

Measures for the Management of Proceeds

Chapter One General Provisions

- Article 1 To regulate the administration and application of proceeds of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (herein referred to as the “Company”) and to protect the interests of investors, these measures are formulated taking into account the Company’s actual circumstances in accordance with the *Company Law*, the *Securities Law*, the *Administrative Measures for the Issuance of Stocks by Listed Companies*, the *Rules Governing the Listing of Securities on the Shanghai Stock Exchange*, the *Administrative Measures of the Shanghai Stock Exchange for the Capital Raised by Listed Companies (2013 Revision)*, the *Articles of Association of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited* (herein referred to as the “Articles”) as well as the provisions and requirements of relevant laws, regulations and rules.
- Article 2 The term “proceeds” used in these measures refers to funds raised by the Company through public offering of securities (including allotment of shares, issuance of additional stocks, issuance of convertible bonds and issuance of bonds with warrants) as well as non-public offering of securities to investors, excluding funds raised by the listed company for the implementation of equity incentive plans.
- Article 3 Directors, supervisors and senior management personnel of the Company shall be diligent and responsible in supervising the Company to regulate the use of proceeds and shall safeguard the security of the Company’s proceeds in a conscious way. They shall not participate in, facilitate or connive at any unauthorized or disguised conversion of the purpose of proceeds by the Company.
- Article 4 The controlling shareholder and the de facto controller of the Company shall neither directly nor indirectly appropriate or misappropriate the Company’s

proceeds and shall not make use of the Company's proceeds or projects financed out of the proceeds (herein referred to as the "Investment Project(s)") to obtain illegitimate interests.

Article 5 Where a project financed out of the proceeds is implemented through the Company's subsidiaries or other enterprises controlled by the Company, such subsidiaries of the Company and enterprises controlled by the Company shall comply with these measures.

Chapter Two Deposit of Proceeds

Article 6 The Company's proceeds shall be deposited adhering to the principles of safety as well as easy supervision and administration. To facilitate the use of proceeds and supervision on the usage situation, the Company's proceeds shall be deposited into a special account established with the approval of the board of directors (herein referred to as the "Special Account") for centralized management. The Special Account shall be opened with a bank which has good credit and stringent management practices. Funds which do not belong to the proceeds or funds which are used for other purposes shall not be deposited into the Special Account.

Article 7 The Company shall sign a tripartite escrow agreement with the sponsor and the commercial bank at which the proceeds are deposited (herein referred to as the "Commercial Bank") within one month after the proceeds have been transferred into the account. The agreement shall at least include the following items:

- (1) the Company shall deposit all of the proceeds into the Special Account;
- (2) the Commercial Bank shall provide the Company with a monthly statement of the Special Account and make a copy for the sponsor;
- (3) where the Company withdraws an amount more than RMB50 million from the Special Account once or multiple times within 12 months and that the

amount reaches 20% of the net proceeds after deducting the expenses of the offering (herein referred to as the “Net Proceeds”), the Company shall timely notify the sponsor;

- (4) the sponsor may check at the Commercial Bank at anytime on the information of the Special Account;
- (5) liability for the breach of contract by the Company, the Commercial Bank and the sponsor.

The Company shall report it to the Shanghai Stock Exchange for record and announcement within two trading days after the signing of the above agreement.

Where the above agreement is terminated prior to its expiry for reasons such as the change in the sponsor or the Commercial Bank, the Company shall sign a new agreement with the parties concerned within two weeks starting from the date of termination of the agreement and shall report it to the Shanghai Stock Exchange for record and announcement within two trading days after the signing of the new agreement.

Article 8 Where the Company considers that the amount of proceeds is relatively large and thus there is the need to open a special account with more than one bank, in adhering to the principle that funds allocated for the same project are to be deposited into the same special account, the Company may open a special account with more than one bank with the approval of the board of directors.

Article 9 The finance division of the Company is responsible for the daily management of proceeds, including but not limited to the opening and management of special accounts as well as the deposit, use and ledger management of proceeds.

Chapter Three Use of Proceeds

Article 10 The Company shall use proceeds according to the plan as agreed in the

offering application documents. The division in charge of the implementation of the project shall prepare a more specific plan on the use of proceeds according to the agreed plan and feasibility reports and report it to the board of directors for approval upon consideration by the Company's general manager office.

Article 11 When the Company invests its proceeds in a project, expenditure must fulfill procedures for considering and approving the use of funds in strict accordance with the Company's capital management systems. Any expenditure relating to the proceeds shall be audited by the finance division based on the plan proposed by the division in charge of the implementation of the project within the scope as authorized by the board of directors and payments shall then be settled by the finance division upon stepwise endorsement by the head of the project, the head of the finance division and the general manager. Any expenditure which is beyond the scope of authorization of the board of directors shall be reported to the board for consideration and approval.

