TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Company Registration No. 120000000004711)

(Incorporated in People's Republic of China)

Disclosures in relation to the change in use of net proceeds arising from the Proposed Placement

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The board of directors of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Board") collectively and individually accept full responsibility for the accuracy of the information given in this announcement, and confirm after making 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 announcement by the Company on 12 June 2014, 12 August 2014 and 7 January 2015 ("**Prior Announcements**"), as well as the circular dated 1 August 2014 (the "**Circular**") in relation to the Proposed Placement.

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

Change in use of net proceeds and corresponding amendments to the structure of the Proposed Placement (the "Amendments")

The Board wishes to announce that after considering various factors, including the financial position of the Company and the progress of the Proposed Placement, it has decided not to use any proceeds from the Proposed Placement for the Pharmaceutical Logistics Center Project.

Pursuant to Resolution 6 and Appendix 6 of the Circular, the Board is authorised to make any necessary amendments to the structure of the Proposed Placement, if required. Accordingly, the Amendments to the Proposed Placement are as follows:

1. Number of A-Shares to be issued

The maximum number of A-Shares to be issued under the Proposed Placement shall be reduced from 90,000,000 to 65,166,000. The final number of shares to be issued will be determined by the Board through consultation with the Placement Agent of the Proposed Placement, and will be adjusted if an ex-right or ex-dividend matter has occurred during the

period from the base date of pricing (being 27 June 2014) to the date of issuance of the Placement Shares.

2. Amount of proceeds and use of net proceeds

Prior to the Amendments, the total proceeds from the Proposed Placement of up to approximately RMB 1.154 billion, and after deducting the offering expenses of approximately RMB 30.1 million, were planned to be used in the following projects:

No.	Name of project		Total amount required for the project (RMB million)	Amount of net proceeds to be invested (RMB million)
1	Terminal Marketing Network and Promotional System Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Chinese Medicine Extraction and Preparation Project	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
4	Pharmaceutical Logistics Center Project		310.26	310.26
Total			1,320.60	1,124.60

As the proceeds from the Proposed Placement will no longer be used to fund the Pharmaceutical Logistics Center Project, the use of proceeds will be amended as set out below:

No.	Name of project		Total amount required for the project (RMB million)	Amount of net proceeds to be invested (RMB million)
1	Terminal Marketing Network and Promotional System Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Chinese Medicine Extraction and Preparation Project	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
Total			1,010.34	814.34

Accordingly, the total proceeds to be raised from the Proposed Placement will be reduced by RMB 310.26 million, from RMB 1.154 billion to RMB 836.08 million.

Except as described above, there will be no other amendments to the structure of the

Proposed Placement. The issue price of each A-Share will remain unchanged, i.e. not less than RMB 12.83.

Changes to the Plan for the Proposed Placement, Feasibility Analysis Report on the Use of Proceeds, and the announcement dated 7 January 2015

Pursuant to the Amendments to the structure of the Proposed Placement, the Plan for the Proposed Placement (Appendix 4 of the Circular) has been revised to reflect the Amendments. The revised Plan for the Proposed Placement is attached as Annex A of this announcement.

A summary of the revisions to the Plan for the Proposed Placement is set out below:

Chapter	Section	Amendments
Special Reminder	Special Reminder	1. Amended the number of A-Shares to be issued, the total proceeds, and the use of proceeds 2. Deleted the reference to shareholders' approval as this has already been obtained at the EGM dated 18 August 2014
Definitions	Definitions	Deleted the definition of GSP
Section One – Overview of the private placement Plan	II. Background and objective of the private placement	Amended the use of proceeds
	III. Summary of the private placement plan	1. Amended the number of A-Shares to be issued 2. Amended the total proceeds and the use of proceeds
	V. Any change in the Company's control due to the private placement	Amended the number of A-Shares to be issued, and the change in shareholdings after the private placement
	VI. Receipt of authorities' approvals and procedures to be completed	1. Updated the status of the approval process 2. Deleted the reference to shareholders' approval as this has already been obtained at the EGM dated 18 August 2014
Section Two – Feasibility Analysis Report on the Use of Proceeds	I. Use of Proceeds	Amended the use of proceeds
	II. Feasibility analysis of projects to be financed by the proceeds	1. Deleted the feasibility analysis of the Pharmaceutical Logistics Center Project 2. Updated the status of the approval process
	III. Impact of the private placement on the operational management and	Deleted the description of the Pharmaceutical Logistics Center Project

	financial position of the Company	
Section Three – Discussion and Analysis of the Board of Directors on the impact of the private placement on the Company	I. Change in the Company's business and assets integration plan, Articles, shareholding structure, senior management structure and business structure after the private placement	Amended the number of A-Shares to be issued, and the change in shareholdings after the private placement
Section Four Risks Associated with the private placement	VII. Risk associated with the examination and approval of the private placement	Deleted the reference to shareholders' approval as this has already been obtained at the EGM dated 18 August 2014

In addition to the above, corresponding amendments were made to the Feasibility Analysis Report on the Use of Proceeds and the Company's announcement dated 7 January 2015 (attached as Annex B and C of this announcement respectively).

Opinion of the Independent Directors on the Amendments to the structure of the Proposed Placement

Pursuant to Guidance Opinions on the Establishment of Independent Directors Systems by Listed Companies (《关于在上市公司建立独立董事制度的指导意见》) promulgated by China Securities Regulatory Commission ("CSRC"), Code of Corporate Governance for Listed Companies (《上市公司治理准则》) promulgated by CSRC, Rules Governing the Listing of Stocks on Shanghai Stock Exchange（《上海证券交易所股票上市规则》）, other relevant laws and regulations, as well as the Articles of Association of the Company, the independent directors of the Company set out their views below:

After considering various factors, including the financial position of the Company and the progress of the Proposed Placement, the independent directors are of the view that the Amendments to the structure of the Proposed Placement are beneficial to the profitability and market competitiveness of the Company, and are in the interests of the Company and all its Shareholders. In summary, the independent directors agree with the Amendments to the structure of the Proposed Placement, the revised Plan for the Proposed Placement and revised Feasibility Analysis Report on the Use of Proceeds.

By order of the Board of Directors
28 January 2014

Annex A – Amendments to the Plan for the Proposed Placement

Tianjin Zhongxin Pharmaceutical Group Corporation Limited

(Registered Address: No. 17 Baidi Road, Nankai District, Tianjin City)

Plan for the Proposed Placement

(Revised Version)

~~June 2014~~January 2015

Issuer Statement

1. The Company and all the members of the Board of Directors warrant that the information contained in the Plan is true, accurate and complete, and confirm that there are no false representations, misleading statements or material omissions.
2. The Plan is an explanation of the Issuance by the Company's Board of Directors and any statements contrary to it are false statements.
3. Matters described in the Plan do not represent the substantive judgments, confirmations, approvals or authorizations of the examination and approval authorities on matters relating to this Private placement , and the entry into force and completion of matters relating to the Private placement as described in the Plan are still pending for the approval or authorization of relevant authorities. All decisions or opinions made by the CSRC and other government departments regarding the Issuance do not indicate their substantive judgments or guarantees with respect to the share value of the Company or the income of our investors.
4. After the completion of the Private placement of shares, changes in the operation and income of the Company are responsible by the Company; investment risks arising from the Private placement are assumed by investors themselves.
5. Investors in any doubt are advised to consult their stock brokers, lawyers, accountants or other professional advisors.

Special Reminder

1. The Proposed Placement has been approved by the sixth meeting of the Board of Directors of the Company on 26 June 2014 and approved by the extraordinary general meeting of the Company on 18 August 2014.

   Pursuant to *Authorisation from Shareholders to the Board for Matters in relation to the Proposed Placement* approved by the extraordinary general meeting of the Company, the Board of Directors is authorised to make any necessary amendments to the structure of the Proposed Placement.

   ~~Matters relating to the Private placement of A Shares have been considered and passed at the sixth meeting of the Board of Directors of the Company in 2014, pending for the approval of the Tianjin SASAC, the approval of the General Shareholders' Meeting of the Company and the authorization of the CSRC.~~

~~1.~~2. The target investors of the Issuance are not more than 10 designated investors, including qualified investors such as securities investment fund management companies, securities companies, trust and investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors as well as other institutional investors and natural persons that meet the requirements of the CSRC. Where a securities investment fund management company is to subscribe for shares with two or more of its funds, it will be regarded as one investor; where the investor is a trust and investment company, it can only subscribe for shares with its own funds. Upon receipt of the approval of the CSRC on the Private placement , the final investors will be determined according to the subscription conditions and quotations of the investors based on the principle of price priority. All the investors will subscribe for shares in cash.

~~2.~~ The base date of pricing for the Proposed Placement of A Shares is 27June 2014, the date of announcement for 2014 sixth meeting of the Board of Directors of the Company.

3. The issue price shall be not less than RMB12.83, calculated as 90% of the Company's average share price over 20 trading days prior to the base date of pricing (the "**Issue Price**"). The Company's average share price over 20 trading days prior to the base date of pricing was calculated as follows: total trading amount over 20 trading days prior to the base date of pricing/ total trading volume over 20 trading days prior to the base date of pricing.

   Where there is distribution of dividends, issue of bonus shares, transfer of capital reserve into share capital and other ex-right and ex-dividend matters during the period from the date of announcement of the board resolution to the date of issuance of the Placement Shares, the minimum price Issue Price will be subject to corresponding adjustments. After the Company has obtained the approval documents of the CSRC on the Proposed Placement of A Shares, the specific Issue Price will be determined by the Company's Board of Directors and the sponsor (lead underwriter) of the Proposed Placement through consultation based

on price inquiry results.

4. The number of shares to be issued in the Proposed Placement is up to 65,166,000 ~~90,000,000~~ A-Shares. The final number of shares to be issued will be determined by the Board through consultation with the Placement Agent of the Proposed Placement, and will be adjusted if an ex-right or ex-dividend matter has occurred during the period from the base date of pricing to the date of issuance of the Placement Shares.

5. Total proceeds from the Private placement of A Shares amount to not more than RMB ~~1.154 billion~~836.08 million and, after deducting the offering expenses, are planned to be used in the following projects:

NO.	NAME OF PROJECT		TOTAL AMOUNT REQUIRED FOR THE PROJECT (RMB MILLION)	AMOUNT OF NET PROCEEDS TO BE INVESTED (RMB MILLION)
1	Terminal Marketing Network and Promotional system Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Project on Chinese Medicine Extraction and Preparation	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
~~4~~	~~Pharmaceutical Logistics Center Project~~		~~310.26~~	~~310.26~~
Total			~~1,320.60~~1,010.34	~~1,124.60~~ 814.34

Where the amount of net proceeds to be invested falls short of the total amount required for the project, the shortfall will be financed using cash generated internally from the Company's own operations.

Before the receipt of the net proceeds, the Company may invest in the projects using cash generated internally from the Company's own operations. This will be replaced by the net proceeds upon receipt.

On the premise that no change will be made to the list of projects, the Board may make appropriate adjustments to the order of investment and amount of proceeds to be invested in the above projects in accordance with the actual needs of the projects.

6. Pursuant to the requirements set out in the provisions of the *Notification on Further Implementation of Matters Relating to Cash Dividends of Listed*

Companies and the *No. 3 Guidelines for Supervision of Listed Companies – Cash Dividends of Listed Companies* of the CSRC as well as the *Guidelines on Cash Dividends of Listed Companies* of the SSE, relevant provisions in the *Articles of Association* have been revised at the sixth meeting of the Board of Directors of the Company in 2014. The revisions are pending for the approval of the Company's General Shareholders' Meeting. Investors are advised to pay attention to "Section 5 Profit Distribution Policy and Related Conditions" of the Plan which has given explanations on the Company's profit distribution policy, the amount and proportion of cash dividends distributed in the past three years as well as the plan for shareholder return in the next three years.

Contents

Unless otherwise specified herein, the following abbreviations used in the Plan have the following specific meanings:

the Company, Zhongxin Pharmaceutical, issuer	Tianjin Zhongxin Pharmaceutical Group Corporation Limited
Tianjin Pharmaceutical Holdings	Tianjin Pharmaceutical Holdings Ltd.
the Issuance, the Private placement , Private placement	the Private placement of A Shares of Tianjin Zhongxin Pharmaceutical Group Corporation Limited
the Plan	Plan for Private placement of A Shares of Tianjin Zhongxin Pharmaceutical Group Corporation Limited
CSRC	China Securities Regulatory Commission
SSE, the Exchange	Shanghai Stock Exchange
Singapore Exchange	Singapore Exchange Limited
Tianjin SASAC	State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government
Company Law	*Company Law of the People's Republic of China*
Articles	*Articles of Association of Tianjin Zhongxin Pharmaceutical Group Corporation Limited*
General Shareholders' Meeting	the General Shareholders' Meeting of Tianjin Zhongxin Pharmaceutical Group Corporation Limited
Board of Directors	the Board of Directors of Tianjin Zhongxin Pharmaceutical Group Corporation Limited
A Shares	shares of the Company listed on the Shanghai Stock Exchange
S Shares	shares of the Company listed on the Singapore Exchange
RMB, RMB10,000	Renminbi, ten thousand Renminbi
GMP	Good Manufacturing Practice in short, specification for pharmaceutical manufacturing

	quality management
~~GSP~~	~~Good Supplying Practice in short, specification for pharmaceutical business quality management~~
OTC	Over The Counter in short, specifically referring to non-prescription drugs in the pharmaceutical industry

Note: Where the total is inconsistent with the sum of the values listed in the tables of the Plan, it is due to rounding differences.

