

# Replacement Prospectus

## Initial Public Offering

Proposed ASX Code: RY8



**RONG YU**  
PHARMACEUTICALS

By this replacement prospectus ('Prospectus'), Rong Yu Pharmaceuticals Limited ('the Company') invites investors to apply for up to 100,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$20,000,000. The Offer has a minimum subscription of \$15,000,000.

The Offer made by this Prospectus is conditional upon ASX confirming that it will admit the Company to Official Quotation, subject to the satisfaction of such terms and conditions prescribed by the ASX Listing Rules, as well as other conditions detailed in this Prospectus.

**The Offer is scheduled to close at 5.00pm (AEST) on 11 December 2017 unless extended or withdrawn. Applications must be received before that time to be valid.**

### IMPORTANT NOTICE

Applicants should read this Prospectus in its entirety before deciding to apply for Shares. If, after reading this Prospectus, you have any questions about the Offer, you should contact your professional advisers.

There are risks associated with an investment in the Company and the Shares offered under this Prospectus are to be regarded as a speculative investment. Please refer to Section 6 of this Prospectus ('Risk Factors') for the risk factors associated with the Offer.

### Lead Manager\*

**Beer & Co.**

\* Beer & Co's wholly owned subsidiary company, Melbourne Venture Securities Pty Ltd (ACN 102 538 394) holds Australian Financial Services Licence No. 224313 and shall provide the services of the Lead Manager in connection with the Offer.

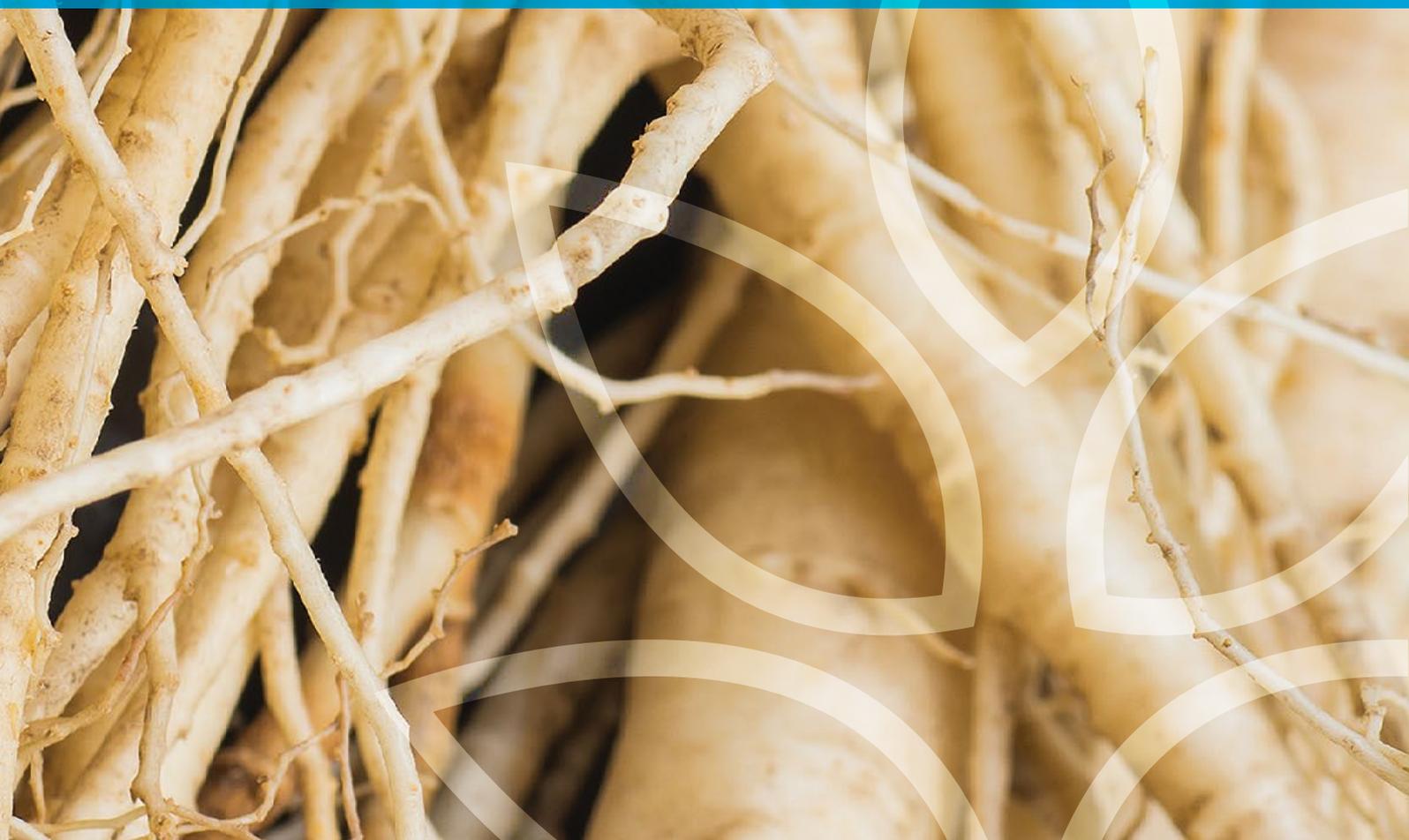
Issued by Rong Yu  
Pharmaceuticals Limited  
ACN 617 647 293



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# Important Notice

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## General

This replacement prospectus ('Prospectus') is dated 31 October 2017 and replaces the Original Prospectus dated 16 October 2017. A copy of this Prospectus was lodged with the ASIC on 31 October 2017. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus.

The Company has lodged an application with ASX for admission of the Company to the official list of ASX and quotation of all Shares on ASX.

It is important that you read this Prospectus carefully and in full before deciding to subscribe for Shares in the Company.

## Overview of the Material Changes from the Original Prospectus

The principal differences between the Original Prospectus and this Prospectus may be summarised as follows. The Prospectus now includes:

- enhanced disclosure on the material risks affecting the Business including management inexperience in plantation, control risk and intellectual property protection risk;
- emphasis that past performance of the Business should not be relied upon as being indicative of future performance;
- disclosure that Mr Rongyu Ye will not be applying for any Offer Shares offered under the Prospectus; and
- details of the directors of each company within the Rongyu Group.

## Conditional Offer

The Offer is subject to and conditional upon approval of the admission of the Company's Shares to Official Quotation on the ASX.

## Expiry Date

No securities will be issued on the basis of this Prospectus later than thirteen (13) months after the date of the Original Prospectus.

## Investment Advice

This Prospectus does not take into account your financial circumstances, financial objectives or particular needs (including your financial or taxation issues). Therefore, this Prospectus does not constitute investment advice. You should obtain professional investment advice before subscribing for Shares under this Prospectus.

## Additional Copies of Prospectus

Additional copies of this Prospectus are available at the registered office of the Company.

The Corporations Act prohibits any person from passing onto another person an Application Form unless it is attached to or accompanied by the complete and unaltered version of this Prospectus.

Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company Secretary of the Company via email at [cy2koh@hotmail.com](mailto:cy2koh@hotmail.com).

## Restrictions on Offer

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Shares, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia and the Offer is not an offer or invitation in any jurisdiction where, or to any person whom, such an offer or invitation would be unlawful.

## Application Forms

Applications for Shares can only be made pursuant to the Application Form attached to and forming part of this Prospectus. The Corporations Act prohibits any person from passing the Application Form to any other person unless it is attached to, or accompanied by, a complete and unaltered version of the Prospectus.

The Application Form contained in this Prospectus contains a declaration that the Applicant has personally received the complete and unaltered Prospectus prior to completing the Application Form.

## Exposure Period

In accordance with Chapter 6D of the Corporations Act, the Original Prospectus was subject to an Exposure Period of seven (7) days from the date of the Original Prospectus. This period was extended by a further seven (7) days by ASIC, being to 30 October 2017. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with section 724 of the Corporations Act. Namely, Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period and will receive no preference.

## Privacy

If you apply for Shares you will provide personal information to the Company and the Share Registry. This enables your Application to be assessed, you to be registered as the holder of Shares, you to be entered in the Company's register of members and to enable the Company to contact you. The Company may from time to time be required to disclose your personal information to the Australian Taxation Office, other government agencies or as required by law. The Company and the Share Registry may disclose your personal information to its agents and service providers as authorised by the *Privacy Act 1988* (Cth) or for purposes required by the ASX Listing Rules or the Corporations Act. You may access your personal information by contacting the Share Registry and may request corrections to such personal information.

## Forward Looking Statements

Various statements in this Prospectus constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward looking statements and involve known and unknown risks, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way implicitly portrayed within this Prospectus. These risks, uncertainties and other factors include, but are not limited to, the matters described in Section 6 of this Prospectus ('Risk Factors'). The Company gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward looking statements will be achieved. Except to the extent required by law, the Company has no intention to update or review forward looking statements or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

## Statements of Past Performance

This Prospectus includes information regarding the past performance of the Rongyu Group, including but not limited to the financial information included in Section 7 of the Prospectus. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

## Definitions

Please refer to the Glossary in Section 13 of this Prospectus for terms and abbreviations used in parts of this Prospectus.

## Miscellaneous

The financial amounts in this Prospectus are expressed in Australian dollars unless stated otherwise. Items displayed in photographs in this Prospectus are not necessarily assets owned by the Company. The inclusion of photographs supplied by persons or entities other than the Company does not constitute an endorsement or recommendation by those persons or entities of Shares offered under this Prospectus.

All reference to time relate to the time in Victoria, Australia unless otherwise stated.

## Lead Manager

Beer & Co's wholly owned subsidiary company, Melbourne Venture Securities Pty Ltd (ACN 102 538 394) holds Australian Financial Services Licence No. 224313 and shall provide the services of the Lead Manager in connection with the Offer.

Beer & Co has acted as Lead Manager to the Offer. The Lead Manager has not authorised, permitted or caused the issue or lodgement, submission, despatch or provision of this Prospectus and there is no statement in this Prospectus that is based on any statement made by it or by any of its affiliates, officers or employees. To the maximum extent permitted by law, the Lead Manager and its affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to its name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

# Letter from the Chairman

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Dear Investor,

Welcome to the Prospectus of Rong Yu Pharmaceuticals Limited. On behalf of the Board of the Company, it is my pleasure to offer you the opportunity to become a shareholder in this exciting venture.

By the issue of this Prospectus, the Company is seeking to raise up to \$20,000,000 through the issue of 100,000,000 shares at an issue price of \$0.20 per share.