Article 12 Investment Projects shall be implemented in strict accordance with the time schedule as agreed by the board of directors. The division in charge of the implementation of Investment Projects shall set out the progress of work in details to ensure that all tasks are completed according to the quality and quantity as planned and submit regular reports on the actual progress of the project to the board of directors. Where an Investment Project cannot be completed according to the agreed plan (schedule) due to the impact of unforeseen objective factors, the Company must make a public disclosure of the actual situation in a timely manner and explain the reasons in details. Where there is severe impact on the use of proceeds according to plan, the Company shall timely report it to the Shanghai Stock Exchange and make announcement.

Article 13 Where any of the following situations occurs to an Investment Project, the Company shall implement argumentation processes again on the feasibility,

expected earnings and other factors of the Investment Project to determine whether to continue the project or not and shall disclose the progress of the project, the reasons for the unusual condition and the adjusted Investment Project (if any) in the latest regular report:

- (1) significant change in the market environment relating to the Investment Project;
- (2) the Investment Project has been set aside for more than one year;
- (3) the date of completion of the Investment Project is behind the schedule and the amount of proceeds invested has not reached 50% of the planned amount;
- (4) other unusual conditions that occur to the Investment Project.

Article 14 In principle, the Company's proceeds shall be used in the main business. The following behaviour is prohibited in the use of proceeds:

- (1) Investment Projects being financial investments such as held-for-trading financial assets, available-for-sale financial assets, lending operations and trust management operations as well as direct or indirect investments in companies that are primarily engaged in the trading of securities;
- (2) convert the use of proceeds in the disguise of pledges, entrusted loans and other means;
- (3) directly or indirectly provide the controlling shareholder, the de facto controller and other associated persons with proceeds for facilitating them to obtain illegitimate interests;
- (4) other behaviour in violation of the provisions governing the management of proceeds.

Article 15 Where the Investment Project was previously financed by the Company's self-raised funds, the Company may replace the self-raised funds with

proceeds within six months after the proceeds are deposited into the account.

The replacement shall be considered and passed by the Company's board of directors with a verification report to be issued by an accounting firm and that the independent directors, the supervisory committee and the sponsor should have given their explicit consent. The Company shall report it to the Shanghai Stock Exchange within two trading days after the holding of the board of directors' meeting and make announcement.

Article 16 Temporarily idle proceeds may be used for cash management and the products to be invested must meet the following criteria:

- (1) the product is safe and guaranteed for capital preservation and the offering entity can demonstrate a commitment on capital guarantee;
- (2) the product has high liquidity and should not affect the use of proceeds according to plan. Where the investment product is not allowed to be pledged, funds which do not belong to the proceeds or funds which are used for other purposes are not allowed to be deposited into a special settlement account (if applicable) or a special settlement account is to be opened or cancelled, the Company shall report it to the Shanghai Stock Exchange within two trading days for record and make announcement.

Article 17 Where idle proceeds are used to invest in a product, it shall be considered and passed by the Company's board of directors and that the independent directors, the supervisory committee and the sponsor should have given their explicit consent. The Company shall make announcement on the following items within two trading days after the holding of the board of directors' meeting:

- (1) background information of the fundraising, including the time of the fundraising, the amount of funds raised, the amount of net proceeds and the investment plan;
- (2) the status of the use of proceeds;

- (3) the amount and duration of the investment of idle proceeds in the product, any disguised conversion of the purpose of proceeds and any measure to ensure that the normal operation of projects financed by proceeds will not be affected;
- (4) the profit distribution method, the scope of investment and safety of the investment product;
- (5) opinions of the independent directors, the supervisory committee and the sponsor.

Article 18 Where idle proceeds are temporarily used to replenish working capital, the following requirements shall be met:

- (1) no disguised conversion of the purpose of proceeds is allowed and the use of proceeds according to plan should not be affected;
- (2) proceeds shall be used only for production and operation of relevance to the main business and should not be used for rights issue, share subscription or trading of stocks, derivatives and convertible bonds and so forth through direct or indirect arrangements;
- (3) replenishment of working capital shall not last for more than 12 months for each time;
- (4) proceeds that were temporarily used to replenish working capital previously have been returned upon expiry (if applicable).

Article 19 Where idle proceeds are temporarily used to replenish working capital, the Company shall report it to the Shanghai Stock Exchange within two trading days and make announcement upon consideration and approval by the Company's board of directors and that the independent directors, the sponsor and the supervisory committee should have given their explicit consent.

The Company shall return the funds to the Special Account prior to the replenishment expiry date and report it to the Shanghai Stock Exchange within

two trading days when all funds are returned and make announcement.