Section One

Overview of the Private placement Plan

I. Basic information of the issuer

Company name:	天津中新药业集团股份有限公司
Name in English:	Tianjin Zhongxin Pharmaceutical Group Corporation Limited
Legal representative:	Wang Zhiqiang
Date of establishment:	20 December, 1992
Registered capital:	RMB739,308,720.00
Place of listing:	A Shares of the Company are listed on the SSE (A Shares stock code: 600329, A Shares stock abbreviation: Zhongxin Pharmaceutical) and S Shares of the Company are listed on the Singapore Exchange (S Shares stock code: T14, S Shares stock abbreviation: Tianjin ZX)
Address:	No. 17 Baidi Road, Nankai District, Tianjin City
Telephone:	022-27020892
Facsimile:	022-27020926
Email:	zxyy600329@163.com
Scope of business:	processing, manufacturing as well as wholesale and retail distribution of Chinese medicinal materials, Chinese patent medicines, Chinese medicine decoction pieces, western pharmaceutical preparations, chemical and pharmaceutical APIs (3810), chemical and pharmaceutical agents, new herbal medicines, medical equipment, nutritional supplements and chemical reagents; outward processing of Chinese medicine; wholesale and retail distribution of hygiene products, fitness equipment, living and environmental sanitation and disinfection supplies, pharmaceutical skin care products, general merchandise, clothing, footwear, household appliances, daily sundries and tobacco; warehousing, advertising, technology development, transfer, economic information consulting and house rental services; procurement and consignment service for as well as wholesale and retail

distribution of computers, software and analytical instruments; retail distribution of family planning supplies; medical facility rental services; export of products and technologies developed by the enterprise itself; import of operations required for the production of raw and supplementary materials, instruments and meters, machinery and equipment, spare parts and technologies (except goods and technologies that are specified or prohibited by the State for import and export); processing with imported materials and custom manufacturing with materials, designs or samples supplied and compensation trade; acquisition of Chinese medicinal materials; the following businesses are run by branches and sub-branches: manufacturing of medical packaging materials, veterinary medicines, bait additives, feed, bait and animal drugs, manufacturing of feed additives, as well as livestock farming, freshwater plant and animal breeding, catering, conference services; retail distribution of stereotyped packaged food, edible oil, non-staple food and spices; manufacturing of pure water and hygiene products; production and management of stereotyped packaged and bottled drinking water; production and management of beverages, solid beverages and tea beverages; businesses limited to branches and sub-branches: sale of antibiotics and biochemical drugs; medical subjects; medical laboratory, traditional Chinese medicine, internal medicine specialty, pediatric specialty, dermatology professionals, acupuncture professional subjects; sale of biological products, diagnostic medicines and Class 2 psychotropic drugs and preparations; packaging and printing; road transport; procurement and consignment service for wine (Shaoxing wine, alcohol) sugar, tea, beverage products and bee products; wholesale distribution of narcotic drugs (limited to poppy capsules); toxic drugs for medical use; protein anabolic agents and peptide hormones; foods, pre-packaged foods, bulk food products, production and operation of equipment and products for in-house technological R&D (non-pharmaceutical) (any of the above businesses that have provisions required for special franchise by the State are to be handled according to the provisions).

II. Background and objective of the Private placement

(I) Background of the Private placement

The pharmaceutical industry is an important part of China's national economy, playing a crucial role in safeguarding the physical health and life safety of the people. In 2013, the State released *Several Opinions on Promoting the Development of the Health Service Industry* in which, it is planned that, by 2020, a content-rich and well-structured system of health services essentially covering the whole life cycle that basically meets the health service needs of the masses will be established and the total size of the industry will be more than RMB8 trillion. It has been put forward in the *12th Five-year Development Plan for the Pharmaceutical Industry* that the gross output value and the added value of the pharmaceutical industry will grow at average annual rate of 20% and 16% respectively, the scale of production for essential drugs will continue to expand and the level of intensification will be increased significantly, hence effectively meeting the clinical needs and other development goals. Driven by factors including the support from national policies, the growth in population, the accelerated aging process, the continuous strengthening of the basic medical insurance system, the introduction of the new rural cooperative medical system, the publication of a national list of essential drugs and a list of drugs for basic medical insurance, the improvement in the ability to pay among residents and the increasing health service needs of the masses, China's pharmaceutical industry is expected to see sustained and rapid development.

Chinese medicine is the traditional medicine and a cultural treasure of China. In recent years, traditional Chinese medicine and modern medicine have combined to form a system of medical science that is complementary with western medicine and a few modern economic systems with the advantages of independent intellectual property rights have taken shape in the Chinese medicine industry. At the Third Plenary Session of the 18th Central Committee of the Communist Party of China, there were proposals to "improve the policies and mechanisms for the development of the Chinese medicine business", once again elevating Chinese medicine to a strategic height in the overall reform and development plan of the party and the nation for deployment, which has brought new opportunities to the development of the Chinese medicine industry.

The Company is a long-standing large-sized pharmaceutical enterprise group primarily engaging in the pharmaceutical manufacturing and distribution business, characterized by innovations in Chinese medicine. Under the Company, there are "Long Shun Rong", "Da Ren

Tang", "Le Ren Tang" and other traditional time-honored brands. The Company has a complete range of products and resources. At the end of 2013, we had 17 formulations and 466 kinds of preparations, including four national-treasure Chinese drug products, one state-classified drug variety, three state-secret drug products, eight protected Chinese drug products, 101 exclusive drug products, 67 drug products being included in the national list of essential drugs and 267 drug products covered by the national medical insurance. The Company has formed a Chinese medicine industrial structure integrating R&D, production, sales and logistics. In recent years, there has been continuous improvement in our asset quality and profitability as well as an increase in sales revenue and market share. Going forward, the Company will continue to benefit from the rapidly expanding market demand in the pharmaceutical industry and thus will constantly create greater returns for shareholders.

(II) Objective of the Private placement

To seize opportunities for development in the Chinese medicine industry in China, the Company, taking into account new situations and development opportunities, plans to raise funds in the capital markets in order to further develop our main business and strengthen our core competiveness. Funds raised in the Private placement will be closely related to the Company's development strategies and will be used to invest in the following ~~four~~ three projects:

1. Based on the Company's strategy of promoting major drug products, invest the proceeds in the Terminal Marketing Network and Promotional system Project to reverse the Company's marketing weaknesses, build a terminal sales network, establish the concept of regular medication for Suxiao Jiuxin Wan (速效救心丸) and promote the growth in the sales of core drug products.

2. Fully leveraging the geographical advantages of Bozhou as the distribution center of Chinese medicinal materials, invest the proceeds in the construction of Zhongxin Pharmaceutical Bozhou Industrial Park to secure the supply and quality of medicinal materials, extend the Chinese medicine industrial chain of the Company and improve our economic benefits.

3. In accordance with the Company's idea of developing the wellness industry and on the basis that preliminary results have been obtained in the early phase of the functional vegetable beverage business, invest the proceeds in the functional vegetable beverage project with the aim of building our presence in the wellness industry, improving our industrial structure and cultivating new profit growth points.

~~4. Invest the proceeds in the construction of a pharmaceutical logistics center to meet the warehousing and logistics needs arising from the rapid development of the Company's commercial and industrial segments, establish a centralized and modern logistics center in line with the requirements of the new GSP and promote the rapid development of the Company's commercial segment.~~

The implementation of projects that are to be financed out of the proceeds is in line with the development trends of the health service industry and the needs of the Company's development strategies. Through the Private placement , the Company will further enhance the industrial structure, improve profitability, strengthen core competitiveness and improve the ability to withstand risks.

III. Summary of the Private placement Plan

(I) Type and par value of shares to be issued

The Placement Shares are Renminbi ordinary shares (A Shares) to be listed on the Shanghai Stock Exchange. The par value per share is RMB 1.00.

(II) Method and time of issuance

The Placement Shares will be offered to designated investors via a private placement at an appropriate time within 6 months upon receipt of the approval of the CSRC.

(III) Base date of pricing, issue price and pricing method

The base date of pricing for the Proposed Placement of A Shares is 27 June 2014, the date of announcement for sixth meeting of the Board of Directors of the Company.

The issue price shall be not less than RMB12.83, calculated as 90% of the Company's average share price over 20 trading days prior to the base date of pricing (the "**Issue Price**"). The Company's average share price over 20 trading days prior to the base date of pricing was calculated as follows: total trading amount over 20 trading days prior to the base date of pricing/ total trading volume over 20 trading days prior to the base date of pricing.

Where there is distribution of dividends, issue of bonus shares, transfer of capital reserve into share capital and other ex-right and ex-dividend matters during the period from the date of announcement of the board resolution to the date of issuance of the Placement Shares, the minimum price Issue Price will be subject to corresponding adjustments. After the Company has obtained the approval documents of the CSRC on the Proposed Placement of A Shares, the specific

Issue Price will be determined by the Company's Board of Directors and the sponsor (lead underwriter) of the Proposed Placement through consultation based on price inquiry results.

(IV) Number of shares to be issued

The number of shares to be issued in the Proposed Placement is up to 65,166,000 ~~90,000,000~~ A Shares. The final number of shares to be issued will be determined by the Board through consultation with the sponsor (lead underwriter) of the Proposed Placement, and will be adjusted if an ex-right or ex-dividend matter has occurred during the period from the base date of pricing to the date of issuance of the Placement Shares.

(V) Target investors and subscription method

As the Proposed Placement is still subject to the approval of the CSRC, the identity of the investors are not finalised yet. Upon receipt of the approval of the CSRC, the identity of the investors will be determined according to the subscription conditions and quotations of the investors based on the principle of price priority. All the investors will subscribe for shares in cash.

Pursuant to the relevant PRC rules and regulations, there shall not be more than 10 investors, and these investors must be qualified investors such as securities investment fund management companies, securities companies, trust and investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors as well as other institutional investors and natural persons that meet the requirements of the CSRC under the relevant rules and regulations. Where a securities investment fund management company is to subscribe for shares with two or more of its funds, it will be regarded as one investor; where the investor is a trust and investment company, it can only subscribe for shares with its own funds.

(VI) Lockup period

A Shares of the Private placement subscribed for by the target investors are prohibited to be transferred within 12 months from the closing date of the Issuance.

(VII) Amount and purpose of proceeds

7. Total proceeds from the Private placement of A Shares amount to not more than RMB~~1.154 billion~~836.08 million and, after deducting the offering expenses, are planned to be used in the following projects:

NO.	NAME OF PROJECT	TOTAL AMOUNT REQUIRED FOR	AMOUNT OF NET PROCEEDS TO

			THE PROJECT (RMB MILLION)	BE INVESTED (RMB MILLION)
1	Terminal Marketing Network and Promotional system Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Project on Chinese Medicine Extraction and Preparation	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
~~4~~	~~Pharmaceutical Logistics Center Project~~		~~310.26~~	~~310.26~~
Total			1,010.34 ~~1,320.60~~	~~1,124.60~~814.34

Where the amount of net proceeds to be invested falls short of the total amount required for the project, the shortfall will be financed using cash generated internally from the Company's own operations.

Before the receipt of the net proceeds, the Company may invest in the projects using cash generated internally from the Company's own operations. This will be replaced by the net proceeds upon receipt.

On the premise that no change will be made to the list of projects, the Board may make appropriate adjustments to the order of investment and amount of proceeds to be invested in the above projects in accordance with the actual needs of the projects.

(VIII) Distribution of profits retained prior to the Private placement of A Shares

Undistributed profits retained by the Company prior to the placement will be available for distribution amongst the new and existing Shareholders of the Company after the completion of the placement.

(IX) Place of listing

Upon expiry of the lockup period, A Shares of the Private placement will be listed on the Shanghai Stock Exchange.

(X) Effective period of the resolution on the Private placement

The resolution on the Private placement of A Shares is effective within 12 months starting from the date when the resolution was considered and passed at the Company's General Shareholders' Meeting.

IV. Any related party transactions involved in the Issuance

The target investors of the Issuance are not more than 10 designated investors, including securities investment fund management companies, securities companies, trust and investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors as well as other institutional investors and natural persons that meet the requirements of the CSRC. The Company has no intention to introduce shareholders in connection with the Company in the Private placement and that the target investors are not related parties of the Company, therefore the Private placement does not constitute any related party transactions.

V. Any changes in the Company's control due to the ~~Issuance~~private placement

As of the date of announcement of the Plan, Tianjin Pharmaceutical Holdings held 331,111,998 ~~325,610,792~~ shares of the Company, accounting for 44.~~04~~787% of the Company's total share capital. After the Private placement , if measuring based on the upper limit of shares to be issued, the shareholding percentage of Tianjin Pharmaceutical Holdings will be reduced to 41.159~~39.26~~%, still the controlling shareholder of the Company. Thus, the Issuance will not cause any changes to the Company's control.

VI. Receipt of authorities' approvals and procedures to be completed

The Private placement of A Shares ~~have~~ has been approved by the sixth meeting of the Board of Directors of the Company on 26 June 2014, approved by the extraordinary general meeting of the Company on 18 August 2014 and approved by Tianjin SASAC. The revision to the Plan for the Proposed Placement has been approved by first board meeting of the Company in 2015. In accordance with relevant laws and regulations, the Proposed Placement is now ~~considered and passed at the sixth meeting of the Board of Directors of the Company in 2014,~~ pending ~~for the approval of the Tianjin SASAC, the approval of the General Shareholders' Meeting of the Company and~~ the ~~authorization~~ approval of the CSRC.

Upon receipt of the approval of the CSRC, the Company will apply to the SSE and the Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. for issuance and listing of shares to complete the process of approval for the Private placement .

Section Two

Feasibility Analysis Report on the Use of Proceeds

I. Proceeds usage plan

8. Total proceeds from the Private placement of A Shares amount to not more than RMB~~1.154 billion~~836.08 million and, after deducting the offering expenses, are planned to be used in the following projects:

NO.	NAME OF PROJECT		TOTAL AMOUNT REQUIRED FOR THE PROJECT (RMB MILLION)	AMOUNT OF NET PROCEEDS TO BE INVESTED (RMB MILLION)
1	Terminal Marketing Network and Promotional system Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Project on Chinese Medicine Extraction and Preparation	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
~~4~~	~~Pharmaceutical Logistics Center Project~~		~~310.26~~	~~310.26~~
Total			1,010.34 ~~1,320.60~~	814.34 ~~1,124.60~~

Where the amount of net proceeds to be invested falls short of the total amount required for the project, the shortfall will be financed using cash generated internally from the Company's own operations.

Before the receipt of the net proceeds, the Company may invest in the projects using cash generated internally from the Company's own operations. This will be replaced by the net proceeds upon receipt.

On the premise that no change will be made to the list of projects, the Board may make appropriate adjustments to the order of investment and amount of proceeds to be invested in the above projects in accordance with the actual needs of the projects.

II. Feasibility analysis of projects to be financed by the proceeds

(I) Terminal Marketing Network and Promotional System Project

1. Background information of the project

The project aims to build a terminal marketing network as well as an academic and advertising promotional system for core drug products based on Zhongxin Pharmaceutical's strategy of promoting major drug products. The implementation of the project is responsible by the Company. The total amount of investments is RMB310.42 million. The project will be implemented for three years. The amount of proceeds to be used will be RMB310.42 million.

2. Necessity of the project investment

(1) Need to bring the Company's drug products advantages into full play to reverse marketing weaknesses

At the end of 2013, the Company had 17 formulations and 466 kinds of preparations, including four national-treasure Chinese drug products, one state-classified drug variety, three state-secret drug products, eight protected Chinese drug products, 101 exclusive drug products, 67 drug products being included in the national list of essential drugs and 267 drug products covered by the national medical insurance. The Company has formed a series of product groups, including Suxiao Jiuxin Wan (速效救心丸) and Tongmai Yangxin Wan (通脉养心丸) representative of cardiovascular drugs, Qingyan Diwan (清咽滴丸) and Qingfei Xiaoyan Wan (清肺消炎丸) representative of respiratory drugs, Weichang An (胃肠安) and HuoxXiang Zhengqi Ruanjiaonang (藿香正气软胶囊) representative of gastrointestinal drugs as well as Zi Long Jin (紫龙金) and Shengxue Wan (生血丸) representative of anti-tumor drugs. The drug products and product mix advantages are our cornerstone for development and core competitiveness. However, given differences in marketing methods, marketing networks, marketing capabilities and promotional systems, market share and sales volume of the Company's core drug products are out of line with their market visibility and presence, hence severely restricting the Company's sales revenue growth and profitability improvement.