## The Business

The Business is a well-established business founded in 2004 involving the development, manufacture and sale of prescription and OTC pharmaceutical products based on principles of traditional Chinese medicine (**TCM**). The Company currently manufactures five products for sale in China, namely the Chinese Angelica Roots and Nan Date Tablets, the Chinese Angelica Roots and Nan Date Granules, the Yuanhu Analgesic Capsules, the Lipid Lowering and Hypolipidemic Chewable Tablets and the Gankang Granules (**the Rongyu Products**). The Rongyu Products are distributed and sold throughout 28 Provinces across China via the Company's network of over 300 wholesale distributors. For more details about the Rongyu Products or the Company's business model, please refer to section 2.2 of this Prospectus.

The TCM industry has experienced stable growth in the past few years, with a compound annual growth rate of 21.7% year-on-year, owing to strong Chinese government support for the industry as documented in China's 12th and 13th 5-year plan and owing to increasing demand for TCM products from domestic and overseas markets. The Board therefore anticipates that the TCM industry will continue to grow for the foreseeable future.

With the increasing demand for TCM both in China and overseas, following successful completion of the Offer, the Company plans to expand its business activities in the Asia-Pacific region beginning with Australia. In light of the China-Australia Free Trade Agreement that entered into force on 20 December 2015 which, amongst other things, sought to improve the collaboration between China and Australia on the development of related industries of the Business, and increase bilateral trade and economic exchanges, the Board believes that an expansion into Australia will provide strategic opportunities for the growth of the Business.

Following successful completion of the Offer, the Company also intends to acquire the land-use rights for a parcel of agricultural land in Fuzhou City, Jiangxi Province, China of approximately 10,000 acres (**Land**), to plant the herbs used in the manufacture of the Rongyu Products. Presently, the Company relies heavily upon supply of raw materials (i.e. herbs) from third party suppliers for production. Therefore, as the Company is constantly exploring opportunities to improve its business model and the quality of the Rongyu Products, the Company believes having its own herb plantations will provide greater assurance in the safety and quality of raw materials that will be used for the manufacture of the Rongyu Products. The Company believes this is important for the growth and expansion of the Business.

In order to capture an increasing Chinese demand for products manufactured using foreign grown ingredients, the Company is also exploring opportunities to source Australian grown raw materials to produce a premium range of Rongyu Products. The Company may also pursue distribution opportunities with Australian based TCM businesses to distribute their products, via the Company's distribution network in China.

While the Business has been profitable in past financial years, investors should note that past performance should not be relied upon as being indicative of future performance. In particular, the Rongyu Group faces several risks inherent in the industry that the Rongyu Group operates in, including the regulatory risk in relation to the continuation of approvals required for the manufacture of the Rongyu Products as well as the risks of changing consumer preferences. Furthermore an investment in the Company is subject to risks specific to the Company relating to the fact that the Company's management lack experience in plantation activities and the fact that Mr Rongyu Ye, the Company's Executive Director, holds a significant share of the Company's issued share capital. For more information about the risks of an investment in the Company, including company-specific, industry-specific and general investment risks, please refer to Section 6 (Risk Factors) of this Prospectus.

## Listing on the ASX

The Company is seeking to list on the ASX for the following key reasons:

- to provide the Company with further funding to:
  - pursue further growth of the Business in China by
    - acquiring land-use rights in the Land which will enable the Company to grow its own raw materials for the Rongyu Products;
    - undertaking development of further TCM products; and
    - geographically expanding the Company's distribution networks in China;
  - expand the Business into Australia including importing the Rongyu Products into Australia for sale;
  - pursue other commercial objectives, including:
    - sourcing TCM products of other Australian based TCM business for distribution into the Chinese market via the Company's distribution networks in China; and
    - sourcing Australian grown raw materials to manufacture a premium range of Rongyu Products;
- to provide the Company with greater access to a liquid capital market in a similar time zone as the Company's primary operating jurisdiction, which will enable the Company to pursue the growth and expansion of the Business; and
- to be part of an internationally recognised stock exchange with a strong corporate governance environment that the Company believes will enhance and facilitate greater commercial opportunities for the Business and provide a platform for growth.

This Prospectus contains detailed information about the Company, the Business and the risks of participating in an investment of this nature. The Board recommends that investors read this Prospectus carefully and in its entirety. The Offer is conditional on the Company gaining approval from the ASX for the Admission.

On behalf of the Board, I look forward to welcoming you as a Shareholder of the Company.

Yours faithfully,



**Mr Rodney Hannington**  
Non-Executive Chairman

31 October 2017



Business model involving the development, manufacture and sale of pharmaceutical products based on principles of traditional Chinese medicine

# Section 1

## Investment Overview

The following is a summary only and is not intended to be comprehensive. Prospective investors should read the full text of this Prospectus and if you are uncertain about any matter you should consult your investment advisor before making an investment decision.

### 1.1 Purpose of the Prospectus

The purpose of this Prospectus is to:

- (a) facilitate the Company's admission to the Official List of the ASX; and
- (b) to raise up to \$20,000,000 pursuant to the Offer, in order to assist the Company in meeting its commercial objectives, which include:
  - facilitating the listing of the Company's Shares on the ASX and the listing of the Shares offered under this Prospectus;
  - expansion of its Business into Australia, including introducing the Rongyu Products into the Australian market;
  - acquisition of usage rights in the Land to cultivate raw materials for manufacture of the Rongyu Products;
  - geographically expanding the Company's distribution networks in China;
  - providing funds for general working capital purposes; and
  - paying the costs and expenses associated with the Offer.

### 1.2 Summary of the Offer

This Prospectus provides investors with the opportunity to participate in the initial public offering of Offer Shares in Rong Yu Pharmaceuticals Limited ACN 617 647 293, a company incorporated in Victoria, Australia.

#### 1.2.1 The Offer

Key Offer statistics	Minimum Subscription	Maximum Subscription
Offer Price	A\$0.20	A\$0.20
Total number of Offer Shares to be issued	75,000,000	100,000,000
Number of Shares held by Rongyu Ye (an existing director of the Company) and the Existing Minority Shareholders <sup>1</sup>	300,000,000	300,000,000
Total number of Shares on issue at completion of the Offer	375,000,000	400,000,000
Total cash proceeds to the Company from the Offer	A\$15,000,000	A\$20,000,000
Costs of the offer to be paid from the cash proceeds (estimate) <sup>2</sup>	A\$1,214,927	A\$1,587,788
Market capitalisation at completion of the Offer <sup>3</sup>	A\$75,000,000	A\$80,000,000

Notes:

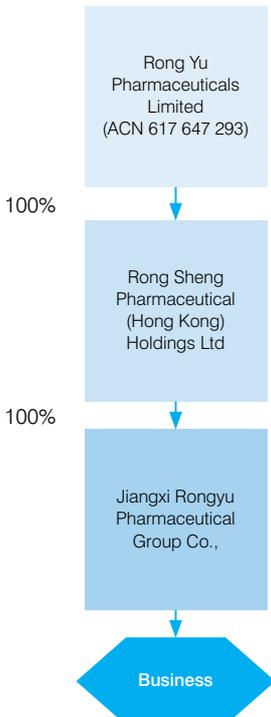
1. The Shares held by Rongyu Ye and the Existing Minority Shareholders are subject to voluntary escrow arrangements. Please refer to Section 10.11 for further details of these escrow arrangements.
2. The above only represents the cash costs of the Offer yet to be paid as at the date of the prospectus (i.e. total Offer costs less costs already paid as at the date of this Prospectus).
3. Calculated as the total number of Shares on issue on completion of the Offer multiplied by the Offer Price.

#### 1.2.2 Key Dates\*

Event	Date (AEST)
Original Prospectus lodged with ASIC	16 October 2017
Prospectus lodged with ASIC	31 October 2017
Prospectus released to market	31 October 2017
Prospectus offer closes	11 December 2017
Expected Allotment Date of Offer Shares	18 December 2017
Expected dispatch of Holding Statements	19 December 2017
Admission of Company to ASX	22 December 2017

\* Please note that the dates set out in the above timetable may be varied in accordance with the Corporations Act, and, where required, in consultation with ASX. These dates are indicative only and are subject to change. The Company reserves the right to vary the dates without prior notice.

### 1.3 Overview of the Company

Item	Summary	More Information
Who is the issuer of this Prospectus?	Rong Yu Pharmaceuticals Limited ACN 617 647 293 ( <b>Company</b> ) is an Australian incorporated public company seeking to be listed on the ASX.	Section 2
What does the Company do?	<p>The Company owns, through its wholly owned subsidiaries, the Business, which currently involves the development, manufacture and sale of pharmaceutical products (<b>Rongyu Products</b>) based on principles of traditional Chinese medicine (<b>TCM</b>). The Business has been operational since 2004 and is located in Fuzhou City, Jiangxi Province, China.</p> <p>Under the Company's current business model, the Company sources the raw materials utilised in the manufacture of its Rongyu Products from local herb markets while customised packaging material and other ancillary ingredients are purchased from third party suppliers.</p> <p>The Company then manufactures and packages its Rongyu Products in-house before delivering them to over 300 wholesale distributors for distribution throughout 28 Provinces across China.</p>	Section 2
Business ownership and structure	<p>The Company is the holding company of the Rongyu Group, which currently is consisted of Rong Sheng Pharmaceutical (Hong Kong) Holdings Ltd (<b>Rong Sheng</b>) and Jiangxi Rong Yu Pharmaceutical Group Co., Ltd (<b>JRYP</b>) (together the <b>Rongyu Group</b>).</p> <p>As set out in the diagram below, the Company controls the Business through Rong Sheng and JRYP:</p>  <pre> graph TD     A["Rong Yu Pharmaceuticals Limited (ACN 617 647 293)"] -- 100% --&gt; B["Rong Sheng Pharmaceutical (Hong Kong) Holdings Ltd"]     B -- 100% --&gt; C["Jiangxi Rongyu Pharmaceutical Group Co., Ltd"]     C --&gt; D{{Business}}         </pre>	Section 2
Who is Rong Sheng?	<p>Rong Sheng is a company incorporated in Hong Kong (Hong Kong Company Number 2259483) and is wholly owned by the Company.</p> <p>As at the date of this Prospectus, other than its shareholding in JRYP, Rong Sheng has no other business activities.</p>	Section 2

