

Feasibility Analysis Report on the Use of Proceeds

I. Proceeds usage plan

Total proceeds from the private placement amount to not more than RMB1.154 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	250.00	127.50
	Project on Chinese Medicine Extraction and Preparation	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

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 Huoxiang 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 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 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, 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.