the New Project is approximately RMB308.8 million, comprising construction costs of approximately RMB293.655 million and initial working capital of approximately RMB15.145 million. The New Project will be built on the Company's existing land, and covers an area of approximately 12,884.25 square meters. The construction costs of the New Project mainly include the building of dripping pills workshop, sewage treatment station, fire pump room pool, and related process equipment, public engineering equipment and related supporting facilities.

4.4 Status of project examination, approval, and registration

The New Project has been approved by the Beichen District Administrative Examination and Approval Department, Tianjin (天津市北辰区行政审批局), and the *Certificate of Registration for Phase I Dripping Pill Manufacturing Base Project* (《关于天津中新药业集团股份有限公司中新药业滴丸智能制造基地项目一期工程项目备案的证明》) has been issued. The environmental impact assessment procedures in respect of the New Project had also been completed.

4.5 Economic evaluation of the New Project

The internal rate of return (after tax) for the New Project is expected to be approximately 28.44%, and the payback period (after tax) is expected to be approximately 6.09 years (including construction period).

5. RATIONALE FOR THE PROPOSED CHANGE IN THE USE OF PLACEMENT PROCEEDS

The Company has been monitoring the market conditions in the beverage industry. The beverage industry has entered into a period of decline during the development of the Original Project, and the overall market outlook is still uncertain in the future. As such, the Company has taken a cautious attitude towards the investment in the Original Project. After assessing the future development trend of the beverage industry, the Company had decided to terminate the Original Project and substitute it with the New Project, in line with the Company's business.

6. OPINIONS FROM THE INDEPENDENT DIRECTORS, THE BOARD OF SUPERVISORS AND THE PLACEMENT AGENT

6.1 Opinions from the Independent Directors

The independent directors of the Company are of the view that the proposed change in the Use of Net Proceeds is not prejudicial to the interests of the Shareholders (particularly the minority Shareholders), and satisfies the requirements of the relevant laws and regulations of the China Securities Regulatory Commission and the Shanghai Stock Exchange. In particular, it satisfies the requirements of 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)》), *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》), and the *Measures for the Management of Proceeds of the Company* (《募集资金管理办法》).

6.2 Opinions from the Board of Supervisors

The board of supervisors of the Company is of the view that the proposed change in the Use of Net Proceeds is not prejudicial to the interests of the Company and Shareholders (particularly the minority Shareholders), and does not violate any relevant laws and regulations of the China Securities Regulatory Commission and the Shanghai Stock Exchange.

6.3 Opinions from the Placement Agent

The Placement Agent is of the view that the proposed change in the Use of Net Proceeds is in line with the operational needs of the Company. It is further of the view that the proposed change in the Use of Net Proceeds is not prejudicial to the interests of the Shareholders (particularly the minority Shareholders), and it satisfies the requirements of 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)》), *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》), *Rules of Shanghai Stock Exchange on the Listing of Stocks* (《上海证券交易所股票上市规则》) and the *Administrative Measures for the Sponsorship Business of the Issuance and Listing of Securities* (《证券发行上市保荐业务管理办法》). The Placement Agent will continue to monitor the progress of the Use of Net Proceeds.

By order of the Board
9 August 2018