# Section 1

## Investment Overview continued

Item	Summary	More Information
Who is JRYP?	JRYP is a limited liability company incorporated in the People's Republic of China and currently conducts all the business operations of the Rongyu Group.	Section 2
What are the Rongyu Products?	<p>The Rongyu Products are pharmaceutical products that are developed based on principles of traditional Chinese medicine. The Rongyu Products have been approved for sale by the Chinese Food &amp; Drug Administration (<b>CFDA</b>) and are currently sold across 28 Provinces in China.</p> <p>As at the date of this Prospectus, the Rongyu Products are currently comprised of the following:</p> <ul style="list-style-type: none"><li>• Chinese Angelica Roots and Nan Date Tablets;</li><li>• Chinese Angelica Roots and Nan Date Granules;</li><li>• Yuanhu Analgesic Capsules;</li><li>• Lipid-Lowering and Hypolipidemic Chewable Tablets; and</li><li>• Gankang Granules.</li></ul> <p><i>For more information about the Rongyu Products, please refer to Section 2.2.1 of this Prospectus.</i></p>	Section 2 and 9
Where are the Company's business operations located?	<p>The Company's business activities are currently located in Fuzhou City, Jiangxi Province, China with its distribution network throughout 28 Provinces across China.</p> <p>However, following successful completion of the Offer, the Company intends to establish business operations in Australia.</p>	Section 2
What will be the Company's principal activities after Admission?	<p>Following successful completion of the Offer, the Company will focus on:</p> <p><b>China</b></p> <ul style="list-style-type: none"><li>(a) continuing to generate revenues from the sale of the existing Rongyu Products via its distribution network in China;</li><li>(b) acquisition of land-use rights in the Land and preparing the Land for cultivation of herbs used in the manufacture of the Rongyu Products;</li><li>(c) geographic expansion of the Company's distribution networks in China;</li><li>(d) introducing a premium range of the Rongyu Products using Australian grown raw materials, into the Chinese market; and</li><li>(e) expanding its product offering by undertaking research and development and pursuing distribution opportunities with Australian based TCM businesses to export their products into China for distribution and sale in China via the Company's distribution networks in China.</li></ul> <p><b>Australia</b></p> <ul style="list-style-type: none"><li>(a) importing Rongyu Products into the Australian market for distribution and sale;</li><li>(b) importing Australian grown raw materials into China to manufacture a premium range of Rongyu Products (<b>Premium Range</b>) for sale initially in China and gradually expanding to Australia and other countries; and</li><li>(c) pursuing distribution opportunities with Australian based TCM businesses to export their products into China for distribution and sale in China via the Company's distribution networks in China.</li></ul> <p>Notwithstanding that the Company intends to pursue the expansion of its Business as outlined above, there is no guarantee that such expansion will be successfully implemented by the Company. Furthermore even if successfully implemented, there is no guarantee that the Company will achieve a commercial return from such expansion.</p>	Section 2

Item	Summary	More Information
How will the Company generate income?	<p>The Company's income will be derived from its ownership of the Business and therefore its income shall be derived from sales of the existing Rongyu Products via its distribution networks in China.</p> <p>As noted above, following successful completion of the Offer, the Company will pursue expansion of its Business in China as well as to Australia. While the Rongyu Group may derive income from such expansion, there is no guarantee that such expansion will be successfully implemented by the Company. Furthermore even if successfully implemented, there is no guarantee that the Company will achieve a commercial return from such expansion.</p>	Section 2
Who are the directors of the Company?	<p>The directors of the Company are:</p> <ul style="list-style-type: none"> <li>• Mr Rodney Hannington (Non-Executive Chairman);</li> <li>• Mr Rongyu Ye (Executive Director);</li> <li>• Mr Shilin Yang (Non-Executive Director);</li> <li>• Mr Keren Tian (Non-Executive Director); and</li> <li>• Mr Phillip Grundy (Non-Executive Director).</li> </ul> <p><i>Please refer to Section 5.1 of this Prospectus for profiles of each director. Details of the securities holdings of each director are set out in Section 5.3 of this Prospectus.</i></p>	Section 5
Who is the Company Secretary?	<p>Mr Chow Yee Koh is the Company Secretary.</p> <p><i>Please refer to section 5.2 of this Prospectus for Mr Koh's profile.</i></p>	Section 5

## 1.4 Key risk factors

Investing in Shares involves substantial risks. The key risks as listed in the table below are not exhaustive and an investment in the Company should be considered speculative. Before making an investment decision, potential investors should read the entire Prospectus. In particular, investors should give full consideration to the detailed discussion on the risks that are associated with, and which could affect the financial performance of, an investment in the Company, as set out in "Risk factors" in Section 6 of this Prospectus.

Item	Summary	More Information
Reliance on suppliers and increases in ingredients costs	<p>The Rongyu Group currently has a number of important arrangements with its suppliers of ingredients and materials and relies on these arrangements to manufacture and distribute the Rongyu Products. While the Rongyu Group typically identifies alternate suppliers for all of the ingredients and materials used in the manufacture of the Rongyu Products, the Rongyu Group may be adversely impacted if any of its suppliers cease providing ingredients or materials to the Rongyu Group and it is unable to source these ingredients or materials through alternative avenues. Any increase in the costs of the ingredients or materials used by the Rongyu Group may adversely affect the operating and financial performance of the Rongyu Group.</p>	Section 6
Regulatory risk	<p>As the Rongyu Group operates in China and intends to expand to Australia, following such expansion it will be subject to both Chinese and Australian laws and regulations concerning the supply of pharmaceutical products. If the Rongyu Group expands into other markets, then the Rongyu Group will be subject to applicable laws and regulations in those markets. Any change to the existing statutory framework or imposition of new regulations on the pharmaceuticals or TCM industries in which the Rongyu Group operates may adversely impact the operating and financial performance of the Rongyu Group.</p>	Section 6

# Section 1

## Investment Overview continued

Item	Summary	More Information
Agricultural risk	The ability of the Rongyu Group to source supply of raw materials such as herbs to manufacture the Rongyu Products may be adversely affected by agricultural risks, including outbreaks of agricultural disease, extreme weather events, global warming, interruption in water supply and insect or vermin infestation, causing disruption to the manufacture and sale of the Rongyu Products. In addition, once the Company acquires the Land and undertakes its own cultivation of raw materials on the Land, such activities will be subject to the risks commonly associated with agricultural and farming activities of this nature.	Section 6
PRC Land Tenure System	As the land in China is either collectively owned or stated owned, JRYP has entered into the Land Tenure Agreements whereby it will be granted rights to use the Land for 50 years. There is a risk that these usage rights may not be renewed upon expiry, that contractual breaches may lead to termination or that the Land may be compulsorily acquired by the Chinese government.	Section 6
Changing consumer preferences and market trends	Failure by the Rongyu Group to predict or respond to changes in consumer preferences could adversely impact the Rongyu Group's future revenue and its financial and operating performance.	Section 6
Reliance on limited product range	Currently, all of the Company's revenue is generated from a limited range of products, namely the five (5) Rongyu Products. Any decline in demand for, or failure to achieve continued market acceptance of, these five products or any new version of these products could harm the Business, and thereby the financial performance of the Company.	Section 6
Failure to compete effectively	While the Rongyu Group is currently competitive in China, there can be no assurance that the actions of existing or new competitors or changes in consumer preferences will not adversely affect the Rongyu Group's future performance.	Section 6
Key Personnel	The Rongyu Group's performance reflects, to a large extent, the efforts and abilities of its senior management team, in particular that of Mr Rongyu Ye. Accordingly, any changes to the Rongyu Group's senior management team may have a material adverse impact on the operating and financial performance of the Rongyu Group.	Section 6
Disruptions in JRYP's manufacturing operations	JRYP utilises its own manufacturing facilities for all the Rongyu Products. Any material interruption to JRYP's manufacturing facilities may adversely impact production capacity and earnings.	Section 6
Currency movements/exposure	The Company's financial reports are prepared in Australian dollars. However a significant portion of the Rongyu Group's sales revenue, expenditure and cash flows are denominated in RMB. The Rongyu Group also sources raw materials and sells the finished goods in RMB. As a result, adverse movements in the exchange rate of currencies relevant to the Rongyu Group may have an adverse impact on the operating and financial performance of the Rongyu Group.	Section 6
Product liability and recalls	While the Rongyu Group has procedures in place to ensure compliance with quality standards and to ensure so far as it is possible that the Rongyu Products are free from contamination, if a contamination of one of the Rongyu Products occurs, it may lead to business interruption, product recalls or liabilities to customers.	Section 6
Certifications and licences	The Rongyu Group must obtain or renew appropriate permits, licences and certificates required to operate its business in the countries in which it operates. The Rongyu Group is also subject to regular inspections, examinations, inquiries and audits by relevant governmental authorities to obtain or renew the various licences, certifications and permits required for its operations. A finding of non-compliance with its operating licences, or a failure to obtain, maintain or timely renew the necessary licenses, certificates, permits or approvals could have a negative impact on the Rongyu Group's operations and financial condition.	Section 6

Item	Summary	More Information
Lack of insurance coverage	In China it is not customary for businesses to take out extensive insurance protection. Apart from social security coverage, JRYP has not taken out any insurance policies covering risks to its Business. Thus, JRYP does not have insurance protection against business disruption, fire damage, or product liability claims and may not be able to recover compensation in such circumstances. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material and adverse effect on the Company or its subsidiaries' business, net assets, financial condition, and operational results.	Section 6
Management Inexperienced in plantation	<p>While the management of the Rongyu Group have been operating the Business since 2004, they do not have any specific prior experience in plantation of herbs, nor do they have any specific training in running such a plantation. With no direct technical training or prior experience in this area, management may not be fully aware of many of the specific requirements related to working within this industry. As a result, the Company and its China subsidiary's management may lack certain skills that are advantageous in managing the plantation. The Company intends to appoint suitably qualified personnel in this area.</p> <p>Therefore, there is no guarantee that the Rongyu Group will be able to successfully cultivate the TCM herbs used in the production of the Rongyu Products on the Land nor is there any guarantee that the TCM herbs cultivated (if any) will satisfy the Company's standards of quality. Consequently, the Company's operations, earnings, and ultimate financial success could suffer harm due to management's lack of experience in plantation.</p>	Section 6
Control risk	<p>Mr Rongyu Ye currently holds 68.75% of the Company prior to the Offer. Assuming that the Maximum Subscription is met, Mr Ye will hold 51.56% of the Company and will therefore be in a position to exert considerable influence over the outcome of matters relating to the Company, including Board composition and the approval of significant corporate transactions (where he is not excluded from voting). While the interests of Mr Ye and other shareholders in the Company are likely to be consistent, there may be instances where such interests diverge.</p> <p>The concentration of ownership may adversely affect the liquidity of the market for the Shares on the ASX, and any sale of the shares held by Mr Ye may adversely affect the market price of the Shares.</p> <p>Likewise, Mr Ye will have a significant influence on any potential change in control of the Company.</p>	Section 6