(2) Need to make up for the marketing blank of Suxiao Jiuxin Wan (速效救心丸) in the end-user market to establish the awareness of

"regular medication" among patients

Affected by the conventional marketing model of "focusing on business and neglecting treatment", marketing of Suxiao Jiuxin Wan (速效救心丸), the pillar product of the Company, has always been carried out in a business approach. Although sales revenue of Suxiao Jiuxin Wan (速效救心丸) has steadily increased in recent years, the control over terminal sales is extremely weak. Prior to 2013, there was basically no control over terminal sales and terminal sales under control accounted for less than 15% of total sales in 2013, severely capping the growth in sales of the product. Moreover, due to the lack of systematic academic promotions, the product is considered by the market as first-aid medicine given its Chinese name "Suxiao". In fact, Suxiao Jiuxin Wan (速效救心丸) can help circulate blood, clear stasis and relieve pain. It can also increase coronary blood flow, relieve angina, improve heart function and produce anti-oxidation effects. At the same time, it is an effective and safe drug for circulating blood and clearing stasis suitable for regular medication. Therefore, it is urgent for the Company to build a terminal marketing network with focus on Suxiao Jiuxin Wan (速效救心丸) so as to make up for the marketing weaknesses in graded hospitals and establish the idea of regularly taking the drug.

(3) Need to promote the growth of the Company's core prescription drugs sales

Core prescription drugs of the Company involve a high degree of science and technology, providing conditions for secondary development and clinical re-validation. However, in the past operations, after core prescription drugs are launched in the market, there was a lack of systematic R&D as well as a coherent and systematic after-launch re-evaluation and that technical information and promotional materials could not keep up with technological innovations and changes in the industry, hence capping the sales of our core products. Therefore, stepwise construction of a system for promoting potential prescription drugs in the medical system through systematic testing is an effective way to drive revenue growth for our core prescription drugs.

(4) Need to rapidly increase OTC core products sales

Qinggong Shoutao Wan (清宫寿桃丸) is a product exclusive to the Company and its traditional production techniques are included in the list of national intangible cultural heritage. It is an exclusive essential drug product of the Company which is included in the list of essential drugs. The product is a non-prescription drug and is available OTC. Through enhanced advertising programs on OTC core products, the Company can increase the market presence of such products and deepen their impression among patients to promote the rapid growth of our OTC product lines.

3. Investment budget and details of the project

The total amount of investments for the project is RMB310.42 million, including RMB180.45 million for the construction of a terminal marketing system, RMB55.88 million for the academic marketing of prescription drugs with potential and RMB74.09 million for the enhanced advertising programs on OTC core products.

The terminal marketing system construction is mainly focused on Suxiao Jiuxin Wan (速效救心丸), aiming at major cities in China where academic promotional teams will be built, academic promotional channels will be developed, an expert network system will be formed and a grand terminal marketing network for the medical sector will be established in order to compensate for the lack of promotions on Suxiao Jiuxin Wan (速效救心丸) in graded hospitals and to increase the rate of prescription for clinical use. At the same time, the project will carry out clinical observations on the idea of "regular medication" for Suxiao Jiuxin Wan (速效救心丸) and, through experiments of pharmacology and pharmacodynamics, conduct practical demonstrations to extend the awareness towards Suxiao Jiuxin Wan (速效救心丸) from "first aid" to "regular medication" in the medical system and among patients, hence further expanding the scope of application of the drug. Furthermore, through the building of primary care and clinical promotional teams, the project will expand coverage of the primary terminal market to promote the clinical usage and regular taking of Suxiao Jiuxin Wan (速效救心丸), effectively occupying the cardiovascular market in the primary care sector.

Academic marketing of potential prescription drugs will be

implemented with focus on clinical and pharmacodynamic experiments on Suxiao Jiuxin Wan (速效救心丸), clinical and pharmacological experiments on Tongmai Yangxin Wan (通脉养心丸), clinical re-validation experiments on Zi Long Jin (紫龙金), research experiments on bioactive components of Longqing Pian (癃清片) as well as clinical observations and experiments on New Jin Qi Jiang Tang Pian (新金芪降糖片), with the objective of driving clinical and hospital terminal sales through academic experiments.

Enhanced advertising programs on OTC core products will mainly be implemented by increasing efforts in the advertising promotion of Qinggong Shoutao Wan (清宫寿桃丸) and Qingyan Diwan (清咽滴丸) to improve the brand awareness and reputation of the Company's core OTC products, with the objective of driving OTC terminal sales through publicity.

4. Project economic evaluation

Implementing the project will reverse the Company's weaknesses in the terminal marketing network and promotional system and thus will expand the sales of existing operations of the Company. The implementation of the project will promote sales revenue growth of the Company's core drug products and improve profitability. No economic evaluation of the project alone will be conducted.

5. Project examination, approval and registration

The project is not a fixed asset investment project. It neither requires any project construction approval or registration nor environmental impact assessment. And no additional land is involved.

(II) Bozhou Industrial Park Construction Project

1. Background information of the project

The project plans to build Zhongxin Pharmaceutical Bozhou Industrial Park in Bozhou, including two sub-projects, the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation. The total amount of investments is RMB400 million and the construction period is one and a half years, among which, RMB250 million in the project on Chinese medicine extraction and preparation and RMB150 million

will be invested in the project on Chinese medicine decoction pieces. The implementation of the project is responsible by Tianjin Da Ren Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd., a 51%-owned subsidiary of the Company. The amount of proceeds to be used in the two sub-projects will be RMB204 million in total. After the proceeds have been paid in, the Company and the other shareholders of Tianjin Da Ren Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd. will invest in the project on a pro-rata basis in accordance with each of their shareholding proportion in the form of share capital increase.

2. Necessity of the project investment

(1) Need to fully leverage the geographical advantages of Bozhou to ensure the supply of Chinese medicinal materials and the quality of products

Bozhou is China's largest distribution and trading center of Chinese medicinal materials and an important base for the planting of Chinese medicinal materials. The Company is a large-sized listed Chinese medicine company with prominent domestic competitive advantages. In 2013, the Company's sales revenue from 25 major drug products amounted to RMB1.845 billion, with five of them generating sales revenue of more than RMB100 million. The Company requires large quantities of Chinese medicinal materials for our industrial production and therefore investing in the construction of Zhongxin Pharmaceutical Bozhou Industrial Park is necessary. Fully leveraging the geographical advantages of Bozhou as a distribution center of Chinese medicinal materials may not only ensure the supply but also effectively the quality of Chinese medicinal materials, hence ensuring the quality of the Company's products.

(2) Need to build a Chinese medicinal materials pre-processing base in Bozhou to improve the Company's economic benefits

According to the requirements of the *Pharmacopoeia of the People's Republic of China (2010 Version)* on the management of medicinal raw materials of Chinese patent medicines, Chinese medicine should be dispensed with either clean medicinal materials or Chinese medicine decoction pieces and that Chinese medicinal materials are not allowed to be directly used as medicine. In converting general medicinal materials into clean medicinal materials or Chinese medicine decoction pieces, it has to go through a number of processes, including selection, washing, cutting, drying, steaming, frying, calcining, broiling and grinding, and according to the GMP standard for drugs, a relatively large site

area is necessary for setting up the pre-treatment plant, which has increased the production time and cost of Chinese patent medicine. At the same time, most of the Chinese medicinal materials themselves are the roots, stems, leaves, flowers and fruits of plants which are big in size, hence the cost of storage, management and transportation is relatively high. Building a Chinese medicinal materials pre-processing base in the Chinese medicine distribution center Bozhou and pre-processing medicinal materials at the source of medicinal materials can effectively reduce the cost of storing, managing and transporting the materials. In addition, large-scale centralized procurement at the Chinese medicine distribution center can strengthen the Company's bargaining power to reduce raw materials purchasing costs.

(3) Need to extend the Chinese medicine industrial chain to improve the added value of Chinese drug products

The national list of essential drugs in 2009 has included Chinese medicine decoction pieces, providing favourable opportunities for the development of Chinese medicine decoction pieces. Chinese medicine decoction pieces are one of the three pillars of the Chinese medicine industry and an important raw material of Chinese patent medicine. With the continuous improvement and maturity of its processing theory, today it has become an important means of clinical disease prevention and healing in traditional Chinese medicine. In recent years, the Chinese medicine decoction pieces industry has maintained a momentum of stable growth and there is broad room for development. It is necessary for the Company to implement the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation in Bozhou in order to extend our Chinese medicine industrial chain, enrich our Chinese medicine product mix, improve the added value of our Chinese drug products and improve the Company's profitability.

3. Investment budget and details of the project

The project plans to build Zhongxin Pharmaceutical Bozhou Industrial Park in Bozhou. The total amount of investments is RMB400 million and the amount of proceeds to be used will be RMB204 million, covering the two sub-projects, the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation.

(1) Chinese medicine extraction and preparation sub-project

The total amount of investments in the sub-project is RMB250

million, including construction investments of RMB236.96 million and initial working capital of RMB13.04 million. The project occupies an area of approximately 80,000 square meters. The project mainly includes the construction of production workshops, extraction workshops, warehouses (for raw materials, semi-finished products and finished products), office complex and other supporting facilities, the purchase of Chinese medicine extraction equipment, production and packaging equipment for tablets, granules, decoction agents as well as hard capsules and pills, inspection and testing equipment, environmental protection facilities and other ancillary equipment, as well as ancillary road construction, greening, drainage, electricity and other ancillary works.

(2) Chinese medicine decoction pieces sub-project

The total amount of investments in the sub-project is RMB150 million, including construction investments of RMB136.95 million and initial working capital of RMB13.05 million. The project occupies an area of approximately 48,000 square meters. The project mainly includes the construction of production workshops, extraction workshops, warehouses (for raw materials, semi-finished products and finished products), quality inspection office complex and supporting facilities as well as other auxiliary buildings, the purchase of equipment for Chinese medicine decoction pieces, packaging equipment as well as inspection and testing equipment, ancillary road construction, greening, drainage, electricity, fire protection and other ancillary works.

4. Project economic evaluation

After measuring, the internal rate of return (after tax) for the Chinese medicine extraction and preparation sub-project is 18.28% and the payback period (after tax) is 7.27 years (excluding construction period).

The internal rate of return (after tax) for Chinese medicine decoction pieces sub-project is 19.13% and the payback period (after tax) is 7.3 years (excluding construction period).

5. Status of project approval

The project ~~is currently being processed by competent government departments for~~has completed the registration and environmental assessment. The project will be built on land owned by Tianjin Ren Da Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd. and thus no additional land has to be acquired.

(III) Wellness and Functional Vegetable Beverages Project

1. Background information of the project

To build our presence and to enrich our product lines in the wellness industry, the Company plans to build a production project with an annual output of 50,000 tonnes of functional vegetable beverages. The implementation of the project is responsible by the Company. The total amount of investments is RMB292.22 million and the construction period is two years. The amount of proceeds to be used will be RMB299.92 million.

Necessity of the project investment

(1) Need to build the Company's presence in the wellness industry to improve our industrial structure

With the continuous improvement in people's living standards and awareness towards food safety, public health needs and concerns have been rising and this has provided immense room for the development of the wellness industry. It has been clearly proposed in the *12th Five-year Development Plan for the Food Industry* to "vigorously develop tea beverages, juices and juice beverages, coffee beverages, vegetable juices and beverages, vegetable protein beverages and cereal beverages". It is also put forward in the *Catalogue for Guiding Industry Restructuring (2011 Version)* to encourage the development and production of hot juices, berry juices, cereal beverages, herbal beverages, tea concentrates, tea powder, vegetable protein beverages and other high-value-added vegetable beverages as well as the construction of processing and raw materials bases. The support of national policies brings opportunities for the development of vegetable health beverages.

Competitive Chinese medicine enterprises that expand their advantages in terms of brand, quality, R&D, process control and other areas to the wellness industry find it easier to gain consumer trust and recognition and the broad room for development of the wellness industry will certainly bring huge returns to competitive enterprises in the industry. It is necessary for Zhongxin Pharmaceutical to build the project in order to build our presence in the wellness industry, enrich the Company's product mix, improve our industrial structure and cultivate new profit growth points.

(2) Need to rapidly develop the Company's existing wellness and functional vegetable beverages

In 2012, on the basis of the traditional sweet-sour plum juice formula, the Company after independent research and considering

the common origins of medicine and food, selected authentic materials and adopted a stringent drug management model to produce an improved sweet-sour plum juice (named as “Plum Impression” and “Plum Taste”) of pure taste which is good for stimulating appetite and digestion by adding reasonable quantities of extracts of Chinese medicine decoction pieces and using rock sugar without preservatives and flavouring essences based on ancient methods. The product was well received by consumers after launch and showed good momentum of development. In 2014, on the basis of the launch of the sweet-sour plum juice beverage and the initial success achieved and in view of the seasonal characteristics of sweet-sour plum juice as a summer drink, the Company, through independent research, introduced pear juice (named as “Pear Impression” and “Pear Taste”), a vegetable beverage catering for the autumn and winter season to meet consumer demand for lung nourishing products in dry and hazy days during autumn and winter.

The sweet-sour plum juice and the newly-launched pear juice of the Company are being produced on an OEM basis. To ensure the quality of the products, the production lines are put under management of the Company. With the sharp increase in the sales of the sweet-sour plum juice and the gradual promotion of the pear juice, the Company’s OEM production lines are no longer able to meet the needs of the Company for beverage production capacity. At the same time, to further ensure production quality, it is urgent for the Company to build new beverage production lines of its own to meet our vegetable beverage production needs.

(3) Need to enrich the Company’s wellness and functional vegetable beverage product lines

To enrich its wellness and functional vegetable beverage product lines and to provide consumers with multiple functional health beverages, the Company plans to develop jujube beverages effective for tonifying blood and restoring vital energy, blueberry beverages effective for protecting eyesight and nourishing the skin, pumpkin juice beverages effective for reducing blood sugar, manyprickle acanthopanax root beverages effective for stabilizing the mind, schisandra chinensis beverages effective for maintaining a healthy heart and protecting the liver and honeysuckle flower beverages effective for clearing away damp-heat and eliminating toxic materials and so forth to form series of health beverage products of the Company. R&D for these products has to be supported by the Company with spending dedicated to R&D.

(4) Need to improve the Company's presence and sales revenue in the functional vegetable beverage product market

Since the launch of the Company's sweet-sour plum juice products in the market, product sales have risen rapidly. However, when compared with the mature beverage products, market visibility and influence of the Company's products are still insufficient. To deepen the impression among consumers and to rapidly improve the market share and sales revenue of our vegetable beverages, the Company needs to make appropriate investments in advertising and promotion in order to promote product sales revenue growth.

2. Investment budget and details of the project

The total amount of investments in the project is RMB299.92 million, including construction investments of RMB182.3 million, initial working capital of RMB6.92 million, new product R&D investments of RMB30 million as well as channel and promotional investments of RMB80 million. The project occupies an area of approximately 10,000 square meters. The project mainly includes the construction of new beverage production plants, warehouses for raw materials and finished products, power rooms and ancillary facilities, the purchase of water purification systems, equipment for production lines for PET products, pop cans and glass bottles.