Article 20 Where the Company's actual net proceeds have exceeded the targeted amount of proceeds to be raised (herein referred to as the "Excess Proceeds"), they may be used to permanently replenish working capital or to repay bank loans, provided that the aggregate amount of proceeds used within every 12 months does not exceed 30% of the total amount of Excess Proceeds, and the Company shall agree not to undertake risky investments or provide other parties with financial assistance within 12 months after working capital has been replenished.

Article 21 Where the Excess Proceeds are used to permanently replenish working capital or to repay bank loans, the Company shall submit it to the board of directors and the general shareholders' meeting for consideration and approval and shall organize an online poll for shareholders to vote and that the independent directors, the supervisory committee and the sponsor should have given their explicit consent. The Company shall report it to the Shanghai Stock Exchange within two trading days after the holding of the board of directors' meeting and make announcement on the following items:

- (1) background information of the fundraising, including the time of the fundraising, the amount of funds raised, the amount of net proceeds, the amount of Excess Proceeds and the investment plan;
- (2) the status of the use of proceeds;
- (3) the necessity of using the Excess Proceeds to permanently replenish working capital or to repay bank loans and the detailed plans;
- (4) the commitment not to undertake risky investments or provide other parties with financial assistance within 12 months after working capital has been replenished;
- (5) the impact on the Company in using the Excess Proceeds to permanently

replenish working capital or to repay bank loans;

(6) opinions of the independent directors, the supervisory committee and the sponsor.

Article 22 Where the Excess Proceeds are used for projects in construction and new projects (including acquisition of assets), they shall be invested in the main business and the Company shall conduct feasibility analysis of the projects in a scientific and prudent manner pursuant to relevant provisions set out in “Chapter Four Change in the Investment of Proceeds” of these measures and shall timely fulfill the obligations of information disclosure.

Article 23 When an Investment Project is completed, where the amount of proceeds left over from the project (including interest income) are used for other Investment Projects and that such remaining amount of proceeds (including interest income) exceeds RMB1 million and is more than 5% of the agreed investment amount of that project, it shall be considered and passed by the board of directors and that the independent directors, the sponsor and the supervisory committee should have given their explicit consent. The Company shall report it to the Shanghai Stock Exchange within two trading days after the holding of the board of directors’ meeting and make announcement. When such remaining amount of proceeds is less than the above standard, procedures in the preceding paragraph may be exempted and the usage situation shall be disclosed in the annual report.

Where the amount of proceeds left over from the project (including interest income) are used for purposes other than Investment Projects (including working capital replenishment), the Company shall fulfill corresponding obligations of information disclosure with reference to the modification of Investment Projects.

Article 24 When all Investment Projects are completed, where the amount of proceeds left over (including interest income) is above 10% of the net proceeds, the

Company is only allowed to use such remaining amount of proceeds upon consideration and approval by the board of directors and the general shareholders' meeting and that the independent directors, the sponsor and the supervisory committee should have given their explicit consent. The Company shall report it to the Shanghai Stock Exchange within two trading days after the holding of the board of directors' meeting and make announcement.

Where the amount of proceeds left over (including interest income) is below 10% of the net proceeds, the Company is only allowed to use such remaining amount of proceeds upon consideration and approval by the board of directors and that the independent directors, the sponsor and the supervisory committee should have given their explicit consent. The Company shall report it to the Shanghai Stock Exchange within two trading days after the holding of the board of directors' meeting and make announcement.

Where the amount of proceeds left over (including interest income) is below RMB5 million or 5% of the net proceeds, procedures in the preceding paragraph may be exempted and the usage situation shall be disclosed in the latest regular report.

Chapter Four Change in the Investment of Proceeds

Article 25 The Company's proceeds shall be used in accordance with the purposes stated in the prospectus or the memorandum. Any change made to an Investment Project shall be considered and passed by the board of directors and the general shareholders' meeting and after the independent directors, the sponsor and the supervisory committee should have given explicit consent to the change.

Where only the location of an Investment Project is to be changed, although it may be exempted from the procedures set out in the preceding paragraph, the Company shall submit it to the board of directors for consideration and approval, report it to the Shanghai Stock Exchange within two trading days upon consideration by the board of directors, and make announcement on the

reasons for the change and the opinions of the sponsor.

Article 26 The modified Investment Project shall be invested in the main business.

The Company shall conduct feasibility analysis of the new Investment Project in a scientific and prudent manner and is thereby convinced that the projects to be invested have relatively good market prospects and profitability to effectively prevent investment risks and improve efficiency in the use of proceeds.