## 1.5 Key financial information

Item	Summary	More Information
Are there any forecasts of future earnings?	There are no forecasts of future earnings of the Company provided in this Prospectus.	Section 7
Will the Company have sufficient funds for its activities?	<p>The Rongyu Group generates revenue through its subsidiaries in China and is profitable. In the Board's opinion, upon the successful completion of the Offer, from funds raised pursuant to the Offer, existing cash holdings and ongoing cash revenues from its Business, the Company will have sufficient funds to pursue its activities.</p> <p><i>For more information, please refer to the Financial Information in Section 7 of this Prospectus.</i></p>	Section 7

# Section 1

## Investment Overview continued

Item	Summary	More Information
What is the financial outlook for the Company?	<p>The Board considers the financial outlook of the Rongyu Group to be positive, having regard to the growth prospects for its business and potential benefits from the use of the funds raised under the Offer.</p> <p>The Rongyu Group intends to use funds raised under the Offer to procure expansion of its existing business in China and to Australia, and to acquire and cultivate herbs on the Land. Following Admission, the Rongyu Group also intends to undertake development of further products and improvements of existing products, and to export the Rongyu Products to Australia.</p> <p>However investors should note that there is no guarantee that the Rongyu Group's business will continue to be profitable or result in growth of profits for the Rongyu Group.</p>	Sections 2 and 7
Will the Company pay dividends	<p>It is the current intention of the Board to pay unfranked dividends in respect of full financial years for the Company ending 31 March each year.</p> <p>The Company has adopted a dividend policy pursuant to which it intends to distribute a minimum of 10% of NPAT per annum to its shareholders by way of unfranked dividends. The intended maximum amount anticipated to be distributed by way of an unfranked dividend in any given financial year shall be 20% of NPAT per annum.</p> <p>The Company intends to commence payment of dividends to the Company's shareholders on an annual basis at or around June/July of each year commencing from 2018.</p> <p>Despite the intentions set out above, investors should note that the Company's ability to pay dividends will be dependent upon a number of factors, including the profitability of the Company and any requirements the Company might have to retain earnings in order to fund the Business operations and expansions.</p> <p>Therefore, no guarantee can be given about the level or payment of dividends, the level of imputation or franking of such dividends, or the payout ratios; as these matters depend upon the future profits of the Business and the Company, its financial and taxation position and the Directors' view of the most appropriate payout ratio at any such time and the control of currency conversion and transfer of funds in China.</p> <p><i>Please refer to Section 3.11 of this Prospectus for further information in relation to the Company's current dividend policy, and to the Taxation Report in Section 9 for information in relation to the tax treatment of dividends that may be distributed under the Company's current dividend policy.</i></p>	Sections 3 and 9
Will the Company be adequately funded after Completion of the Offer?	<p>The Directors are satisfied that on completion of the Offer, the Company will have sufficient working capital to carry out its stated objectives.</p> <p>Investors are also referred to the Taxation Report in Section 9 of this Prospectus.</p>	Section 9

The following tables present a summary of the Rongyu Group's financial data which has been derived from the Financial Information set out in Section 7 and should be read together with the Investigating Accountant's Report on the Financial Information as set out in Section 8.

The Financial Information contained in Section 7 has been prepared in accordance with the recognition and measurement principles prescribed in the International Financial Reporting Standards issued by the International Accounting Standards Board, and the accounting policies of the Company.

The summarised financial data should be read together with the management discussion and analysis of the Financial Information in Section 7 of this Prospectus.

### 1.5.1 Summary historical Statement of Comprehensive Income of the Rongyu Group

	FY2015 \$'000	FY2016 \$'000	FY2017 \$'000
Revenue	41,547	62,290	71,446
Gross Profit	17,953	27,584	30,204
Profit before income tax expense	15,834	24,096	25,765
Profit after income tax expense	11,873	18,069	19,321
Total comprehensive income	15,150	17,042	18,060

### 1.5.2 Summary pro-forma historical consolidated Statement of Financial Position of the Rongyu Group as at 31 March 2017

	Minimum Subscription \$'000	Maximum Subscription \$'000
Total current assets	51,587	56,214
Total non-current assets	7,875	7,875
Total assets	59,462	64,089
Total current liabilities	7,193	7,193
Net assets	52,269	56,896

### 1.6 Capital Structure following the Offer

The ownership structure of the Company when the Offer has been completed will be as follows:

Shareholder	Minimum Subscription		Maximum Subscription	
	Number of Shares	%	Number of Shares	%
Rongyu Ye	206,250,000	55.00%	206,250,000	51.56%
<b>Existing Minority Shareholders</b>				
Zhou Zhang <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Yarong Wang <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Yanhong Cai <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Guiping Rao <sup>1</sup>	6,000,000	1.60%	6,000,000	1.50%
Suping Zhong <sup>1</sup>	7,500,000	2.00%	7,500,000	1.88%
Lijuan Xiu <sup>1</sup>	10,500,000	2.80%	10,500,000	2.63%
Aihua Shui <sup>1</sup>	6,000,000	1.60%	6,000,000	1.50%
Qinghe Zheng <sup>1</sup>	3,000,000	0.80%	3,000,000	0.75%
Yinghua Huang <sup>1</sup>	3,000,000	0.80%	3,000,000	0.75%
Shan Hong <sup>1</sup>	10,500,000	2.80%	10,500,000	2.63%
Brilliant Sky Management Ltd <sup>2</sup>	3,000,000	0.80%	3,000,000	0.75%
A3 International Investment Ltd <sup>3</sup>	3,750,000	1.00%	3,750,000	0.94%
<b>Shares held by the Existing Minority Shareholders</b>	<b>93,750,000</b>	<b>25.00%</b>	<b>93,750,000</b>	<b>23.44%</b>
<b>Shares on issue as at the date of Prospectus</b>	<b>300,000,000</b>	<b>80%</b>	<b>300,000,000</b>	<b>75%</b>
<b>Shares offered under this Prospectus</b>	<b>75,000,000</b>	<b>20%</b>	<b>100,000,000</b>	<b>25%</b>
<b>Total</b>	<b>375,000,000</b>	<b>100%</b>	<b>400,000,000</b>	<b>100%</b>

Note:

1. These persons are not related parties to the Company.
2. Brilliant Sky Management Ltd is not held by a related party to the Company.
3. A3 International Investment Ltd is not held by a related party to the Company.

# Section 1

## Investment Overview continued

### 1.7 Answers to key questions

Topic	Summary	More Information
Who is the issuer of this prospectus?	Rong Yu Pharmaceuticals Limited, a company incorporated in Victoria, Australia	Section 1.1
What is being offered?	<p>This Prospectus invites investors to apply for a total of up to 100,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$20,000,000.</p> <p>The Minimum Subscription condition under the Offer is \$15,000,000.</p> <p>The Offer will be open to investors with registered addresses in Australia and other investors to whom it is lawful to make an offer to pursuant to this Prospectus.</p>	Section 2
What is the Offer Price?	The Offer Price is A\$0.20 per Offer Share	Section 2
Is the Offer underwritten?	No, the Offer is not underwritten.	Section 2
What are the key dates of the Offer?	<p>The Offer closes on 11 December 2017.</p> <p>The Offer Shares are expected to be allotted on 18 December 2017.</p> <p>Holding statements for the Offer Shares are expected to be dispatched on 19 December 2017.</p> <p>The Shares are expected to commence trading on ASX on 22 December 2017.</p>	Section 1.2
What is the amount to be raised under the Offer?	The Company is offering up to 100,000,000 Shares to raise up to A\$20,000,000 before costs of the Offer.	Section 1.2
What is the Maximum Subscription available under the Offer?	The Company is offering a Maximum Subscription of 100,000,000 Shares to raise A\$20,000,000 before costs of the Offer.	Section 1.2
What is the Minimum Subscription available under the Offer?	The Company is offering a Minimum Subscription of 75,000,000 Shares to raise A\$15,000,000 before costs of the Offer. If the Minimum Subscription Amount is not raised then the Company will not proceed with the Offer and will repay all Application Monies received (without interest).	Section 1.2
What will the market capitalisation of the Company be upon Admission?	Based on the Offer Price of A\$0.20 per Share, the market capitalisation of the Company is expected to be A\$75,000,000 if the Minimum Subscription is achieved, and A\$80,000,000 if the Maximum Subscription is achieved.	Section 1.2
Will the Shares issued under the Offer be listed?	The Company will apply to the ASX for quotation of all Shares issued under the Offer as required under the Corporations Act, under the ASX Code, "RY8".	Section 2
Is there a minimum investment amount under the Offer?	Applications for Shares under this Offer must be for a minimum of 10,000 Shares.	Section 3

Topic	Summary	More Information
Are there any conditions to the Offers?	<p>The Offer is conditional on:</p> <ul style="list-style-type: none"> <li>the Company being granted in principle approval to list on the ASX; and</li> <li>the Company raising the Minimum Subscription under the Offer.</li> </ul> <p>If any of these conditions are not met, the Offer will not proceed and investors' Application monies will be returned.</p>	Section 2
What are the rights and liabilities attaching to the Shares issued under the Offer?	<p>All Shares issued under the Offer will rank equally in all respects with existing Shares on issue.</p> <p><i>For a summary of the material rights and liabilities attaching to the Shares issued under the Offer, please refer to Section 3.10 ('Company Constitution and Rights attaching to Shares').</i></p>	Section 3
Are there any restrictions on securities?	<p>No Shares issued under the Offer will be subject to escrow.</p> <p>However, Mr Rongyu Ye has agreed to enter into voluntary escrow arrangements in relation to the 206,250,000 Shares held, for a period of twenty-four (24) months, commencing on the date of quotation of the Shares on the ASX.</p> <p>Additionally, the Existing Minority Shareholders have agreed to enter into voluntary escrow arrangements in relation to the 93,750,000 Shares held, for a period of six (6) months, commencing on the date of quotation of the Shares on the ASX.</p>	Section 3
How will the proceeds of the Offer be used?	<p>The Offer proceeds will be used for:</p> <ul style="list-style-type: none"> <li>funding the geographic expansion of the Company's distribution networks in China;</li> <li>funding the acquisition of usage rights in the Land and the cultivation, management and harvesting of raw materials on the Land;</li> <li>establishing Australian operations to facilitate distribution of the Rongyu Products to Australia;</li> <li>fees associated with the listing of the Company and listing of the Shares offered under this Prospectus; and</li> <li>working capital purposes for the Business.</li> </ul> <p><i>For more information on the intended allocation of funds raised under the Offer, please refer to section 2.5.5 of this Prospectus.</i></p>	Section 2.5.5
What are the tax implications of purchasing Shares under this Offer?	<p>The taxation consequences of an investment in the Shares under the Offer contained in this Prospectus, including the acquisition and disposal of Shares, will depend on the particular circumstances of each Applicant. Pitcher Partners SA Pty Ltd has prepared the Taxation Report contained in Section 9 of this Prospectus, as a general guide to investors contemplating investing in the Company.</p> <p>It is the responsibility of each Applicant to be satisfied as to the particular taxation treatment that applies to each investment. Persons who are considering making an investment in the Company should seek independent professional advice with respect to the tax consequences arising from such an investment.</p>	Section 3 and Section 9

# Section 1

## Investment Overview continued

Topic	Summary	More Information
How do I apply for Shares?	You can apply for Shares by submitting a valid Application Form contained within or accompanying this Prospectus (including the electronic version of the Prospectus) in accordance with the instructions contained within.	Section 3
What is the allocation policy?	The Company will determine the basis for the allocation of Shares	Section 2
When will I receive confirmation that my Application has been successful?	Holding Statements confirming Applicants' allocations under the Offer are expected to be dispatched to Shareholders on 19 December 2017.	Section 1.2

### 1.8 Questions or further information

If you have queries in relation to this Prospectus, including how to complete the Application Form or how to obtain additional copies of the Prospectus, then please contact:

- the Share Registry, Security Transfer Australia on 1300 992 916 (within Australia) or +618 9315 2233 (outside Australia), from 8.30am to 5.00pm (Monday to Friday) in relation to the Application process;
- the Company by contacting the Company Secretary, Chow Yee Koh at [cy2koh@hotmail.com](mailto:cy2koh@hotmail.com) in relation to the Application process.