3. Project economic evaluation

After measuring, the internal rate of return (after tax) for the project is 20.33% and the payback period (after tax) is 7.05 years (excluding construction period).

4. Status of project examination, approval and registration

The project is ~~currently being processed by competent government departments for~~has completed the registration and environmental assessment. The project will be built on land owned by the Company and thus no additional land has to be acquired.

~~(IV) Pharmaceutical Logistics Center Project~~

~~1. Background information of the project~~

~~The project aims to build a pharmaceutical logistics center based on Zhongxin Pharmaceutical's strategy for a stronger presence in the commercial pharmaceutical business and the need to meet the requirements of the new GSP certification. The implementation of the project is responsible by the Company. The total amount of investments is RMB310.26 million and the construction period is 1.5 years. The implementation of the project will be responsible by the~~

Company. The amount of proceeds to be used will be RMB310.26 million.

2. Necessity of the project

(1) Need to meet the Company's expansion in the pharmaceutical commercial business and the requirements of GSP for transformation

The *National Development Plan for the Pharmaceutical Distribution Industry (2010-2015)* has defined the overall development objectives of the pharmaceutical distribution industry during the "12th Five-year Plan" period, incorporating the enhancement of industry concentration, the improvement of pharmaceutical distribution networks, the safeguarding of emergency drug supply, the development of modern pharmaceutical logistics and the improvement of pharmaceutical distribution efficiency as the main tasks in developing the industry, promoting inter-regional development of strong pharmaceutical distribution enterprises with high management standards and reputation to form a pharmaceutical distribution system covering cities and villages with national and regional backbone enterprises being the mainstay of the structure, as well as making use of information to drive the development of modern pharmaceutical logistics and transforming conventional pharmaceutical logistics methods by means of modern science and technology. In the coming period, driven by new healthcare reforms and various kinds of policies, commercial pharmaceutical enterprises with strong delivery capabilities, broad coverage and low distribution costs will get a head start in the competition. The Company ranks among the top in the pharmaceutical commercial business in Tianjin and it is necessary for the Company to implement the project in order to adjust to the development trends and policy requirements of the pharmaceutical distribution industry and to build a strong presence of the Company in the pharmaceutical commercial segment.

At present, the Company's warehouse in Baidi Road occupies an area of only 5,000 square meters. In 2013, sales revenue from the merchandise allocating business and large-sized medical end-users had exceeded RMB5 billion while all warehousing and transportation tasks were undertaken and completed by the Company's warehouse in Baidi Road. Given the insufficient area of the warehouse and the presence of considerable partitions within storerooms which is not conducive to effectively releasing storage space and handling bulk cargoes, the Company's storage area is no longer able to meet the development needs of the Company in

the pharmaceutical commercial segment.

Pursuant to the *Notification of the State Food and Drug Administration on the Implementation of the Revised Good Supply Practice (Shiyao Jianyao Huajian [2013] No. 32)*, by the end of 2015, all work concerning the implementation of the revised GSP has to be fully completed. All pharmaceutical enterprises must meet the requirements of the revised GSP and, starting from 1 January 2016, those who fail to meet such requirements will not be allowed to continue their pharmaceutical business activities. The logistics center of the Company's pharmaceutical commercial segment is situated in Baidi Road, Nankai District, Tianjin. Built in the 1990s, the center has not yet undergone any large-scale reconstruction in the past 20 years. The warehouse conditions are no longer able to meet the new GSP certification standards and thus there is the need for reconstruction.

The Company plans to build a pharmaceutical logistics center and warehousing facility in the Beichen District to fully leverage the traffic advantages of Beichen so as to form a seamless connection with the main producing areas of pharmaceutical products in Beijing, Tianjin and the Hebei Province, hence consolidating the Company's leading position among pharmaceutical commercial distribution enterprises in the region. The pharmaceutical logistics center project is necessary for the Company, on one hand, to build its presence in the pharmaceutical commercial segment in order to meet the needs for continuous development of the pharmaceutical business and industry and, on the other hand, to put the new GSP certification into practice.

(2) Need to meet the GSP certification requirements on pharmaceutical industrial warehouses to achieve intensive management

In recent years, the Company's strategy of focusing on major drug products has achieved significant results and sales revenue from our industrial segment has grown rapidly. The Company's storage and logistics needs for industrial products are on the rise and some enterprises store their finished products in leased warehouses, hence increasing the Company's difficulty in managing pharmaceutical storage and logistics as well as the operating costs. The current warehouse area and logistics system are no longer able to meet the development needs of industrial enterprises. At the same time, all the companies of our pharmaceutical industrial segment are similarly in face of the GSP certification requirements on warehousing environment. According to the new provisions,

~~standalone storerooms are not allowed to be smaller than 2,000 square meters in size. All of the Company's existing pharmaceutical industrial warehouses need to be reconstructed, correspondingly reconstruction costs would be relatively high and that it is not conducive to intensive and unified management.~~

~~Therefore, it is urgent for the Company to build a unified, concentrated and modernized pharmaceutical logistics center with high throughput capacity. Expanding the Company's storage area, improving distribution capacity and efficiency and improving distribution and operational capabilities to achieve automated shelving, transfer, sorting and shipping at the distribution center with the aim of reducing logistics costs, increasing utilization of storage resources and improving operational efficiency and accuracy. The construction of this logistics and distribution center may help achieve the Company's centralized management of pharmaceutical industrial warehouses while meeting the Company's needs for development in the pharmaceutical commercial business in the coming period.~~

~~(3) Relatively huge working capital in demand in the pharmaceutical commercial segment~~

~~The pharmaceutical logistics, distribution and wholesale industries are capital intensive industries. Centralized bulk purchases, prepaid purchasing expenses, partial storage, longer selling cycles and other operating characteristics have determined the relatively big demand for working capital from the pharmaceutical logistics, distribution and wholesale business. On one hand, the Company needs to ensure the required distribution for upstream suppliers. On the other hand, the Company's wholesale distribution to various major hospitals in the region is mainly carried out through tendering and the accounts receivable collection period is generally four to six months. In building presence in the pharmaceutical commercial segment, the Company must have long-term and stable sources of funding to meet the working capital needs of the logistics and wholesale business. Therefore, a certain amount of working capital has to be prepared for the project.~~

~~3. Investment budget and details of the project~~

~~The total amount of investments in the project is RMB310.26 million, including construction investments of RMB190.26 million and working capital of RMB120 million. The project occupies an area of approximately 35,000 square meters. The project mainly includes the construction of an automated storage and retrieval system, storehouses, drug stores, offices and ancillary facilities. It also~~

~~covers the construction of six major systems, the shelving system, the transmission system, the sorting system, the computer information management system, the cold chain system as well as the air-conditioning and temperature monitoring system and fire protection system. Upon completion of the project, the pharmaceutical logistics center may be able to support an annual sales volume of RMB10 billion.~~

~~4. Project economic evaluation~~

~~After measuring, the internal rate of return (after tax) for the project is 14.17% and the payback period (after tax) is 7.19 years (excluding construction period).~~

~~5. Status of project examination, approval and registration~~

~~The project is currently being processed by competent government departments for registration and environmental assessment. The project will be built on land owned by the Company and thus no additional land has to be acquired.~~

III. Impact of the Private placement on the operational management and financial position of the Company

(I) Impact of the Private placement on the Company's Operational Management

Funds raised in the Private placement will be mainly used in the Terminal Marketing Network and Promotional System Project, the Bozhou Pharmaceutical Industrial Park Project~~,~~ and the Functional Vegetable Beverages Project~~ and, the Pharmaceutical Logistics Center Project.~~ The Private placement will help the Company seize development opportunities in the pharmaceutical industry during the "12th Five-year Plan" period and, through the implementation of the above projects, the Company will further increase the sales and market share of our core drug products, improve our Chinese medicine raw materials extraction and processing capabilities, strengthen our production capacity and promotional efforts in wellness and functional vegetable beverages~~ and build an effective and modernized logistics and distribution system~~, thereby substantially improving the Company's core competitiveness, market share and brand presence, further enhancing the Company's industrial structure and product mix, reinforcing the Company's profitability and ability to withstand risks, thus the Private placement is conducive to achieving and safeguarding the long-term interests of shareholders.

(II) Impact of the Private placement on the Company's Financial Position

Upon completion of the Private placement , total and net assets of the

Company will be further solidified. Our capital strength will be significantly improved and our asset and liability structure will become more reasonable. There will be a notable increase in the Company's operating revenue and net profit and our profitability will be further enhanced, thus the Company's overall financial position will be greatly improved.

Section Three

Discussion and Analysis of the Board of Directors

on the Impact of the Private placement on the Company

I. Change in the Company's business and assets integration plan, Articles, shareholding structure, senior management structure and business structure after the Private placement

(I) Any plan for the integration of the Company's businesses and assets after the Private placement

Funds raised in the Private placement will be mainly used in the Terminal Marketing Network and Promotional System Project, the Bozhou Pharmaceutical Industrial Park Project, the Wellness and Functional Vegetable Beverages Project~~ and the Pharmaceutical Logistics Center Project~~. After the Private placement , no change will occur to the Company's main business. All projects to be financed by the proceeds will be undertaken in the Company's main areas of business. They will help the Company further enhance our advantages in the main business and will not produce any adverse effects on the scope and structure of the Company's main business. There is no plan for business and assets integration in the Private placement .

(II) Impact on the *Articles*

Upon completion of the Private placement , the Company will revise provisions relating to registered capital and share capital in the *Articles* according to the actual issuance situation.

(III) Change in the shareholding structure

After the Private placement , changes will occur to the Company's shareholding structure. We expect there will be an increase of not more than 65,166,000 ~~90 million~~ tradable shares with restricted trading conditions.

Prior to the Private ~~placement ,~~placement, Tianjin Pharmaceutical Holdings directly holds 331,111,998 ~~325,610,792~~ shares of the Company, accounting for 44.~~04~~787% of the Company's total share capital. If measuring based on the upper limit of shares to be issued in the Private placement , after the Private placement , Tianjin Pharmaceutical Holdings would hold ~~39.26~~41.159% of the Company's new total share capital, still the controlling shareholder of the Company. Thus, the Issuance will not cause any changes in the Company's control.

(IV) Impact on the senior management structure

The Company will not make any adjustments to senior management because of the Private placement .

(V) Impact on the business structure

The Private placement will not produce any material impact on the Company's business structure.

II. Change in the Company's financial position, profitability and cash flow after the Issuance

(I) Impact on the Company's financial position

After the Private placement is completed, the Company's total and net assets will increase substantially. Our capital strength will be further improved and gearing ratio will decline, conducive to reducing the Company's financial risks and improving our solvency, hence enhancing the Company's overall financial position.

(II) Impact on the Company's profitability

The Private placement, on one hand, will improve the Company's capital strength and reduce finance costs, conducive to the enhancement of the Company's profitability; on the other hand, it will provide strong capital support to the Company's implementation of development strategies, beneficial for the Company in continuously improving competitiveness and profitability.

(III) Impact on the Company's cash flow

Upon completion of the Private placement , there will be an increase in cash inflows from the Company's financing activities. As the projects to be financed by the proceeds are put into operation and beneficial results are achieved, cash outflows from investing activities and cash inflows from future operating activities will increase.

III. Change in the Company's business and management relationships, related party transactions and peer competition with the controlling shareholder and its related parties

After the Private placement is completed, no material change will occur to the Company's business and management relationships with the controlling shareholder, the de factor shareholder and their related parties. In the process of implementation of projects to be financed by the proceeds, where any related party transaction is involved, the Company will perform corresponding procedures and make a disclosure of information in accordance with the requirements of the CSRC, the SSE and other laws and regulations. The Company will not engage in any peer competition with the controlling shareholder, the de factor shareholder and their related parties as a result of the Issuance.

IV. Any incident that the Company's funds and assets would be taken over by the controlling shareholder and its related parties or the Company would provide guarantees for the controlling shareholder and its related parties after the Issuance

Upon completion of the Private placement , all capital transactions between the Company and the controlling shareholder, the de factor shareholder and their related parties are normal business dealings. No incident that the Company's funds and assets would be misappropriated or the Company would provide guarantees for the de facto shareholder, the controlling shareholder and their related parties against the rules will occur.

V. Impact of the Issuance on the Company's liabilities

Projects to be financed by proceeds of the Private placement will substantially increase the Company's net assets and will not lead to an increase in the Company's liabilities. This will help the Company to lower gearing ratio, reduce financial risks and improve the Company's solvency.

Section Four

Risks Associated with the ~~Issuance~~private placement

In assessing the shares to be offered by the Company in the Private placement, in addition to other information provided in the Plan, investors are advised to pay particular and conscientious consideration to the following risk factors.

I. Industrial policy risks

Since the publication of the *Opinions on Deepening the Reform of the Medical and Health Care System* of the CPC Central Committee and the State Council in 2009, the State has successively announced a series of supporting systems, including the *Implementation Opinions on the Establishment of National Essential Drug System*, the *National List of Essential Drugs* and *Guidance Opinions on the Establishment and Regulation of Essential Drugs Procurement System of Government-run Primary Care and Health Institutions*. In April 2014, the State announced the *Opinions on Ensuring the Proper Supply of Common Low-cost Drugs* to improve the management of prices of low-cost drugs. The full-scale introduction of pharmaceutical and health care system reforms will produce profound impact on the overall pharmaceutical industry and these reform measures will create uncertainty to the raw material procurement, production and manufacturing, pharmaceutical distribution, pricing and other aspects of the Company.

II. Risk of pharmaceutical price cuts

According to relevant national provisions on the management of pharmaceutical prices, the State will classify drugs into original and generic drugs as well as new/branded drugs and general drugs for pricing to observe the law of “high price for high quality”. Government pricing will be implemented for any drug included in the *National List of Drugs for Basic Medical Insurance* and the highest retail price will be determined by the competent pricing department. Prices will be timely adjusted according to the production and operating costs of enterprise, market supply and demand, changes in the actual maximum mark-up in the distribution channels and other circumstances. Over the years, the competent pricing department adjusted the highest retail prices of pharmaceuticals downward several times. Moreover, with the official implementation of the *List of Essential Drugs (2012 Version)* since 1 May 2013, purchasing essential drugs through tendering is further promoted and pharmaceutical prices are expected to face further downside risk going forward. The decline in pharmaceutical prices will produce adverse impact on the Company’s operating revenue and profitability.

III. Risk of rising raw material prices

In recent years, Chinese medicinal materials have experienced relatively great price fluctuations and have shown an evident upward trend in prices. The

prices of all major medicinal materials that are used in relatively large quantities for the Company's Chinese patent drug products have increased significantly. As the cost of planting, harvesting and processing climbs, there is the risk of further increase in the cost of raw materials of Chinese medicinal materials.

IV. Management risks

Upon completion of the Private placement , the size of the Company's assets will further increase. The Company has built a relatively standardized management system and currently the operating and management system is functioning well. However, with the receipt of the proceeds, the Company will face greater difficulty in decision making, operational implementation and risk control and higher standards are set for the Company's management. Therefore, there is the management risk of whether the Company could establish a more prefect internal regulating mechanism to ensure enterprise business continuity.