Article 27 For any change to be made to an Investment Project, the Company shall report it to the Shanghai Stock Exchange within two trading days upon consideration by the board of directors and make announcement on the reasons for the following items:

- (1) basic information of the original Investment Project and specific reasons for the change;
- (2) background information, feasibility analysis and risk reminder of the new Investment Project;
- (3) investment plan of the new Investment Project;
- (4) explanations on relevant departmental approvals obtained or to be obtained for the new Investment Project (if applicable);
- (5) opinions of the independent directors, the supervisory committee and the sponsor about the modification of the Investment Project;
- (6) explanations on the necessity to obtain approval of the general shareholders' meeting on the modification of the Investment Project;
- (7) other items as required by the Shanghai Stock Exchange.

Where related party transactions, assets purchases and foreign investments are involved, the new Investment Project shall also be disclosed in accordance with the provisions of relevant rules.

Article 28 Where an Investment Project is modified by the Company for the purpose of acquiring assets (including equity interests) of the controlling shareholder or the de factor controller, the Company shall ensure that it could effectively prevent peer competition and reduce related party transactions after the acquisition.

Article 29 Where an Investment Project is intended for external transfer or replacement (except that the Investment Project has been fully transferred or replaced in the course of the Company's major asset restructuring), the Company shall report it to the Shanghai Stock Exchange within two trading days upon consideration by the board of directors and make announcement on the following items:

- (1) specific reasons for the external transfer or replacement of the Investment Project;
- (2) amount of proceeds that has already been spent on the project;
- (3) extent of completion and beneficial results of the project;
- (4) background information, feasibility analysis and risk reminder of the substitute project (if applicable);
- (5) basis for the pricing of the transfer or replacement and relevant income;
- (6) opinions of the independent directors, the supervisory committee and the sponsor about the transfer or replacement of the Investment Project;
- (7) explanations on the necessity to obtain approval of the general shareholders' meeting on the transfer or replacement of the Investment Project;
- (8) other items as required by the Shanghai Stock Exchange.

The Company shall pay full attention to the receipt of consideration and its usage situation as well as the change in the substitute asset's equity and the continuous operation of the substitute asset and shall fulfill the necessary

obligations of information disclosure.

Chapter Five Management and Supervision on the Use of Proceeds

Article 30 The Company's board of directors shall conduct a comprehensive verification on the progress of the Investment Project every half year and issue a *Special Report on the Deposit and Actual Usage Situation of the Company's Proceeds* (herein referred to as the "Special Report") with respect to the deposit of proceeds and the status of the use of proceeds.

The actual progress of the Investment Project may differ from the investment plan and the Company shall provide specific reasons for such difference in the Special Report. Where idle proceeds were used to invest in products during the reporting period, the Company shall disclose information, including earnings for the reporting period, the share of investments at the end of the reporting period, the contracting parties, product names and duration, in the Special Report.

The Special Report shall be considered and passed by the board of directors and the supervisory committee and shall be submitted to the Shanghai Stock Exchange within two trading days upon consideration by the board of directors with announcement made. At the time of annual audit, the Company shall appoint an accounting firm to issue a verification report on the deposit of proceeds and the status of the use of proceeds to be submitted to the Shanghai Stock Exchange at the time of publication of the annual report and at the same time to be disclosed at the website of the Shanghai Stock Exchange.

Article 31 Independent directors, the audit committee of the board of directors and the supervisory committee shall pay continuous attention to the actual management of proceeds and the status of the use of proceeds. Half or more of the independent directors, the audit committee of the board of directors and the supervisory committee may appoint an accounting firm to issue a verification report on the deposit of proceeds and the status of the use of proceeds. The

Company shall actively cooperate with it and bear the necessary costs.

The board of directors shall report to the Shanghai Stock Exchange within two trading days upon receipt of the verification report provided in the preceding paragraph and make announcement. Where the Company's management and use of proceeds is deemed to have violated the law in the verification report, the board of directors shall also make announcement about the violation with respect to the deposit of proceeds and the status of the use of proceeds, the consequences resulted or likely to be resulted as well as the measures taken or to be taken.

Article 32 After the end of each accounting year, the Company's board of directors shall disclose concluding observations set out in the special verification report of the sponsor and the verification report of the accounting firm in the Special Report.

Chapter Six Supplementary Provisions

Article 33 Where proceeds are used in violation of national laws, regulations, the Articles and relevant provisions of these measures that causes damages to the Company, the relevant parties shall bear corresponding civil liabilities.

Article 34 For matters not being covered in these measures, relevant national laws, administrative regulations, normative documents and the Articles shall apply.

Article 35 The terms "above" used in these measures includes the given figure whereas the term "below" excludes the given figure.

Article 36 The Company's Board of directors is responsible for the interpretation of these measures.

Article 37 These measures shall be implemented starting from the date of approval by the Company's general shareholders' meeting, same as with the revision of these measures. At the same time, the Company's original *Measures for the Management of Proceeds* shall become invalid.