If you are unclear in relation to any matter or are uncertain as to whether an investment in the Offer Shares is a suitable investment for you, then you should seek professional advice from your accountant, solicitor, stockbroker, financial adviser, lawyer or other independent professional advisor.

## Section 2

# Company Structure and Business Overview

### 2.1 Company Background and Structure

The Company is an unlisted Australian company incorporated in 2017.

Currently, the Rongyu Group's business activities, being a TCM pharmaceutical manufacturing business (**Business**), are carried on by Jiangxi Rongyu Pharmaceutical Group Co., Ltd (**JRYP**), a limited liability company incorporated in the People's Republic of China. Mr Rongyu Ye is the founder of the Business and JRYP, while the Existing Minority Shareholders are unrelated investors in JRYP.

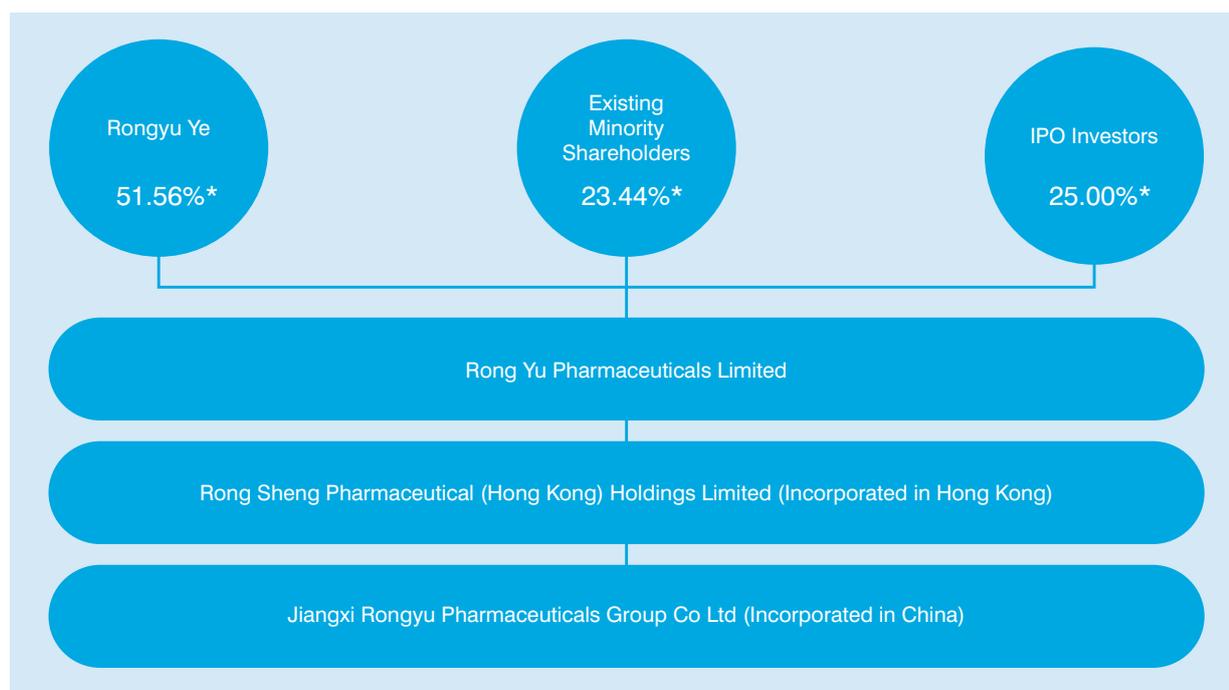
While the Business's primary market is in China, the Company has strategies to expand its operations internationally, with the initial focus being on expanding its business activities to Australia.

Pursuant to a corporate restructure undertaken in 2016, Rong Sheng Pharmaceutical (Hong Kong) Holdings Ltd (**Rong Sheng**), a company incorporated in Hong Kong acquired all the issued share capital in JRYP. As at the date of this Prospectus, other than its shareholding in JRYP, Rong Sheng has no other business activities and has no ownership interest in any other entity.

In 2017, the Rongyu Group underwent a further corporate restructure whereby the Company was incorporated and acquired all the issued share capital in Rong Sheng from Mr Rongyu Ye and the Existing Minority Shareholders such that upon completion of this restructure, the Company acquired ownership of the Business operated by JRYP. In return for the shares in Rong Sheng, Mr Rongyu Ye and the Existing Minority Shareholders were issued Shares in the Company, proportionate to their then shareholdings in Rong Sheng.

Thus, following successful completion of the Offer, the corporate structure of the Rongyu Group will be as follows:

Figure 1.1: Rongyu Group Structure



\* Note: this estimate is based on the assumption that the Maximum Subscription is achieved and that Mr Rongyu Ye and the Existing Minority Shareholders will not apply for any Offer Shares under this Prospectus. Mr Rongyu Ye will not be applying for any Offer Shares under this Prospectus.

## Section 2

# Company Structure and Business Overview continued

### 2.2 Overview of the Rongyu Group's Current Business Model

As noted earlier in this Prospectus, the Company is engaged in the development, manufacture and sale of TCM pharmaceutical products (**Business**), and has been operational since 2004. The Rongyu Group adopts a made-to-order production model where the quantity of the Rongyu Products it produces is based on orders placed by the Distributors. The Business model of the Company is illustrated by the following flowchart.

Figure 1.2: Rongyu Group Business Model



As at the date of the Prospectus, JRYP employed 134 staff. A breakdown of the Rongyu Group's employees by function is provided below.

Function	Number of Employees
Management	7
Sales and marketing	46
Research and development	5
Production	61
Administration	15
<b>Total</b>	<b>134</b>

The Company's China legal advisors have confirmed that all such staff are employed pursuant to labour contracts entered into with each such employee in accordance with Chinese employment law and regulations, and that JRYP has not been subject to any labour arbitration or litigation proceedings during the past three (3) financial years. The Company's China legal advisors have also confirmed that the Rongyu Group is compliant with applicable PRC social insurance and housing fund laws and regulations, has no outstanding contributions and has not been the subject of any penalties for violation of such laws and regulations.



The Rongyu Products are developed based on principles of **traditional Chinese medicine**

## Section 2

# Company Structure and Business Overview continued

### 2.2.1 Product Development

As at the date of this Prospectus, the Company manufactures the five (5) Rongyu Products, which have been developed by the Company's in-house research and development team.

The Rongyu Products are developed based on principles of traditional Chinese medicine and are currently sold across 28 Provinces in China.

Information on each of the Rongyu Products is provided below:

#### **Lipid-Lowering and Hypolipidemic Chewable Tablets (通脉降脂咀嚼片)**



##### Traits

Tan to brown chewable tablets

##### Category

Prescription medicine

##### Product effect

Reduction of cholesterol and fats (lipids), treatment of hyperlipidemia and atherosclerosis

##### Packaging

18, 24 or 36 tablets

##### Drug Approval Number:

Z20090196

##### Pharmaceutical Registration Number

2014R000078

##### Sales

Comprised 39.71% of sales during FY2017

#### **Chinese Angelica Roots and Nan Date Tablets (当归南枣片)**



##### Traits

Brown tablets

##### Category

Over-the-counter medicine

##### Product effect

Treatment of women's anaemia, irregular menstrual periods and menstrual cramps

##### Packaging

24 or 48 tablets

##### Drug Approval Number:

Z20050706

##### Pharmaceutical Registration Number

2015R002129

##### Sales

Comprised 41.93% of sales during FY2017

#### **Chinese Angelica Roots and Date Granules (当归南枣颗粒)**



##### Traits

Yellow to brown granules

##### Category

Over-the-counter medicine

##### Product effect

Replenishment of blood, improvement of blood circulation, treatment of irregular menstrual periods and menstrual cramps

##### Packaging

6 sachets

##### Drug Approval Number:

Z20054450

##### Pharmaceutical Registration Number

2015R002129

##### Sales

Comprised 4.93% of sales during FY2017

### Yuanhu Analgesic Capsules (元胡止痛胶囊)



#### Traits

Hard, light brown to tan capsules

#### Category

Over-the-counter medicine

#### Product effect

Regulation of energy flow, improvement of blood circulation and pain relief

#### Packaging

24 or 60 capsules

#### Drug Approval Number:

Z20054435

#### Pharmaceutical Registration Number

2015R002131

#### Sales

Comprised 9.34% of sales during FY2017

### Gankang Granules (肝康颗粒)



#### Traits

Granules

#### Category

Prescription medicine

#### Product effect

Improvement of liver function.

#### Packaging

6 sachets

#### Drug Approval Number:

Z20054279

#### Pharmaceutical Registration Number

2015R002130

#### Sales

Comprised 4.63% of sales during FY2017

## Section 2

# Company Structure and Business Overview continued

The Company's China legal advisors have confirmed that the Rongyu Products have been approved for sale by the Chinese Food & Drug Administration (CFDA) and that JRYP has satisfied all conditions for the conduct of pharmaceutical product manufacturing and has notified the relevant governmental agency in China of its pharmaceutical product manufacturing activities, including but not limited to obtaining the relevant Drug Manufacturing Certificates and Certificates of Good Manufacturing Practices from the Jiangxi Food and Drug Administration.