V. Risk of declining ROE and EPS

After the Private placement is completed, the Company's net assets per share will increase substantially while a certain period of time is still required to construct the projects financed by the proceeds. Therefore, the Company's rate of return on equity is expected to decline during the construction period. If the speed of improvement in the Company's business performance is behind that of share capital expansion, the Company's earnings per share will be reduced, hence producing a negative impact on shareholders' equity.

VI. Risk associated with projects to be financed by the proceeds

Before determining to invest in the projects that will be financed by the proceeds, the Company has conducted a full-scale demonstration of the necessity and feasibility of the projects and has started to strengthen our operational capacity. However, all relevant demonstrations are conducted based on the prevailing conditions, including the Company's development strategies, market environment and national industrial policies. Given the rather large investments in the projects, there are relatively great uncertainties in the market situation going forward and the risk of not able to achieve the expected revenue and profit targets remains even after the projects are put into operation. In addition, during the implementation of the projects, it is possible for various unforeseen factors or force majeure events to occur which may lead to failure to complete the projects as according to time schedule and quality standards, thereby affecting the Company in achieving the development targets.

VII. Risks associated with the examination and approval of the Private placement

The Private placement is still pending ~~for~~ the ~~approval of the Tianjin SASAC as~~

~~well as the examination and passing at the General Shareholders' Meeting of the Company, subject to the~~ approval of ~~competent departments such as~~ the CSRC. There are uncertainties as to whether it can be approved or when it can obtain the final approval.

VIII. Risk of share price fluctuations

The Company's shares are listed on the SSE and the Singapore Exchange. In addition to our operating and financial conditions, the Company's share price is still affected by many factors, including international and domestic macroeconomic situations, capital market trends, market sentiments and various types of major emergencies. When considering investing in the Company's shares, investors should expect investment risks that may arise from various factors and make prudent judgment.

Section Five

The Company's Profit Distribution Policy and Relevant Circumstances

I. Provisions in the *Articles* on profit distribution policy

Pursuant to the requirements of provisions in *Notification on Further Implementation of Matters Relating to Cash Dividends of Listed Companies* and the *No. 3 Guidelines for Supervision of Listed Companies – Cash Dividends of Listed Companies* of the CSRC, to further improve the profit distribution policy of the Company, increase the transparency of cash dividends and safeguard the legitimate rights and interests of investors, the *Resolution on the Revision of the Articles* was examined and passed at the sixth meeting of the Board of Directors of the Company in 2014, pending for consideration by the first Extraordinary Shareholders' Meeting of the Company in 2014. After the revised *Articles* have entered into force, the Company's profit distribution policy will be:

(I) Profit distribution methods

The Company may distribute dividends by way of cash, shares, a combination of cash and shares or other methods permitted by the law. If conditions for the distribution of cash dividends are met, the Company shall distribute profits in the form of cash dividends; where conditions allow, the Company may distribute interim dividends according to the actual business situation.

(II) Conditions for the Company to distribute profits in the form of cash dividends

1. the Company's net profit for the year or half-year is positive and is not less than RMB0.05 per share;
2. the Company's distributable profits (that is, the remaining after-tax earnings after compensating for the Company's losses and allocating for the statutory and surplus reserves according to law) for the year are positive;
3. the Company's net cash flows for the year and cash flows from operating activities are positive;
4. in distributing annual profits, the auditor shall issue a standard unqualified audit report on the Company's financial report for the year;
5. the Company has no significant foreign investment plans or significant cash outlays (except fundraising projects) in the next 12 months.

The terms "significant investment plans" or "significant cash outlays"

refer to major projects, such as foreign investments, assets acquisitions and equipment purchases, that will be undertaken by the Company in the next 12 months with accumulated expenditures reaching or exceeding 5% of the latest total audited net tangible assets of the Company.

(III) Policy on cash dividends

1. The Company shall maintain the continuity and stability of its profit distribution policy. In principle, the amount of profits that are distributed by the Company each year shall not be less than the net cash flows from operating activities for the year or 15% of the distributable profits achieved for the year, whichever is less. If conditions for the distribution of cash dividends are met, the Company shall distribute profits in the form of cash dividends. The specific distribution proportion shall be determined by the Board of Directors based on the Company's business conditions and shall be submitted to the General Shareholders' Meeting for consideration and decision.

2. When implementing a public issuance of securities in accordance with the *Measures for the Administration of the Listing of Securities by Listed Companies*, the Company needs to meet the condition that "accumulated profits that were distributed in cash in the past three years are not less than 30% of average annual distributable profits in the past three years".

3. Distributable profits that have not been distributed in the year may be retained for distribution in the coming years;

4. The Company's distribution of profits shall not exceed the scope of the accumulated distributable profits and shall not damage the continued viability of the Company.

(IV) Determination of profit distribution methods

1. The Board of Directors proposes a profit distribution plan taking into account the Company's earnings situation, capital requirements and planning of shareholder return as well as the provisions of this prospectus which shall be submitted to the General Shareholders' Meeting for consideration and approval upon examination and passing by the Board of Directors and that the independent directors should have given their independent opinions on the plan. When considering a specific proposal on cash dividends, the Board of Directors shall conduct careful research and demonstration on matters including the timing, conditions and minimum proportion of the Company's cash dividends for distribution and that the independent directors should

have given their explicit opinions. The Company shall strengthen the awareness towards shareholder return and, taking into full consideration of factors including the Company's earnings situation, capital requirements, development goals and reasonable shareholder return, with every three years as one period, develop a shareholder return planning for the period and define specific arrangement and form of dividends for the next three years, cash dividends planning, distribution intervals and other details.

The Board of Directors shall, taking into full account factors including the Company's industry characteristics, development stages, business models, profitability levels as well as major capital expenditures and arrangements, distinguish the following circumstances and propose a differentiated cash dividends policy in accordance with procedures provided in the *Articles*:

(1) where the Company is in a mature development stage and has no major capital expenditures or arrangements, when distributing profits, the proportion of cash dividends in the profit distribution shall reach a minimum of 80%;

(2) where the Company is in a mature development stage and has major capital expenditures or arrangements, when distributing profits, the proportion of cash dividends in the profit distribution shall reach a minimum of 40%;

(3) where the Company is in a growth development stage and has major capital expenditures or arrangements, when distributing profits, the proportion of cash dividends in the profit distribution shall reach a minimum of 20%;

where the Company is in a development stage which is hard to define and has major capital expenditures or arrangements, profits may be distributed in accordance with the provisions of the preceding paragraph.

2. Where earnings are recorded for the year and the Company's Board of Directors has not proposed any cash profit distribution plan, the Company's Board of Directors shall give a detailed explanation of reasons for not distributing dividends and purposes of the undistributed funds retained in the Company in the annual report of the year and that the independent directors should have given their independent opinions on this and a public disclosure shall be made.

3. The Supervisory Committee shall supervise the Board of Directors and management on the implementation of the Company's profit distribution policy and shareholder return planning as well as the

decision-making procedures.

(V) Decision-making procedures on the formulation and revision of the profit distribution policy

1. The Company's profit distribution policy shall be formulated and revised in accordance with relevant provisions of the CSRC, the SSE and the Singapore Exchange with the interests of shareholders as the starting point of all efforts to focus on protecting the interests of investors and providing a stable return to investors and shall be fully demonstrated by the Board of Directors. When the Company formulates and revises its profit distribution policy, the independent directors shall give their independent opinions. When the Board of Directors examines specific proposals on the distribution of stock dividends, it shall take into consideration of the growth of the Company, the dilution of net assets per share as well as other real and reasonable factors.

2. Where the Company needs to make adjustments to its profit distribution policy according to its capital needs in terms of production and operation, major investment, development planning and other aspects, the adjusted profit distribution policy shall not violate relevant provisions of the CSRC and the stock exchanges. Resolutions on the adjustment of the profit distribution policy that are to be considered at the Board of Directors, the Supervisory Committee and the General Shareholders' Meeting shall be adopted by more than one-half of the directors and the independent directors, more than one-half of the supervisors, and more than two-thirds of the votes of the shareholders (including proxies) attending the General Shareholders' Meeting, respectively. When considering resolutions on the formulation or revision of the profit distribution policy as submitted by the Board of Directors, the General Shareholders' Meeting shall earnestly protect the rights of the holders of public shares to participate in the meeting and may actively communicate and exchange ideas with shareholders, especially minority shareholders, via telephone, facsimile, company website, public mailbox, reception and other channels.

(VI) Protection of shareholders' interests

1. The Board of Directors and the General Shareholders' Meeting of the Company shall take into full consideration of the opinions of the independent directors and the holders of public shares in the course of decision making and demonstration on the profit distribution policy. When considering specific proposals on the distribution of cash dividends, the General Shareholders' Meeting may actively communicate and exchange ideas with shareholders,

especially minority shareholders, via telephone, facsimile, company website, public mailbox, reception and other channels, to fully listen to their views and demands and to timely respond to issues of concern to them.

2. Where an independent director has an objection to the dividend plan, the independent director may publicly gather internet voting trusts of minority shareholders at the time when the opinions of the independent directors are disclosed. The independent director may also solicit the opinions of minority shareholders and put forward a dividend proposal to be directly submitted to the Board of Directors for consideration.

3. Where a shareholder has misappropriated the Company's funds, the Company shall deduct the amount of funds misappropriated from the cash dividends to which such shareholder is entitled so as to repay the funds misappropriated.

II. The Company's distribution of profits in the past three years

(I) The Company's profit distribution plan for 2011-2013

1. Profit distribution plan for the half year of 2012

In accordance with the resolution of the second Extraordinary Shareholders' Meeting in 2012, the profit distribution plan was to distribute to all shareholders a cash dividend of RMB2.0 (including taxes) for every ten shares held with the total share capital of 739,308,720 shares as of 30 June 2012 as the base and the total amount of cash dividends to be distributed was RMB147,861,744.

2. Profit distribution plan for the half year of 2013

In accordance with the resolution of the first Extraordinary Shareholders' Meeting in 2013, the profit distribution plan was to distribute to all shareholders a cash dividend of RMB1.0 (including taxes) for every ten shares held with the total share capital of 739,308,720 shares as of 30 June 2013 as the base and the total amount of cash dividends to be distributed was RMB73,930,872.

3. Profit distribution plan for 2013

In accordance with the resolution of the General Shareholders' Meeting in 2013, the profit distribution plan was to distribute to all shareholders a cash dividend of RMB0.5 (including taxes) for every ten shares held with the total share capital of 739,308,720 shares as of 31 December 2013 as the base and the total amount of cash dividends to be distributed was RMB36,965,436.

(II) Cash dividends for the past three years

The Company's distribution of cash dividends in 2011-2013 is set out as below:

Unit: RMB10,000

Year	Accumulated cash dividends (including taxes)	Net profit attributable to owners of the parent company in the consolidated statements	Percentage of net profit attributable to owners of the parent company in the consolidated statements (%)
2013	11,089.63	35,179.44	31.52
2012	14,786.17	44,129.91	33.51
2011	-	24,764.99	-
Total	25,875.80	104,074.34	-

Accumulated cash dividends for the past three years as a percentage of the Company's average annual distributable profits for the past three years is as follows:

Average annual distributable profits attributable to shareholders of the listed company for the past three years (RMB10,000)	34,691.45
Accumulated dividends for the past three years as a percentage of the average annual distributable profits for the past three years (%)	74.59

(III) Use of undistributed profits

The remaining undistributed profits of the Company in the past three years were mainly used for business and operational purposes, including working capital replenishing, R&D activities as well as investments required in new incorporations, new constructions and reconstruction projects in order to support the long-term and sustainable development of the Company.

III. The Proposed Scheme on Return of Investment to Shareholders from 2014 to 2016

Tianjin Zhong Xin Pharmaceutical Corporation Limited (the "Company") places high importance on providing shareholders with reasonable returns on their investment, while continuing to seek rapid development of the Company and performing its corporate responsibility. Pursuant to *Guideline No. 3 – Issuance of Cash Dividends by Listed Companies* promulgated by the CSRC (《上市公司监管指引第 3 号—上市公司现金分红》), *Notice on Issues in relation to Cash Dividends of Listed Companies* promulgated by the CSRC (《关于进一步落实上市公司现金分红有关事项的通知》), and

Articles of Association of the Company (the "**Articles of Association**"), the proposed scheme on return of investment to shareholders from 2014 to 2016 (the "**Scheme**") is set out below.

(I) Rationale

The Company focuses on long-term and sustainable development, taking into account the Company's business development practice, shareholders' requests, the cost of social capital, the availability of external financing and other factors, to establish a sustainable, steady and scientific scheme and system to ensure the consistency and stability of the profit distribution policy for Shareholders.

(II) Principles

This Scheme complies with relevant laws, regulations, and the rules regarding profit distribution in the Articles of Association. The Company have fully considered the views of the independent directors, supervisory committee and shareholders while drafting the Scheme, and the Scheme will ensure the consistency and stability of the profit distribution policy in accordance with business development, and balancing the short-term needs and long-term development of the Company.

(III) Scheme on Return of Investment to Shareholders from 2014 to 2016

(1) The Company can distribute profits to shareholders in form of cash, shares, a combination of cash and shares and/or any other methods as permitted under the laws and regulations. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends. Subject to the operational results of the Group, the Company is allowed to distribute interim dividends.

(2) Conditions for Distributing Profits through Cash Dividends from 2014 to 2016:

(a) The Company has achieved a net profit of not less than RMB0.05 per share for the relevant financial year or half financial year;

(b) The Company's distributable profits for the relevant financial year (after offsetting any losses and deducting the appropriations of the statutory surplus reserve and general reserve) are positive;

(c) The Company's net cash flows and cash flow from operations are positive;

(d) For the year of profit distribution, the auditors of the Company have issued an audit report without any qualifications;

(e) The Company does not have any Major Investment Plan and/or expected Major Cash Outflow in the subsequent twelve (12) months.

"Major Investment Plan" and/or "Major Cash Outflow" means (i) any major investments in companies, (ii) acquisition of assets and/or major equipments, (iii) and/or any expected cash outflow, during the subsequent twelve (12) months, which in aggregate, equal to or exceed 5% of the latest audited net tangible assets of the Group.

(3) The Company should ensure the consistency and stability of the profit distribution policies. In principle, the annual profits distributed by the Company shall not be less than 15% of (i) the Company's net cash flow from operations in the relevant financial year, or (ii) the Group's distributable profits for the relevant financial year, whichever is lower. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends. The detailed percentage shall be determined and recommended by the Board, and approved by the shareholders in general meeting.

(4) If the Company intends to issue securities to the public in accordance with the "Regulations for the Administration of the Issuance of Securities by Listed Companies" (《上市公司证券发行管理办法》), its aggregate distributed cash dividends in the last three years must not be less than 30% of the average distributable profits in the last three years.