They have also confirmed that JRYP has obtained the necessary approvals for the manufacture of the Rongyu Products and is in compliance with all PRC laws and regulations relating to the manufacture of pharmaceutical products and has not engaged in any material activities that would constitute a breach of such laws and regulations. For more information about the approvals and permits held by the Rongyu Group, please refer to Section 2.3 of this Prospectus.

### 2.2.2 Procurement of Ingredients and Other Materials

#### (i) Traditional Chinese Medicine Herbs

The majority of the herbs required for the production of the Rongyu Products are native Chinese herbs. The Company's current portfolio of the Rongyu Products predominantly relies on the following five (5) types of herbs, which constitute approximately forty-nine percent (49%) of the Rongyu Group's materials costs:

#### *Angelica Sinensis*



##### Other Names

Female Ginseng, Dang Quai (当归)

##### Description

Angelica sinensis is well known in traditional Chinese medicine for its role in women's gynaecological problems such as irregular menstruation, amenorrhoea and dysmenorrhoea.

It is believed by its users to assist with the Liver, Heart and Spleen, invigorate blood, regulate menstruation, relieve menstruation pain, unblock bowels by moistening intestine, provide anti-cancer and anti-aging benefits, and provide increased immunity from virus.

#### *Panax Notoginseng*



##### Other Names

Tian Qi or San Qi (田七 or 三七)

##### Description

Panax Notoginseng is classified in traditional Chinese medicine as warm in nature, sweet and slightly bitter in taste, and nontoxic. Panax Notoginseng is a herb that has been used in China quite extensively since the end of the 19th century. It has a reputation for treatment of blood disorders including blood stasis, bleeding and blood deficiency.

### ***Equisetum Ramosissimum***

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#### **Other Names**

Pen tube grass, Barrel grass, Biguancao (笔管草)

#### **Description**

The perceived benefits of this herb include 'heat' relief, diuretic relief and the soothing of expectorant coughs.

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### ***Corydalis***

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#### **Other Names**

Yanhusuo, Yuanhu (延胡索 or 元胡)

#### **Description**

Corydalis has been used in TCM as a blood mover, sedative and painkiller since the eighth century A.D. in China. Today, it is still used to alleviate abdominal and menstrual cramps and as a herbal sleep aid to relieve insomnia. Moreover, it is thought to protect against heart attacks and stroke, and is said to be a superior herb for increasing blood circulation, moving stagnant blood and improving heart arrhythmia.

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### ***Ziziphus Jujube***

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#### **Other Names**

Jujube, Red Date or Da Zao (红枣 or 枣)

#### **Description**

This fruit and its seeds are used in TCM, where they are believed to alleviate stress, and traditionally used for anti-fungal, anti-bacterial, anti-ulcer, anti-inflammatory purposes and sedation.

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## Section 2

### Company Structure and Business Overview continued

The Company estimates that the abovementioned five herbs ordered account for approximately forty-nine (49%) of the Rongyu Group's raw materials costs. The remainder of the Company's raw material costs relate to materials including but not limited to other ingredients such as cold form aluminium, menthol, starch and magnesium stearate; as well as the packaging material, packaging boxes and packaging containers used in the manufacture of the Rongyu Products.

Under the current business model, the raw materials required to manufacture the Rongyu Products are sourced from local herb markets, including the Anhui herb market in the neighbouring Anhui province, being the largest herb market in China. This allows the Rongyu Group to maintain low procurement and transportation costs.

The herbs are purchased pursuant to various Herb Procurement Agreements entered into between JRYP and individual herb vendors located at herb markets.

The herbs are procured at the prevailing market rate between one to three times per month, as required by the Rongyu Group. Once purchase orders are submitted for herbs, the price for the supply is confirmed with JRYP, before the herbs are delivered directly to the Company's premises in Fuzhou City, Jiangxi Province, where they are stored until required for production. JRYP receives between 60-90 day credit terms for the purchase of these herbs.

Given its long operating history and standing in the local market, JRYP has developed long-term partnerships with various trusted suppliers of Raw Materials. As at the date of this Prospectus, JRYP has entered into four (4) Herb Procurement Agreements, in no particular order, with the following parties.

No	Supplier Name	Raw Materials generally supplied
1	Anhui Bozhou Herbal Medicine Corporation New Special Medicine Company	Angelica Sinensis, Ziziphus Jujube, Equisetum Ramosissimum, Corydalis, Panax Notoginseng and various other herbs
2	Bozhou Kangwanmin Chinese Herbal Medicine Sales Co., Ltd	Angelica Sinensis, Ziziphus Jujube, Equisetum Ramosissimum, Corydalis, Panax Notoginseng and various other herbs
3	Bozhou City Zhongminkang Chinese Herbal Medicine Trade Co., Ltd	Angelica Sinensis, Ziziphus Jujube, Equisetum Ramosissimum, Corydalis, Panax Notoginseng and various other herbs
4	Jiangxi Zhangshu Gexuan Herbal Medicine Pieces Co., Ltd	Lotus leaves

Please refer to Section 10.3 for a summary of the key terms of a sample Herb Procurement Agreement for the herbs used in the production of the Rongyu Products.

#### (ii) Packaging Materials and Other Ingredients

The Company purchases customised packaging materials and other ingredients for the Rongyu Products from various suppliers pursuant to the Materials Procurement Agreements. The Materials Procurement Agreements encompass the supply of internal (capsules) and external (boxes) packaging materials required to pack the Rongyu Products, as well as other ingredients used in the manufacture of the Rongyu Products.

As most of the other ingredients and packaging materials are available from multiple suppliers, the Company has not encountered, and thus does not believe the Business to be subject to any material risk of supply shortage. As at the date of this Prospectus, JRYP has entered into eighteen (18) Materials Procurement Agreements, in no particular order, with the following parties.



The Rongyu Group has implemented a strict **quality control** system to monitor and control each stage of the production process

## Section 2

### Company Structure and Business Overview continued

No	Supplier Name	Materials generally supplied
<b>Packaging Materials</b>		
1	Guangzhou Guanyu Aluminum Foil Packing Material Co., Ltd	compound film and composite membranes used in the production of the 'granule' Rongyu Products
2	Jiangxi Baolinda Packaging Products Co., Ltd	packaging boxes, capsules
3	Jiangxi Chunguang Pharmaceutical Packaging Materials Co., Ltd	polyvinyl chloride (PVC)
4	Jiangxi Hengmei Industrial Co., Ltd	film used in the production of the 'capsule' and 'tablet' Rongyu Products, capsules
5	Jiangxi Linquan Capsule Co., Ltd	capsules
6	Jiangxi Jianda Packaging Co., Ltd	moisture-proof bags
7	Jiangxi Xinke Composite New Materials Co., Ltd	packaging boxes
8	Jiangxi Printing Group Company	packaging boxes, instruction manuals, product specification booklets
9	Nanchang Jiangfu Trading Co., Ltd	film used in the production of the 'capsule' and 'tablet' Rongyu Products
10	Shanghai Hongli Medicinal Packaging Materials Co., Ltd	aluminium strips, 'press-through-packaging' (PTP) strips
11	Wuling County Linquan Capsule Co., Ltd	capsules
<b>Other Ingredients</b>		
12	Nanchang Jianhong Brewery	vinegar
13	Anyang Zhongzhi Pharmaceutical Co., Ltd	coating powder
14	Hunan Hua Sun Pharmaceutical Co., Ltd	citric acid, magnesium stearate
15	Nanchang Jianfeng Industrial Co., Ltd	menthol, starch, dextrin
16	Shanghai Dasheng Food Co., Ltd	arcelormittal honey, stevia sugar
17	Taixing Sanhua Food Additive Factory	cream flavour
18	Zhenjiang Kangfu Biological Engineering Co., Ltd	lactose

Please refer to Section 10.2 for a summary of the key terms of a sample Materials Procurement Agreement.

### 2.2.3 Production

The Rongyu Group owns and operates a GMP certified manufacturing site located in the Jinchao Economic Development Zone at Fuzhou City, Jiangxi Province (**Manufacturing Site**). The manufacturing facilities, warehouse, research and development and affiliated offices, occupying approximately 11,212 square meters of floor area, are all located at this site. The Rongyu Group has obtained land use rights and building ownership certificates for the Manufacturing Site.

The Rongyu Products are manufactured in their entirety, at this Manufacturing Site, by the Rongyu Group's product manufacturing division. The Rongyu Group manufactures its products in the form of tablets, capsules and granules.

The Rongyu Group has implemented a strict quality control system to monitor and control each stage of the production process, from raw material procurement, to production and delivery, so as to ensure the consistency and high quality of the Rongyu Products.

Suppliers of ingredients and packaging materials are carefully selected based on product quality, stability, timeliness of delivery, market reputation, whether the supplier has all necessary licences, creditworthiness and track record. The Rongyu Group inspects the raw materials to ensure that they are in accordance with quality requirements promulgated by the relevant government authorities for different raw materials.

In accordance with its GMP requirements, the Rongyu Group strictly controls its production process with extreme caution to ensure that quality control and manufacturing practice standards are met and that the product quality is not compromised during the production process. The quality control personnel check the key steps of the production process to ensure these steps are carried out correctly and accurately. The Rongyu Group has measures in place to ensure that its production line is properly sanitised such as:

- (a) daily sterilisation of the Manufacturing Site, equipment and facilities;
- (b) inspection of the Manufacturing Site's infrastructure and ventilation system; and
- (c) prohibition of unauthorised personnel.

The Rongyu Group monitors the sanitisation process in its production facilities carefully to minimise the risk of contamination from external sources. At different stages of the production process, the Rongyu Group also performs various quality inspection and testing procedures, including tests for impurity, moisture, dust and microbes, to remove defective intermediate products. The Rongyu Group also conducts sample testing of its final productions before and after packaging them for delivery.

The Company's China legal advisors have confirmed that JRYP has been in compliance with the applicable manufacturing and production safety laws and regulations in China, including but not limited to holding the necessary GMP certification, and has not been the subject of any penalties for violation of such laws and regulations. For more information about the approvals and permits held by the Rongyu Group, please refer to Section 2.3 of this Prospectus.

The Company's China legal advisors have also confirmed that JRYP is compliant with Chinese laws regarding production safety and environmental protection and has not been subject to any penalties for violation of relevant production safety and environmental protection laws and regulations.