(5) In the event that the Board is of the view that the Company's share capital does not match its asset and operation scale, and subject to the fulfilment of the above conditions for distribution profits through declaring cash dividends, the Company is entitled to distribute profits through declaring share dividends. The detailed percentage of entitlement shall be decided and recommended by the Board, and approved by shareholders in general meeting.

(IV) Approval and Amendment of the Scheme

This Scheme was drafted after taking into account the profits, capital requirements and development stage of the Company, together with the views of the shareholders (especially public shareholders) and the independent directors. The Scheme will be submitted to the General Meeting for approval after approval by the Board..

The Company will re-examine the Scheme at least once every three years, and will make amendments to take into account the views of shareholders (especially public shareholders) and independent directors.

(V) Effective Date of the Scheme

The Scheme will be effective from the date of approval by Shareholders at the General Meeting.

Annex B – Amendments to the Feasibility Analysis Report

Feasibility Analysis Report on the Use of Proceeds

I. Proceeds usage plan

Total proceeds from the private placement amount to not more than RMB836.08 million ~~1.154 billion~~ and, after deducting the offering expenses, are planned to be used in the following projects:

No.	Name of Project		Total amount required for the project (RMB million)	Amount of net proceeds to be invested (RMB million)
1	Terminal Marketing Network and Promotional System Project		310.42	310.42
2	Bozhou Industrial Park Construction Project	Project on Chinese Medicine Extraction and Preparation	250.00	127.50
		Project on Chinese Medicine Decoction Pieces	150.00	76.50
3	Wellness and Functional Vegetable Beverages Project		299.92	299.92
~~4~~	~~Pharmaceutical Logistics Center Project~~		~~310.26~~	~~310.26~~
Total			1,010.34 ~~1,320.60~~	814.34~~1,124.60~~

Where the amount of net proceeds to be invested falls short of the total amount required for the project, the shortfall will be financed using cash generated internally from the Company's own operations.

Before the receipt of the net proceeds, the Company may invest in the projects using cash generated internally from the Company's own operations. This will be replaced by the net proceeds upon receipt.

On the premise that no change will be made to the list of projects, the Board may make appropriate adjustments to the order of investment and amount of proceeds to be invested in the above projects in accordance with the actual needs of the projects.

II. Feasibility analysis of projects financed by the proceeds

(I) Terminal Marketing Network and Promotional System Project

1. Background information of the project

The project aims to build a terminal marketing network as well as an academic and advertising promotional system for core drug products based on Zhongxin Pharmaceutical's strategy of promoting major drug products.

The implementation of the project is responsible by the Company. The total amount of investments is RMB310.42 million. The project will be implemented for three years. The amount of proceeds to be used will be RMB310.42 million.

2. Necessity of the project investment

(1) Need to bring the Company's drug products advantages into full play to reverse marketing weaknesses

At the end of 2013, the Company had 17 formulations and 466 kinds of preparations, including four national-treasure Chinese drug products, one state-classified drug variety, three state-secret drug products, eight protected Chinese drug products, 101 exclusive drug products, 67 drug products being included in the national list of essential drugs and 267 drug products covered by the national medical insurance. The Company has formed a series of product groups, including Suxiao Jiuxin Wan (速效救心丸) and Tongmai Yangxin Wan (通脉养心丸) representative of cardiovascular drugs, Qingyan Diwan (清咽滴丸) and Qingfei Xiaoyan Wan (清肺消炎丸) representative of respiratory drugs, Weichang An (胃肠安) and HuoxXiang Zhengqi Ruanjiaonang (藿香正气软胶囊) representative of gastrointestinal drugs as well as Zi Long Jin (紫龙金) and Shengxue Wan (生血丸) representative of anti-tumor drugs. The drug products and product mix advantages are our cornerstone for development and core competitiveness. However, given differences in marketing methods, marketing networks, marketing capabilities and promotional systems, market share and sales volume of the Company's core drug products are out of line with their market visibility and presence, hence severely restricting the Company's sales revenue growth and profitability improvement.

(2) Need to make up for the marketing blank of Suxiao Jiuxin Wan (速效救心丸) in the end-user market to establish the awareness of "regular medication" among patients

Affected by the conventional marketing model of "focusing on business and neglecting treatment", marketing of Suxiao Jiuxin Wan (速效救心丸), the pillar product of the Company, has always been carried out in a business approach. Although sales revenue of Suxiao Jiuxin Wan (速效救心丸) has steadily increased in recent years, the control over terminal sales is extremely weak. Prior to 2013, there was basically no control over terminal sales and terminal sales under control accounted for less than 15% of total sales in 2013, severely capping the growth in sales of the product. Moreover, due to the lack of systematic academic promotions, the product is considered by the market as first-aid medicine given its Chinese name "Suxiao". In fact, Suxiao Jiuxin Wan (速效救心丸) can help circulate blood, clear stasis and relieve pain. It can also increase coronary

blood flow, relieve angina, improve heart function and produce anti-oxidation effects. At the same time, it is an effective and safe drug for circulating blood and clearing stasis suitable for regular medication. Therefore, it is urgent for the Company to build a terminal marketing network with focus on Suxiao Jiuxin Wan (速效救心丸) so as to make up for the marketing weaknesses in graded hospitals and establish the idea of regularly taking the drug.

(3) Need to promote the growth of the Company's core prescription drugs sales

Core prescription drugs of the Company involve a high degree of science and technology, providing conditions for secondary development and clinical re-validation. However, in the past operations, after core prescription drugs are launched in the market, there was a lack of systematic R&D as well as a coherent and systematic after-launch re-evaluation and that technical information and promotional materials could not keep up with technological innovations and changes in the industry, hence capping the sales of our core products. Therefore, stepwise construction of a system for promoting potential prescription drugs in the medical system through systematic testing is an effective way to drive revenue growth for our core prescription drugs.

(4) Need to rapidly increase OTC core products sales

Qinggong Shoutao Wan (清宫寿桃丸) is a product exclusive to the Company and its traditional production techniques are included in the list of national intangible cultural heritage. It is an exclusive essential drug product of the Company which is included in the list of essential drugs. The product is a non-prescription drug and is available OTC. Through enhanced advertising programs on OTC core products, the Company can increase the market presence of such products and deepen their impression among patients to promote the rapid growth of our OTC product lines.

3. Investment budget and details of the project

The total amount of investments for the project is RMB310.42 million, including RMB180.45 million for the construction of a terminal marketing system, RMB55.88 million for the academic marketing of prescription drugs with potential and RMB74.09 million for the enhanced advertising programs on OTC core products.

The terminal marketing system construction is mainly focused on Suxiao Jiuxin Wan (速效救心丸), aiming at major cities in China where academic promotional teams will be built, academic promotional channels will be developed, an expert network system will be formed and a grand terminal marketing network for the medical sector will be established in order to

compensate for the lack of promotions on Suxiao Jiuxin Wan (速效救心丸) in graded hospitals and to increase the rate of prescription for clinical use. At the same time, the project will carry out clinical observations on the idea of "regular medication" for Suxiao Jiuxin Wan (速效救心丸) and, through experiments of pharmacology and pharmacodynamics, conduct practical demonstrations to extend the awareness towards Suxiao Jiuxin Wan (速效救心丸) from "first aid" to "regular medication" in the medical system and among patients, hence further expanding the scope of application of the drug. Furthermore, through the building of primary care and clinical promotional teams, the project will expand coverage of the primary terminal market to promote the clinical usage and regular taking of Suxiao Jiuxin Wan (速效救心丸), effectively occupying the cardiovascular market in the primary care sector.

Academic marketing of potential prescription drugs will be implemented with focus on clinical and pharmacodynamic experiments on Suxiao Jiuxin Wan (速效救心丸), clinical and pharmacological experiments on Tongmai Yangxin Wan (通脉养心丸), clinical re-validation experiments on Zi Long Jin (紫龙金), research experiments on bioactive components of Longqing Pian (癃清片) as well as clinical observations and experiments on New Jin Qi Jiang Tang Pian (新金芪降糖片), with the objective of driving clinical and hospital terminal sales through academic experiments.

Enhanced advertising programs on OTC core products will mainly be implemented by increasing efforts in the advertising promotion of Qinggong Shoutao Wan (清宫寿桃丸) and Qingyan Diwan (清咽滴丸) to improve the brand awareness and reputation of the Company's core OTC products, with the objective of driving OTC terminal sales through publicity.

4. Project economic evaluation

   Implementing the project will reverse the Company's weaknesses in the terminal marketing network and promotional system and thus will expand the sales of existing operations of the Company. The implementation of the project will promote sales revenue growth of the Company's core drug products and improve profitability. No economic evaluation of the project alone will be conducted.

5. Project examination, approval and registration

   The project is not a fixed asset investment project. It neither requires any project construction approval or registration nor environmental impact assessment. And no additional land is involved.

(II) Bozhou Industrial Park Construction Project

1. Background information of the project

   The project plans to build Zhongxin Pharmaceutical Bozhou Industrial Park

in Bozhou, including two sub-projects, the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation. The total amount of investments is RMB400 million and the construction period is one and a half years, among which, RMB250 million in the project on Chinese medicine extraction and preparation and RMB150 million will be invested in the project on Chinese medicine decoction pieces. The implementation of the project is responsible by Tianjin Da Ren Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd., a 51%-owned subsidiary of the Company. The amount of proceeds to be used in the two sub-projects will be RMB204 million in total. After the proceeds have been paid in, the Company and the other shareholders of Tianjin Da Ren Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd. will invest in the project on a pro-rata basis in accordance with each of their shareholding proportion in the form of share capital increase.

2. Necessity of the project investment

(1) Need to fully leverage the geographical advantages of Bozhou to ensure the supply of Chinese medicinal materials and the quality of products

Bozhou is China's largest distribution and trading center of Chinese medicinal materials and an important base for the planting of Chinese medicinal materials. The Company is a large-sized listed Chinese medicine company with prominent domestic competitive advantages. In 2013, the Company's sales revenue from 25 major drug products amounted to RMB1.845 billion, with five of them generating sales revenue of more than RMB100 million. The Company requires large quantities of Chinese medicinal materials for our industrial production and therefore investing in the construction of Zhongxin Pharmaceutical Bozhou Industrial Park is necessary. Fully leveraging the geographical advantages of Bozhou as a distribution center of Chinese medicinal materials may not only ensure the supply but also effectively the quality of Chinese medicinal materials, hence ensuring the quality of the Company's products.

(2) Need to build a Chinese medicinal materials pre-processing base in Bozhou to improve the Company's economic benefits

According to the requirements of the *Pharmacopoeia of the People's Republic of China (2010 Version)* on the management of medicinal raw materials of Chinese patent medicines, Chinese medicine should be dispensed with either clean medicinal materials or Chinese medicine decoction pieces and that Chinese medicinal materials are not allowed to be directly used as medicine. In converting general medicinal materials into clean medicinal materials or Chinese medicine decoction pieces, it has to go through a number of processes, including selection, washing, cutting, drying, steaming, frying, calcining, broiling and grinding, and

according to the GMP standard for drugs, a relatively large site area is necessary for setting up the pre-treatment plant, which has increased the production time and cost of Chinese patent medicine. At the same time, most of the Chinese medicinal materials themselves are the roots, stems, leaves, flowers and fruits of plants which are big in size, hence the cost of storage, management and transportation is relatively high. Building a Chinese medicinal materials pre-processing base in the Chinese medicine distribution center Bozhou and pre-processing medicinal materials at the source of medicinal materials can effectively reduce the cost of storing, managing and transporting the materials. In addition, large-scale centralized procurement at the Chinese medicine distribution center can strengthen the Company's bargaining power to reduce raw materials purchasing costs.

(3) Need to extend the Chinese medicine industrial chain to improve the added value of Chinese drug products

The national list of essential drugs in 2009 has included Chinese medicine decoction pieces, providing favourable opportunities for the development of Chinese medicine decoction pieces. Chinese medicine decoction pieces are one of the three pillars of the Chinese medicine industry and an important raw material of Chinese patent medicine. With the continuous improvement and maturity of its processing theory, today it has become an important means of clinical disease prevention and healing in traditional Chinese medicine. In recent years, the Chinese medicine decoction pieces industry has maintained a momentum of stable growth and there is broad room for development. It is necessary for the Company to implement the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation in Bozhou in order to extend our Chinese medicine industrial chain, enrich our Chinese medicine product mix, improve the added value of our Chinese drug products and improve the Company's profitability.

3. Investment budget and details of the project

The project plans to build Zhongxin Pharmaceutical Bozhou Industrial Park in Bozhou. The total amount of investments is RMB400 million and the amount of proceeds to be used will be RMB204 million, covering the two sub-projects, the project on Chinese medicine decoction pieces and the project on Chinese medicine extraction and preparation.

(1) Chinese medicine extraction and preparation sub-project

The total amount of investments in the sub-project is RMB250 million, including construction investments of RMB236.96 million and initial working capital of RMB13.04 million. The project occupies an area of approximately 80,000 square meters. The project mainly includes the

construction of production workshops, extraction workshops, warehouses (for raw materials, semi-finished products and finished products), office complex and other supporting facilities, the purchase of Chinese medicine extraction equipment, production and packaging equipment for tablets, granules, decoction agents as well as hard capsules and pills, inspection and testing equipment, environmental protection facilities and other ancillary equipment, as well as ancillary road construction, greening, drainage, electricity and other ancillary works.

(2) Chinese medicine decoction pieces sub-project

The total amount of investments in the sub-project is RMB150 million, including construction investments of RMB136.95 million and initial working capital of RMB13.05 million. The project occupies an area of approximately 48,000 square meters. The project mainly includes the construction of production workshops, extraction workshops, warehouses (for raw materials, semi-finished products and finished products), quality inspection office complex and supporting facilities as well as other auxiliary buildings, the purchase of equipment for Chinese medicine decoction pieces, packaging equipment as well as inspection and testing equipment, ancillary road construction, greening, drainage, electricity, fire protection and other ancillary works.

4. Project economic evaluation

After measuring, the internal rate of return (after tax) for the Chinese medicine extraction and preparation sub-project is 18.28% and the payback period (after tax) is 7.27 years (excluding construction period).

The internal rate of return (after tax) for Chinese medicine decoction pieces sub-project is 19.13% and the payback period (after tax) is 7.3 years (excluding construction period).

5. Status of project approval

The project ~~is currently being processed by competent government departments for~~ has completed the registration and environmental assessment. The project will be built on land owned by Tianjin Ren Da Tang (Bozhou) Chinese Medicine Decoction Pieces Co., Ltd. and thus no additional land has to be acquired.

(III) Wellness and Functional Vegetable Beverages Project

1. Background information of the project

To build our presence and to enrich our product lines in the wellness industry, the Company plans to build a production project with an annual output of 50,000 tonnes of functional vegetable beverages. The

implementation of the project is responsible by the Company. The total amount of investments is RMB292.22 million and the construction period is two years. The amount of proceeds to be used will be RMB299.92 million.

2. Necessity of the project investment

(1) Need to build the Company's presence in the wellness industry to improve our industrial structure

With the continuous improvement in people's living standards and awareness towards food safety, public health needs and concerns have been rising and this has provided immense room for the development of the wellness industry. It has been clearly proposed in the *12th Five-year Development Plan for the Food Industry* to "vigorously develop tea beverages, juices and juice beverages, coffee beverages, vegetable juices and beverages, vegetable protein beverages and cereal beverages". It is also put forward in the *Catalogue for Guiding Industry Restructuring (2011 Version)* to encourage the development and production of hot juices, berry juices, cereal beverages, herbal beverages, tea concentrates, tea powder, vegetable protein beverages and other high-value-added vegetable beverages as well as the construction of processing and raw materials bases. The support of national policies brings opportunities for the development of vegetable health beverages.

Competitive Chinese medicine enterprises that expand their advantages in terms of brand, quality, R&D, process control and other areas to the wellness industry find it easier to gain consumer trust and recognition and the broad room for development of the wellness industry will certainly bring huge returns to competitive enterprises in the industry. It is necessary for Zhongxin Pharmaceutical to build the project in order to build our presence in the wellness industry, enrich the Company's product mix, improve our industrial structure and cultivate new profit growth points.

(2) Need to rapidly develop the Company's existing wellness and functional vegetable beverages

In 2012, on the basis of the traditional sweet-sour plum juice formula, the Company, after independent research and considering the common origins of medicine and food, selected authentic materials and adopted a stringent drug management model to produce an improved sweet-sour plum juice (named as "Plum Impression" and "Plum Taste") of pure taste which is good for stimulating appetite and digestion by adding reasonable quantities of extracts of Chinese medicine decoction pieces and using rock sugar without preservatives and flavouring essences based on ancient methods. The product was well received by consumers after launch and showed good momentum of development. In 2014, on the

basis of the launch of the sweet-sour plum juice beverage and the initial success achieved and in view of the seasonal characteristics of sweet-sour plum juice as a summer drink, the Company, through independent research, introduced pear juice (named as “Pear Impression” and “Pear Taste”), a vegetable beverage catering for the autumn and winter season to meet consumer demand for lung nourishing products in dry and hazy days during autumn and winter.

The sweet-sour plum juice and the newly-launched pear juice of the Company are being produced on an OEM basis. To ensure the quality of the products, the production lines are put under the management of the Company. With the sharp increase in the sales of the sweet-sour plum juice and the gradual promotion of the pear juice, the Company’s OEM production lines are no longer able to meet the needs of the Company for beverage production capacity. At the same time, to further ensure production quality, it is urgent for the Company to build new beverage production lines of its own to meet our vegetable beverage production needs.

(3) Need to enrich the Company’s wellness and functional vegetable beverage product lines

To enrich its wellness and functional vegetable beverage product lines and to provide consumers with multiple functional health beverages, the Company plans to develop jujube beverages effective for tonifying blood and restoring vital energy, blueberry beverages effective for protecting eyesight and nourishing the skin, pumpkin juice beverages effective for reducing blood sugar, manyprickle acanthopanax root beverages effective for stabilizing the mind, schisandra chinensis beverages effective for maintaining a healthy heart and protecting the liver and honeysuckle flower beverages effective for clearing away damp-heat and eliminating toxic materials and so forth to form series of health beverage products of the Company. R&D for these products has to be supported by the Company with spending dedicated to R&D.

(4) Need to improve the Company’s presence and sales revenue in the functional vegetable beverage product market

Since the launch of the Company’s sweet-sour plum juice products in the market, product sales have risen rapidly. However, when compared with the mature beverage products, market visibility and influence of the Company’s products are still insufficient. To deepen the impression among consumers and to rapidly improve the market share and sales revenue of our vegetable beverages, the Company needs to make appropriate investments in advertising and promotion in order to promote product sales revenue growth.

3. Investment budget and details of the project

   The total amount of investments in the project is RMB299.92 million, including construction investments of RMB182.3 million, initial working capital of RMB6.92 million, new product R&D investments of RMB30 million as well as channel and promotional investments of RMB80 million. The project occupies an area of approximately 10,000 square meters. The project mainly includes the construction of new beverage production plants, warehouses for raw materials and finished products, power rooms and ancillary facilities, the purchase of water purification systems, equipment for production lines for PET products, pop cans and glass bottles.

4. Project economic evaluation

   After measuring, the internal rate of return (after tax) for the project is 20.33% and the payback period (after tax) is 7.05 years (excluding construction period).

5. Status of project examination, approval and registration

   The project has completed the~~is currently being processed by competent government departments for~~ registration and environmental assessment. The project will be built on land owned by the Company and thus no additional land has to be acquired.

~~(IV) Pharmaceutical Logistics Center Project~~

~~1. Background information of the project~~

~~The project aims to build a pharmaceutical logistics center based on Zhongxin Pharmaceutical's strategy for a stronger presence in the commercial pharmaceutical business and the need to meet the requirements of the new GSP certification. The implementation of the project is responsible by the Company. The total amount of investments is RMB310.26 million and the construction period is 1.5 years. The implementation of the project will be responsible by the Company. The amount of proceeds to be used will be RMB310.26 million.~~

~~2. Necessity of the project~~

~~(1) Need to meet the Company's expansion in the pharmaceutical commercial business and the requirements of GSP for transformation~~

~~The *National Development Plan for the Pharmaceutical Distribution Industry (2010-2015)* has defined the overall development objectives of the pharmaceutical distribution industry during the "12th Five-year Plan" period, incorporating the enhancement of industry concentration, the improvement of pharmaceutical distribution networks, the safeguarding of emergency drug supply, the development of modern pharmaceutical logistics and the improvement of pharmaceutical distribution efficiency as~~

~~the main tasks in developing the industry, promoting inter-regional development of strong pharmaceutical distribution enterprises with high management standards and reputation to form a pharmaceutical distribution system covering cities and villages with national and regional backbone enterprises being the mainstay of the structure, as well as making use of information to drive the development of modern pharmaceutical logistics and transforming conventional pharmaceutical logistics methods by means of modern science and technology. In the coming period, driven by new healthcare reforms and various kinds of policies, commercial pharmaceutical enterprises with strong delivery capabilities, broad coverage and low distribution costs will get a head start in the competition. The Company ranks among the top in the pharmaceutical commercial business in Tianjin and it is necessary for the Company to implement the project in order to adjust to the development trends and policy requirements of the pharmaceutical distribution industry and to build a strong presence of the Company in the pharmaceutical commercial segment.~~

~~At present, the Company's warehouse in Baidi Road occupies an area of only 5,000 square meters. In 2013, sales revenue from the merchandise allocating business and large-sized medical end-users had exceeded RMB5 billion while all warehousing and transportation tasks were undertaken and completed by the Company's warehouse in Baidi Road. Given the insufficient area of the warehouse and the presence of considerable partitions within storerooms which is not conducive to effectively releasing storage space and handling bulk cargoes, the Company's storage area is no longer able to meet the development needs of the Company in the pharmaceutical commercial segment.~~

~~Pursuant to the *Notification of the State Food and Drug Administration on the Implementation of the Revised Good Supply Practice (Shiyao Jianyao Huajian [2013] No. 32)*, by the end of 2015, all work concerning the implementation of the revised GSP has to be fully completed. All pharmaceutical enterprises must meet the requirements of the revised GSP and, starting from 1 January 2016, those who fail to meet such requirements will not be allowed to continue their pharmaceutical business activities. The logistics center of the Company's pharmaceutical commercial segment is situated in Baidi Road, Nankai District, Tianjin. Built in the 1990s, the center has not yet undergone any large-scale reconstruction in the past 20 years. The warehouse conditions are no longer able to meet the new GSP certification standards and thus there is the need for reconstruction.~~

~~The Company plans to build a pharmaceutical logistics center and warehousing facility in the Beichen District to fully leverage the traffic advantages of Beichen so as to form a seamless connection with the main~~

producing areas of pharmaceutical products in Beijing, Tianjin and the Hebei Province, hence consolidating the Company's leading position among pharmaceutical commercial distribution enterprises in the region. The pharmaceutical logistics center project is necessary for the Company, on one hand, to build its presence in the pharmaceutical commercial segment in order to meet the needs for continuous development of the pharmaceutical business and industry and, on the other hand, to put the new GSP certification into practice.

(2) Need to meet the GSP certification requirements on pharmaceutical industrial warehouses to achieve intensive management

In recent years, the Company's strategy of focusing on major drug products has achieved significant results and sales revenue from our industrial segment has grown rapidly. The Company's storage and logistics needs for industrial products are on the rise and some enterprises store their finished products in leased warehouses, hence increasing the Company's difficulty in managing pharmaceutical storage and logistics as well as the operating costs. The current warehouse area and logistics system are no longer able to meet the development needs of industrial enterprises. At the same time, all the companies of our pharmaceutical industrial segment are similarly in face of the GSP certification requirements on warehousing environment. According to the new provisions, standalone storerooms are not allowed to be smaller than 2,000 square meters in size. All of the Company's existing pharmaceutical industrial warehouses need to be reconstructed, correspondingly reconstruction costs would be relatively high and that it is not conducive to intensive and unified management.

Therefore, it is urgent for the Company to build a unified, concentrated and modernized pharmaceutical logistics center with high throughput capacity. Expanding the Company's storage area, improving distribution capacity and efficiency and improving distribution and operational capabilities to achieve automated shelving, transfer, sorting and shipping at the distribution center with the aim of reducing logistics costs, increasing utilization of storage resources and improving operational efficiency and accuracy. The construction of this logistics and distribution center may help achieve the Company's centralized management of pharmaceutical industrial warehouses while meeting the Company's needs for development in the pharmaceutical commercial business in the coming period.

(3) Relatively huge working capital in demand in the pharmaceutical commercial segment

The pharmaceutical logistics, distribution and wholesale industries are capital intensive industries. Centralized bulk purchases, prepaid

~~purchasing expenses, partial storage, longer selling cycles and other operating characteristics have determined the relatively big demand for working capital from the pharmaceutical logistics, distribution and wholesale business. On one hand, the Company needs to ensure the required distribution for upstream suppliers. On the other hand, the Company's wholesale distribution to various major hospitals in the region is mainly carried out through tendering and the accounts receivable collection period is generally four to six months. In building presence in the pharmaceutical commercial segment, the Company must have long-term and stable sources of funding to meet the working capital needs of the logistics and wholesale business. Therefore, a certain amount of working capital has to be prepared for the project.~~

~~3. Investment budget and details of the project~~

~~The total amount of investments in the project is RMB310.26 million, including construction investments of RMB190.26 million and working capital of RMB120 million. The project occupies an area of approximately 35,000 square meters. The project mainly includes the construction of an automated storage and retrieval system, storehouses, drug stores, offices and ancillary facilities. It also covers the construction of six major systems, the shelving system, the transmission system, the sorting system, the computer information management system, the cold chain system as well as the air-conditioning and temperature monitoring system and fire protection system. Upon completion of the project, the pharmaceutical logistics center may be able to support an annual sales volume of RMB10 billion.~~

~~4. Project economic evaluation~~

~~After measuring, the internal rate of return (after tax) for the project is 14.17% and the payback period (after tax) is 7.19 years (excluding construction period).~~

~~5. Status of project examination, approval and registration~~

~~The project is currently being processed by competent government departments for registration and environmental assessment. The project will be built on land owned by the Company and thus no additional land has to be acquired.~~

I. Impact of the Private placement on the operational management and financial position of the Company

(I) Impact of the Private placement on the Company's Operational Management

Funds raised in the Private placement will be mainly used in the Terminal Marketing Network and Promotional System Project, the Bozhou Pharmaceutical Industrial Park Project and~~,~~ the Functional Vegetable

Beverages Project~~ and the Pharmaceutical Logistics Center Project~~. The Private placement will help the Company seize development opportunities in the pharmaceutical industry during the "12th Five-year Plan" period and, through the implementation of the above projects, the Company will further increase the sales and market share of our core drug products, improve our Chinese medicine raw materials extraction and processing capabilities, strengthen our production capacity and promotional efforts in wellness and functional vegetable beverages~~ and build an effective and modernized logistics and distribution system~~, thereby substantially improving the Company's core competitiveness, market share and brand presence, further enhancing the Company's industrial structure and product mix, reinforcing the Company's profitability and ability to withstand risks, thus the Private placement is conducive to achieving and safeguarding the long-term interests of shareholders.

(II) Impact of the Private placement on the Company's Financial Position

Upon completion of the private placement, total and net assets of the Company will be further solidified. Our capital strength will be significantly improved and our asset and liability structure will become more reasonable. There will be a notable increase in the Company's operating revenue and net profit and our profitability will be further enhanced, thus the Company's overall financial position will be greatly improved.

Annex C – Amendments to the announcement dated 7 January 2015

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Company Registration No. 120000000004711)

(Incorporated in People's Republic of China)

Disclosures in relation to the Proposed Placement

The Board refers to the previous announcement by the Company on 12 June 2014 and 12 August 2014 ("**Prior Announcements**"), as well as the circular dated 1 August 2014 (the "**Circular**") in relation to the Proposed Placement.

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

Disclosure in relation to non-compete undertaking

The Board wishes to announce that in relation to the Proposed Placement and as part of the approval process by the China Securities Regulatory Commission (the "**CSRC**"), the controlling shareholder of the Company, Tianjin Pharmaceutical Group Co., Ltd. ("**TPG**"), has given a non-compete undertaking dated 22 September 2014 in favour of the Company. The details of the non-compete undertaking are set out below:

1. TPG and its subsidiaries shall not, whether directly or indirectly (including but not limited to sole proprietorship, joint venture, holding interests in other companies or enterprises), conduct any business in competition with the businesses of any branch companies and subsidiaries of the Company.

2. As at the date of the non-compete undertaking, except for Tianjin Chinese Medicinal Slices Co., Ltd. (an indirect subsidiary of TPG), TPG does not have any subsidiaries that are in competition with the Company's manufacturing business segment. TPG undertakes to reduce its shareholding in Tianjin Chinese Medicinal Slices Co., Ltd. to 45% or below by 31 October 2015.

3. In relation to the Company's sales business segment, TPG undertakes to transfer (either via shares or asset sales) its subsidiaries that are in this segment to the Company or independent third parties by 31 December 2017.

4. TPG shall obtain all relevant approvals required under the relevant state-owned assets management rules for the purposes of this non-compete undertaking (including, if required, the approval of the State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government). If approval cannot be obtained, TPG will strive to resolve the conflict of interest via other legal

means.

5. After the above mentioned shares or asset sales, TPG shall monitor its business activities for any other potential conflicts of interest with the Company. Where there are any potential conflicts, TPG shall carry out the following measures:

   (a) When deemed necessary by the Company, TPG shall reduce its shareholding interest in a competing subsidiary such that TPG is no longer in control of, or holds no shareholding interest in the competing subsidiary;
   (b) When deemed necessary by the Company, the Company shall have the right to purchase the shares, assets or business of the competing subsidiary;
   (c) When a situation arises that results in a conflict of interest between TPG and the Company, TPG shall unconditionally resolve the conflict of interest in favour of the Company;
   (d) Unconditionally accept any measures proposed by the Company to resolve any other conflicts of interest.