## Section 2

# Company Structure and Business Overview continued

### 2.2.4 Sales and Distribution

Upon completion of the manufacturing process outlined above, the finished Rongyu Products are warehoused at the Manufacturing Site, while awaiting distribution. The Company then organises for the delivery of the Rongyu Products to its network of over 300 distributors, which specialise in the distribution of pharmaceutical products in China (**Distributors**). The Rongyu Group's network of Distributors distribute the Rongyu Products across 28 Provinces in China, as depicted in the shaded Provinces in the map below:



It is industry practice in China, to engage distributors to sell and market health food and nutritional products, such as the Rongyu Products. Consistent with this, all of the Rongyu Group's sales of the Rongyu Products currently occur via wholesale channels. The Rongyu Group does not presently intend to engage in direct retail sales of the Rongyu Products.

Some Distributors operate their own retail outlets and market the Rongyu Products directly while others on-sell the Rongyu Products to pharmacies and retailers of pharmaceutical products. In accordance with local restrictions on online sales of pharmaceutical products, the Rongyu Products are not sold online.

The pricing of pharmaceutical products is regulated in China, in order to ensure that prices are reasonable and medicine remains accessible to consumers. Therefore, when the Company packages the Rongyu Products, a recommended retail price fixed by the Company in accordance with the regulations, is affixed to the Rongyu Products. The Rongyu Products are sold to Distributors at a discount to the advertised recommended retail price which is negotiated with individual Distributors.

Under the Distribution Agreements, the Distributors are entitled to a sales rebate of 18% based on the amount of sales of the Rongyu Products achieved by the relevant Distributor, with such rebate being offered to all Distributors. The Directors believe the rebate arrangement with Distributors to be an effective means of incentivising the Distributors to actively promote the Rongyu Products thereby improving the sales performance of the Rongyu Products.

The Rongyu Group employs an in-house sales team in China that is responsible for coordinating the sale of the Rongyu Products to the Distributors. The Rongyu Group has a diversified distribution base with its largest ten distributors accounting for approximately 25.49% of its FY17 sales revenue.

JRYP has entered into separate Distribution Agreements with various Distributors for the sale of the Rongyu Products. As at the date of this Prospectus, JRYP has entered into 321 Distribution Agreements with various Distributors, of which the top 10 Distributors are as follows:

No	Distributor Name	Distribution Region	% of Sales (2017)
1	Yunnan Jiutai Pharmaceutical Co., Ltd	Yunnan Province	3.02%
2	Jiangxi Changsheng Pharmacy Co., Ltd	Jiangxi Province	2.94%
3	Wuhan Tianhe Kangjia Pharmaceutical Co., Ltd	Hubei Province	2.91%
4	Henan Bangren Pharmaceutical Group Co., Ltd	Henan Province	2.86%
5	Zhongshan Zhongxin Pharmaceutical Co., Ltd	Guangdong Province	2.78%
6	Chongqing Qingshanyin Pharmaceutical Co., Ltd	Chongqing Municipality	2.54%
7	Hunan Zhilin Pharmaceutical Co., Ltd	Hunan Province	2.34%
8	Cangzhou Jiuyezhongkang Pharmaceutical Co., Ltd	Hebei Province	2.21%
9	Hubei Kangning Pharmaceutical Co., Ltd	Hubei Province	2.07%
10	Shenzhen Kechuang Yikang Pharmaceutical Co., Ltd	Guangdong Province	1.82%
Total			25.49%

Please refer to Section 10.4 for a summary of the key terms of a sample Distribution Agreement.

## 2.3 Approvals and Permits

JRYP operates in the pharmaceutical manufacturing industry in the People's Republic of China which is heavily regulated by the PRC government. The Company's China legal advisors have confirmed that the Rongyu Products have been approved for sale by the Chinese Food & Drug Administration (CFDA) and that JRYP has satisfied all conditions for the conduct of pharmaceutical product manufacturing and has notified the relevant governmental agency in China of its pharmaceutical product manufacturing activities, including but not limited to obtaining the relevant Drug Manufacturing Certificates and Certificates of Good Manufacturing Practices from the Jiangxi Food and Drug Administration.

They have also confirmed that JRYP has obtained the necessary approvals for the manufacture of the Rongyu Products and is in compliance with all PRC laws and regulations relating to the manufacture of pharmaceutical products and has not engaged in any material activities that would constitute a breach of such laws and regulations. For more information about the approvals and permits held by the Rongyu Group, please refer to Section 2.3 of this Prospectus.

The following table summarises the key permits, approvals and certifications held by JRYP in respect of its business and operations in the PRC.

No	Approval / Permit	Issuing Authority	Date of Issue	Validity Period
1	Certificate of Approval for establishment of Enterprises with Investment in the PRC (Approval No: [2015]0021)	People's Government of Jiangxi Province	20 May 2016	N/A
2	Business Licence (No 91361000767038901B)	Fuzhou Administration of Market and Quality Supervision	30 May 2016	28 April 2021
3	Institution Credit Code Certificate (No G1036100100003880L)	The People's Bank of China Credit Reference Centre	15 August 2016	14 August 2021
4	Tax Registration Certificate (Serial No. 361002767038901)	Fuzhou City Linchuan Bureau of State Taxation and Linchuan City Local Taxation Bureau	4 June 2009	N/A
5	Permit for Opening Bank Account (No. 351101040008832)	Fuzhou Branch of People's Bank of China	18 June 2009	N/A
6	Customs Import and Export Goods Declaration Registration Certificate (No. 3611941113)	Nanchang Customs Office in High and New Technology Development Zone	23 September 2016	N/A
7	Drug Manufacturing Certificate (No. 20160133)	Jiangxi Food and Drug Administration	11 July 2016	18 April 2021
8	Certificate of Good Manufacturing Practices for Pharmaceutical Products (No. 2016034)	Jiangxi Food and Drug Administration	19 April 2016	18 April 2021

## Section 2

# Company Structure and Business Overview continued

### 2.4 Intellectual Property Assets

The Rongyu Group's intellectual property assets are summarised below:

#### 2.4.1 Trade Marks

As at the date of this Prospectus, the Rongyu Group has registered trade marks in the following jurisdictions:

##### Australia

Item	Mark	Type	Registration Number	Filing Date	Registration Date	Class	Expiry Date
1		Figure	1806102	31/10/2016	31/05/2017	5	31/10/2026

##### China

Item	Mark	Type	Registration Number	Effective Date	Class	Expiry Date
1		Figure	5735885	14/11/2009	3	13/11/2019
2		Figure	5735892	14/01/2010	40	13/01/2020
3		Figure	5735890	07/12/2009	32	06/12/2019
4		Figure	5735891	14/10/2009	16	13/10/2019
5		Figure	5735888	07/12/2009	29	06/12/2019
6		Figure	5735887	14/01/2010	44	13/01/2020
7		Figure	5735886	07/12/2009	18	06/12/2019
8	节云山	Figure	8878569	07/12/2011	5	06/12/2021
9		Figure	6658346	28/03/2010	32	27/03/2020
10	节云山	Figure	8882463	28/12/2011	31	27/12/2021

## China

Item	Mark	Type	Registration Number	Effective Date	Class	Expiry Date
11	节云山	Figure	8882474	07/12/2011	32	06/12/2021
12	节云山	Figure	8878666	07/01/2011	29	06/01/2021
13	节云山	Figure	8882490	21/01/2012	35	20/01/2022
14		Figure	7733961	28/01/2011	31	27/01/2021
15	一日三	Figure	8878594	07/06/2012	5	06/06/2022
16	节云山	Figure	8878724	07/12/2011	30	06/12/2021
17		Figure	7733970	07/12/2010	32	06/12/2020
18		Figure	6658668	14/03/2010	29	13/03/2020
19	荣裕	Figure	4485469	28/03/2008	5	27/03/2018
20	一日三	Figure	8878636	28/04/2012	29	27/04/2022
21	一日三	Figure	8882479	07/12/2011	32	06/12/2021
22		Figure	6658345	14/03/2010	31	13/03/2020
23	一日三	Figure	8882456	07/12/2011	31	06/12/2021

### 2.4.2 Domain Names

The Rongyu Group also holds the following domain name: [www.rongyupharma.com](http://www.rongyupharma.com)

## Section 2

# Company Structure and Business Overview continued

### 2.5 Business Strategies after completion of the Offer

Following completion of the Offer, the Company intends to acquire land usage rights for a parcel of agricultural land in Fuzhou City, Jiangxi Province, China (Land) to cultivate some of the herbs required in the production of the Rongyu Products.

Following completion of the Offer, the Rongyu Group's primary focus will be to further penetrate the Chinese market, to secure herb supply to ensure greater supply reliability and improved margins, and to establish business operations in Australia to expand distribution and leverage further supply opportunities with a view to further expanding its Business internationally.

A summary of the business strategies that the Company intends to pursue following successful completion of the Offer is provided below.

Investors should note that notwithstanding that the Company intends to pursue the expansion of its Business as described below in this section 2.5, there is no guarantee that such expansion will be successfully implemented by the Company. Furthermore even if successfully implemented, there is no guarantee that the Company will achieve a commercial return from such expansion.

#### 2.5.1 China Expansion

Notwithstanding that the Company currently has an extensive network for distributing its Rongyu Products, it plans to further expand its network capabilities to facilitate growth in sales of its new and existing Rongyu Products.

The Company will continue to focus on developing long-term relationships with existing Distributors, and will continuously procure new distribution opportunities with new Distributors, as well as larger chains of retail outlets, throughout China. The ability to supply large chains of retailers on a direct-manufacture basis is an essential element to the distribution chain and provides a high-margin, high-volume business with an established clientele.

#### 2.5.2 Land Usage Rights Acquisition

Following completion of the Offer, the Company intends to acquire land usage rights for a parcel of agricultural land in Fuzhou City, Jiangxi Province, China (**Land**) to cultivate some of the herbs required in the production of the Rongyu Products.

Under PRC law, agricultural land is typically collectively owned by farmers in a rural or village collective. Consistent with this, as the Land is held by a collective of villagers in the Fuzhou City region, the Rongyu Group must obtain the consent of at least 60% of this collective to agree to the grant of usage rights of the Land to the Rongyu Group (through JRYP). Therefore, JRYP has entered into land tenure agreements (**Land Tenure Agreement**) which will provide the Rongyu Group with 50-year land usage rights for the Land, with such period commencing on the date of the Admission.

*For more information about the risks relating to the land tenure system in China and the Land Tenure Agreement, please refer to Sections 6.2(g) and 10.1 of the Prospectus respectively.*

The Land is situated 22 kilometres from the Company's processing and packaging facility in Fuzhou City and is approximately 10,000 acres in area. Under the terms of the Land Tenure Agreement, the Company is required to prepay 5 years' worth of rent to the village collective, whereby the annual rental payable for the Land is ¥6,800,000 (approximately A\$1,341,504 at the rate of ¥1 = A\$0.19728).