6. In the event that TPG and its subsidiaries breach the non-compete undertaking, TPG shall (a) compensate any losses suffered by the Company and its branch companies, subsidiaries or joint ventures; and (b) pay all profits derived from competing businesses as a result of the breach to the Company.

The non-compete undertaking shall be effective from 22 September 2014 until TPG is no longer in control of the Company.

Disclosure in relation to regulatory measures taken against the Company in the last 5 years

The Board further wishes to announce, in relation to the Proposed Placement and as part of the approval process by the CSRC, a reminder of the regulatory measures taken against the Company by the China Security Regulatory Commission (the "**CSRC**") and the Shanghai Stock Exchange in the last 5 years.

The Board refers to previous announcements by the Company dated 23 September 2013 and 11 October 2013.

On 23 September 2013, the Company announced that it had received a reminder notification from the Tianjin Securities Regulatory Bureau ("**TSRB**") on 22 September 2013.

TSRB, after investigation, found that the Company had disclosed part of its half year financial results ended 30 June 2013 on the Company's website as early as 18 July 2013, before the official release of the said results on the designated media on 15 August 2013. The early

disclosure was not in compliance with Article 59 of the Administrative Measures on Information Disclosure by Listed Companies, formulated by the CSRC, therefore the Company was reminded by TSRB to strengthen its management and control of information disclosure. The Company was reminded that the following actions are prohibited: (i) releasing information on the Company's website or other medias before disclosure on the designated media; (ii) calling a press conference or answering reporters' questions in place of complying with reporting and announcing obligations; and (iii) reporting at fixed intervals instead of complying with immediate disclosure requirements.

The Company also received a reminder notification from the Shanghai Stock Exchange in relation to the above on 24 September 2013.

On 11 October 2013, the Company announced its measures to strengthen its information disclosure management process, which are set out below:

1. Increase management familiarity with rules and regulations on corporate information disclosure

   The Company shall ensure that its directors, supervisors and management personnel are familiar with the relevant rules and regulations on corporate information disclosure, including the "Administrative Measures for the Disclosure of Information of Listed Companies" promulgated by the China Securities Regulatory Commission in the PRC, as well as the Listing Manual of the SGX-ST in Singapore. The Company will ensure strict compliance with all relevant rules and regulations.

2. All information to be released by the Company shall comply with the rules and regulations on corporate information disclosure

   The Company shall ensure that all information disclosures are subject to the rules and regulations on corporate information disclosure. This includes, but is not limited to, periodic reports, specific information announcements and material price-sensitive information, as well as any other information to be released via the Company's website or any other media.

3. Streamline the information disclosure management process

   The Secretary of Board (the "**Secretary**") shall be responsible in assisting the Board to monitor information disclosure, and all information should be reviewed and approved by the Secretary before disclosure. The Company's directors, supervisors, management and other related personnel will provide any support that the Secretary requires for such review.

4. Accountability of management

Any director, supervisor, management and related personnel who fails to adhere to the information disclosure management process shall be held personally accountable for any consequences arising from such failure.

The Company shall continue to strengthen its information disclosure management process to ensure that the interests of the shareholders are protected.

Disclosure in relation to the dilutive effect of the Proposed Placement on the immediate return of the Company

The Board also wishes to announce, in relation to the Proposed Placement and in accordance with the requirements under "Views on further strengthening the capital markets to protect the legitimate interests of investors" (Guo Ban Fa [2013] No. 110, promulgated by the State Council), the dilutive effect of the Proposed Placement on the immediate return of the Company, and the measures taken by the Company to address this dilutive effect.

The Board wishes to highlight that the figures given below are for illustration purposes only and do not reflect the actual financial position of the Company, and are not intended as a forecast of the Company's financial position.

1. Dilutive effect of the Proposed Placement on the immediate return of the Company

   (a) General Information

   Pursuant to the audit done by the Company's auditors (Ruihua Certified Public Accountants LLP) for the financial year ended 31 December 2013 ("**FY2013**"), the Company's net profit attributable to shareholders is approximately RMB351.7944 million, earnings per share is approximately RMB0.4800, and the weighted average return on net assets is approximately 15.45%. The net assets attributable to shareholders as at 31 December 2013 is approximately RMB2,417.3811 million.

   The proceeds of the Placement will be used for projects including the development of terminal marketing network promotion system and functional plant beverage, and the construction of Bozhou industrial park~~ and medical logistics centre~~. After the implementation of aforesaid projects, the company is able to further enhance the sales volume and market share of its core varieties of products, improve the extraction and processing capabilities of traditional Chinese medicine, enhance the production capacity and promotion of the functional plant beverage~~, and build efficient and modern logistics distribution system~~, which will significantly enhance the company's core competitiveness, market share and brand influence. The use of proceeds, which has been approved by the Board and the Shareholders, is conducive

to the Company's long-term development. However, as the construction of the projects require a period of time, shareholders' returns can only be achieved through existing business during the construction period. Since the share capital and net assets of the Company will increase, if the business of the Company cannot grow appropriately in 2015, earnings per share and weighted average of return on net assets and other indicators will likely decline.

(b) Assumptions for the financial effects

The following assumptions are made for the financial effects:

(i) The Proposed Placement will be completed by February 2015.

(ii) No more than ~~90 million~~65,166,000 Shares will be issued pursuant to the Proposed Placement, increasing the total issued Shares of the Company ~~from 739,308,720~~ to no more than ~~829~~804,~~308~~474,~~720~~920.
The completion date and number of Shares are only estimates as they are subject to CSRC's approval.

(iii) The Proposed Placement is expected to raise net proceeds of approximately RMB~~-~~ 814,340,000.~~1,124.6 million~~.

(iv) The Shareholders have approved the scheme of profit distribution policy for FY2013 at the Annual General Meeting of the Company on 15 May 2014, where dividends were distributed to Shareholders on a basis of RMB0.5 for every 10 Shares (inclusive of tax), for a total cash dividend of approximately RMB36.9654 million. It is assumed that the profit distribution for the financial year ending 31 December 2014 ("**FY2014**") will be 15% of the net profit attributable to shareholders of the Company.

(v) It is assumed that the net profit attributable to shareholders of the Company in FY2014 will be unchanged compared with the net profit attributable to shareholders of the Company in FY2013, i.e. RMB351.7944 million.
It is assumed that the net profit attributable to shareholders of the Company in the financial year ending 31 December 2015 will increase by between -10% and 20% of the net profit attributable to shareholders of the Company in FY2014, and will be illustrated with -10%, 0%, 10% and 20% figures.

(vi) The impact on the Company's production operations and financial position (e.g. financial expenses and investment income) after receipt of the proceeds from the Proposed Placement is not taken into consideration.

(vii) When considering the impact on the Company's net assets after the placement, no other factors are considered except the impact from the proceeds, profits distribution and net profits.

(viii) Non-recurring income is not included in the calculation of net profits.

(c) Illustrations of the Proposed Placement's dilutive effect on the immediate return

of the Company of the Company

FY2014/31 December 2014		
Total Equity（'000 RMB）		739,308.7
Cash Dividend（'000 RMB）		36,965.4
Net profit attributable to shareholders of the parent company for 2014 （'000 RMB）		351,794.4
Equity attributable to shareholders of the parent company at the end of FY2014（'000 RMB）		2,732,210.1
Basic earnings per share (RMB)		0.48
Net assets per share (RMB)		3.70
Weighted average return on net assets		0.14
Year of 2015/31 December 2015	**Before the Placement**	**After the Placement**
Total equity ('000 shares)	739,308.7	~~829,308.7~~804,474.7
Cash dividends of the Placement ('000 RMB)		52,769.2
Net proceeds from the Placement ('000 RMB)		~~1,124,600.0~~814,340.0
Estimated completion date of the Placement		February 2015
Scenario 1: net profit attributable to shareholders of the Company decline by 10% for 2015 compared with that of 2014		
Equity attributable to shareholders of the parent company at the end of 2015（'000 RMB）	2,996,055.9	~~4,120,655~~3,810,395.9
Basic earnings per share (RMB)	0.43	0.~~39~~ 40
Net assets per share (RMB)	4.05	4.~~97~~ 74
Weighted average return on net assets	0.11	0.~~08~~ 09
Scenario 2: net profit attributable to shareholders of the Company for 2015 being the same as that of 2014		
Equity attributable to shareholders of the parent company at the end of 2015（'000 RMB）	3,031,235.3	~~4,155,835.3~~3,845,575.3
Basic earnings per share (RMB)	0.48	0.~~43~~ 44
Net assets per share (RMB)	4.10	~~5~~4.~~01~~ 78
Weighted average return on net assets	0.12	0.~~09~~ 10
Scenario 3: net profit attributable to shareholders of the Company for 2015 increase by 10% compared with that of 2014		
Equity attributable to shareholders of the parent company at the end of 2015（'000 RMB）	3,066,414.7	3,880,754.7~~4,191,014.7~~
Basic earnings per share (RMB)	0.52	0.~~48~~ 49
Net assets per share (RMB)	4.15	~~5.05~~4.82
Weighted average return on net assets	0.13	0.~~10~~ 11
Scenario 4: net profit attributable to shareholders of the parent company for 2015 increase by 20% compared with that of 2014		
Equity attributable to shareholders of the parent company at the end of 2015（'000 RMB）	3,101,594.2	3,915,934.2~~4,226,194.2~~

Basic earnings per share (RMB)	0.57	0.~~52~~ 53
Net assets per share (RMB)	4.20	~~5~~4.~~10~~ 87
Weighted average return on net assets	0.14	0.~~11~~ 12

2. Cautionary statement in relation to the dilutive effect of the Proposed Placement on the immediate return of the Company

   Upon receipt of the net proceeds from the Proposed Placement, the Company's total share capital and net assets will increase. However, as the constructions of the projects require a period of time, shareholders' returns can only be achieved through existing business during the construction period. Since the Company's total share capital and net assets will increase, if the business and net profits of the Company do not grow proportionately, the earnings per share and weighted average return on net assets and other financial indicators of the Company will decline. Upon receipt of the net proceeds, the immediate return of the Company (such as earnings per share, return on equity and other financial indicators) may have the risk of being diluted, hence investors are reminded to be cautious about the dilution risk on the immediate return of the Company.

3. Measures to address the dilutive effect of the Proposed Placement on the immediate return of the Company

   To reduce the impacts of the dilutive effect of the Proposed Placement on the immediate return of the Company, the Company intends to improve the quality of its assets, achieve sustainable development of the Company and promote shareholders' return by strengthening the management of the funds, accelerating the investment process of the projects, improving capital efficiency, expanding existing business, and strengthening mechanisms on investment return.

   (a) Strengthening management to ensure legitimate use of funds raised

   The funds will be deposited in a special account designated by the Board, and the Company will check the usage of the raised funds regularly to ensure that the funds are being used in a legitimate manner.

   (b) Accelerating the progress of investment projects to improve capital efficiency

   The Board has fully discussed the feasibility of the projects invested by the funds raised in the Proposed Placement. The investment projects are in line with the national industrial policy, industry trends and future development of the overall strategic direction of the Company, therefore, they will have good market prospects and profitability. Through the implementation of investment projects, the Company will further enhance the sales volume and market share of its core varieties of products, improve the extraction and processing capabilities of traditional Chinese medicine, enhance the production capacity and promotion of the functional plant beverage~~, and~~

~~build efficient and modern logistics distribution system~~, which significantly enhance the company's core competitiveness, market share and brand influence. The Company will then further improve its industrial layout and product mix, enhance the Company's profitability and ability to withstand risks, which will be conducive to the realization of the long-term interests of shareholders. The Company will pay close attention to the preparatory work of the investment projects, co-ordinate the arrangements for the investment and construction and strive to shorten the construction period, to complete the investment projects as soon as possible.

(c) Strengthening market development to improve profitability

The Company will continue to improve the pharmaceutical industry chain, enhance the products' development and marketing capabilities, expand the industrial scale and enhance the core competitiveness. At the same time, the Company will strengthen its management and internal control, promote comprehensive budget management and optimize its processes, strengthen cost and investment management and supervision of budget execution, to enhance the Company's operating efficiency and profitability.

(d) Improving the profit distribution system and strengthening investment return mechanism

To further enhance the transparency of the Company's dividend policy, improve and perfect the dividend policy-making and oversight mechanisms, maintain profit distribution policy continuity and stability, and protect the legitimate interests of the Shareholders, the Company had amended the profit distribution policy to be in line with "Notice on the Further Implementation of the Listed Company's Cash Dividend and Related Matters" (Zheng Jian Fa [2012] No. 37) and the "Listed Company Supervision Guidelines No.3—Cash Dividends of Listed Companies" (Announcement [2013] No. 43) promulgated by the CSRC.

The Shareholders have also approved the "Scheme on Return of Investment to Shareholders from 2014 to 2016", which the Company will strictly comply with after the completion of the Proposed Placement, in order to provide a reasonable return to investors.

(e) Improving corporate governance to ensure the development of the Company

The Company will strictly follow the requirements of "Company Law", "Securities Act", "Corporate Governance Guidelines" and other laws, regulations and regulatory documents, and constantly improve the corporate governance to ensure that shareholders can fully exercise their rights, the Board can exercise their authority in accordance with the law, regulations and the Articles of Association and make a timely and prudent decision, independent directors can perform their duties

conscientiously to safeguard the interests of the Company, especially the legitimate interests of minority shareholders, so as to ensure the development of the Company.

4. Measures to ensure the use of proceeds are strictly followed

In order to regulate the management and improve the efficiency of the use of the raised funds, pursuant to the laws, regulations and rules, such as “Company Act”, “Securities Law”, “Rules Governing the Listing of Securities on the Shanghai Stock Exchange”, “Rules on Use of Proceeds on the Shanghai Stock Exchange (2013 Revision)”, together with the Article of Association of the Company, the Company has drafted rules governing the use of the proceeds, prescribing clear rules on the deposit, use, change of use, management, and supervision of the proceeds.

Upon receipt of the proceeds, the Company will deposit the proceeds in the designated account, ensure that the proceeds are used for the designated projects, have the proceeds internally auditors periodically, and be cooperative with the Placement Agent to inspect and supervise the raised funds, so as to prevent any risk arising from misuse of the funds. The major measures by the Company are as follows:

(a) Upon receipt of the proceeds, the Company will choose a bank carefully to open the designated account. The proceeds will be deposited and managed in the designated account as approved by the Board.
(b) Within 1 month after the receipt of the proceeds, the Company will enter into a tripartite supervision agreement with the Placement Agent and the bank managing the designated account, to ensure oversight of the use of the proceeds.
(c) The Company shall use the proceeds in accordance with the documents submitted to the CSRC.
(d) Disbursements of the proceeds shall be strictly in accordance with the Company’s financial management system.
(e) The Board will oversee the progress of the investment projects, and issue reports on the use of the proceeds every 6 months. At the annual audit, the auditor will issue a report verifying the status of the proceeds.
(f) As part of the supervision agreement between the Placement Agent and the Company, there shall be site visits to verify the use of proceeds every 6 months.

By order of the Board of Directors
7 January 2015