The Company intends to use the Land to plant and cultivate its own herbs for the manufacture of the Rongyu Products. The Company intends to cultivate the following herbs, and in the following proportions, on the Land:

Name of Herb	Relevant Product	Land allocated*	Percentage
Ziziphus Jujube (Red Date or “红枣”)	Chinese Angelica Roots and Nan Date Tablets	3,000 acres	30%
Corydalis (“Yanhusuo” or “延胡索” or “Yuanhu” or “元胡”)	Yuanhu Analgesic Capsules	2,500 acres	25%
Angelica Dahurica (白芷)	Yuanhu Analgesic Capsules	2,500 acres	25%
Peppercorns (花椒)	Lipid-Lowering and Hypolipidemic Chewable Tablets	2,000 acres	20%

\* Note: the area of the Land to be allocated to the cultivation of each herb is indicative only, and is subject to change, as considered necessary by the Board.

The Company intends to utilise a portion of the funds raised under the Offer to prepare the Land for cultivation, and to purchase the herb seedlings that will be cultivated on the Land and other associated materials. The Company estimates that the preparatory work to be undertaken on the Land will require between 3-4 months before the herb seedlings can be planted on the Land. The Company intends to undertake the planting of these herbs during the Chinese winter to spring seasons, being from November to May, as this period is considered to be the optimum time for plantation. Thereafter, the time required before the herbs can be harvested for use in the Rongyu Products varies depending on the specific herb.

The Company expects that by cultivating some of the herbs on the Land that are used in the manufacture of the Rongyu Products, the Company will not only be less reliant on herb markets for the supply of herbs, but will also have greater control over the quality of the herbs. Additionally, internalising a further component in the production cycle of the Rongyu Products, namely the procurement of raw materials, will provide the Company with greater certainty of costs which may allow the Company to increase the profit margin on sales of the Rongyu Products to the Distributors, thereby improving the Company's profitability.

Investors should note that while the management of the Rongyu Group have been operating the Business since 2004, they do not have any specific prior experience in plantation of herbs, nor do they have any specific training in running such a plantation. With no direct technical training or prior experience in this area, management may not be fully aware of many of the specific requirements related to working within this industry. Therefore, there is no guarantee that the Rongyu Group will be able to successfully cultivate the TCM herbs used in the production of the Rongyu Products on the Land nor is there any guarantee that the TCM herbs cultivated (if any) will satisfy the Company's standards of quality.

### 2.5.3 Development and Expansion of Products range

#### (i) Research and Development of new TCM products

Following completion of the Offer, the Company intends to pursue more aggressive product development opportunities by collaborating with Chinese universities specialising in the study of TCM, to research and develop new Rongyu Products to expand its product offering and also to ensure that the Rongyu Products remain relevant to prevailing consumer preferences.

The Board intends for the Company's future research and development activities to focus on developing products targeting cardiovascular diseases and children's diseases, due to the growing incidence of these diseases.

To this end, JRYP has entered into a research and development agreement (**Development Agreement**) with the Jiangxi Pharmaceutical Technology Development Department (**Department**). Under the Development Agreement, JRYP will have a first right of refusal to acquire all proprietary rights to any Rongyu Products that have been developed pursuant to the collaboration, provided that JRYP elects to purchase such rights. That is, JRYP is not obligated to fund the ongoing research and development activities of such institutions, and is only required to pay when it elects to purchase the proprietary rights of a particular Rongyu Product developed.

Additionally, the Department is required to undertake its research consistently with JRYP's requirements, which subject to amendment, will be for the development of products targeting cardiovascular diseases and children's diseases.

Simultaneous to the development activities to be undertaken pursuant to the Development Agreement above, the Company's in-house development team will continue to explore improvements to the existing Rongyu Products as well as development opportunities for new Rongyu Products.

Finally, the Company may seek to purchase the proprietary rights to completed products, including but not limited to product formulae, developed by other pharmaceutical companies to supplement its existing product range.

*For more information about the Development Agreement, please refer to Section 10.6 of this Prospectus.*

#### (ii) Development of Premium Range of Rongyu Products

The Company will explore the possibility of developing a premium range of the Rongyu Products (**Premium Range**) that may involve any or all of the following:

1. The inclusion of raw materials or ingredients that are grown or manufactured in Australia in the Premium Range; or
2. The development of products in the Premium Range containing additional ingredients and/or with improved capabilities and functions.

If successfully developed, the Company anticipates selling the Premium Range, predominantly in Australia and more affluent regions of China such as Beijing, Shanghai, Tianjin and Guangzhou, where the demand for premium, quality pharmaceutical products is greater.

#### (iii) Sourcing TCM products from Australian based TCM businesses

Finally, the Company will also pursue opportunities to source TCM products from Australian TCM businesses and procure their sale via the Company's distribution networks in China, in order to capture the increasing Chinese demand for Australian health and nutrition products.

### 2.5.4 Australian expansion

All of the Rongyu Group's business activities are currently located in China. However, following completion of the Offer, the Company intends to expand the sale of the Rongyu Products to Australia to capitalise on the demand for TCM-based products within the growing Australian-Chinese and Australian-Asian community.

As discussed in Section 2.2.1 of this Prospectus, the Company's current range of Rongyu Products can be broadly categorised as performing three key functions:

1. improving women's health including improving blood replenishment and circulation, menstrual health and pain management;
2. lowering lipid or cholesterol levels; and
3. improving general liver function.

Thus, the Company considers that its Rongyu Products will be particularly suited to the Australian market where women's health, heart-related diseases and liver-related diseases are prevalent.

#### (i) Regulatory Assessment

In order to market and sell the Rongyu Products in the Australian market, the Company will need to comply with applicable Australian laws and regulations concerning the supply of products in the complementary medicines sector, which include the *Therapeutic Goods Act 1989* (Cth).

Importantly, the Rongyu Products proposed to be sold in Australia must be registered on the Australian Register of Therapeutic Goods (**ARTG**), which is maintained by the Therapeutic Goods Administration (**TGA**).

## Section 2

### Company Structure and Business Overview continued

The Company has already commenced a regulatory assessment to assess the viability of registering the Rongyu Products on the ARTG. To this end, the Company has appointed Plunkett Consulting Group Pty Ltd, a pharmaceutical and medical device consulting firm based in Melbourne, to assist with the ARTG registration process. Plunkett Consulting Group Pty Ltd has been initially engaged to undertake a gap analysis of the English-translated regulatory dossiers to enable registration of the Rongyu Products on the ARTG. In conjunction with this, the Company has also appointed a separate medical communications specialist to assist with scientific interpretation of JRYP's regulatory dossiers and translation of the relevant materials from Chinese to English.

Additionally, a requirement for obtaining TGA approval for the Rongyu Products, is for manufacturers of the relevant therapeutic goods to be licensed in accordance with the principles of 'Good Manufacturing Practice' (**GMP**). Notwithstanding that the Manufacturing Site has GMP certification from the Chinese Food & Drug Administration for products sold in China, as the Manufacturing Site is located overseas, being in Fuzhou City, Jiangxi Province, China, JRYP will need to obtain a GMP certificate issued by the TGA following an on-site audit of the Manufacturing Site in order to obtain such approval.

The usual lead time for an overseas on-site audit to be scheduled is 6 months from the date of application. Ordinarily, a GMP certificate will be processed within 15 working days of despatch of the audit close-out letter. Given that JRYP has been issued with GMP certification by the Jiangxi Food and Drug Administration, the Company anticipates that JRYP will be able

to obtain equivalent GMP certification issued by the TGA within twelve (12) months following Admission. In conjunction with the completion of the Company's internal viability assessment of the Rongyu Products, which is expected to occur during the first half of 2018, this will then allow the Company to complete registration of the Rongyu Products on the ARTG in preparation for their sale in Australia. It is anticipated that Plunkett Consulting Group Pty Ltd will be retained to assist with this process.

In anticipation of the Company's expansion into Australia and the proposed sale of the Rongyu Products in Australia, the Company has filed an Australian trade mark application for the branding imagery appearing on the Rongyu Products. For more information about the Company's intellectual property assets, please refer to Section 2.4 of this Prospectus.

#### (ii) Expected Timeline and Sales Channels

The Company intends to confirm its product offering in Australia, including the design of English-language labelling and marketing material by the second half of 2018, with a targeted launch of such products during the first half of 2019 (subject to the Rongyu Group receiving the necessary regulatory approvals for such sale). The Company will simultaneously undertake an assessment of the ability to transfer technology used in the Business to Australia, as well as an assessment of the purchase intent for the Rongyu Products by Australian consumers.

Given the preference of Australian consumers to purchase complementary medicines on the advice of a pharmacist or healthcare professional, the Company anticipates that sales of the Rongyu Products in Australia will focus on sales via TCM practitioners and well-defined retail channels, such as pharmacies and health food stores. For more information about the TCM industry in Australia, please refer to Section 4.1.2 of this Prospectus.

#### 2.5.5 Use of Funds raised under the Offer

The Rongyu Group expects to receive proceeds of A\$15,000,000 on the Minimum Subscription and of A\$20,000,000 on the Maximum Subscription from the issue of the Offer Shares at the Offer Price of A\$0.20.

As noted above, the Rongyu Group's primary focus will be to further penetrate the Chinese market, to secure herb supply and to establish business operations in Australia. Therefore the Rongyu Group intends to allocate the proceeds of the Offer to the following expansion strategies as depicted in the table below\*:

Use of Funds	Minimum Subscription		Maximum Subscription	
	Amount (A\$)	%	Amount (A\$)	%
Geographic expansion of the Rongyu Group's existing distribution networks in China	\$3,000,000	20%	\$5,000,000	25%
Acquisition of the Land usage rights	\$6,550,000	43.67%	\$6,550,000	32.75%
Establishing Australian operations to facilitate distribution of the Rongyu Products to Australia	\$3,000,000	20%	\$5,000,000	25%
Working Capital	\$631,656	4.21%	\$1,250,906	6.29%
Costs of the offer to be paid out of proceeds raised (current estimate)*	\$1,818,344	12.12%	\$2,191,094	10.96%
<b>Total</b>	<b>\$15,000,000</b>	<b>100%</b>	<b>\$20,000,000</b>	<b>100%</b>

\* Note: If the Company raises less than the maximum amount offered under this Prospectus then the budgets set out above may be reduced proportionately.

\*\* Note: actual total costs of the Offer differ from the costs of the offer to be paid out of proceeds raised due to approximately A\$603,417 of offer costs already being paid prior to the IPO. Please refer to Section 11.6 of this Prospectus for more information about the costs of the Offer.

The Rongyu Group intends to fund its other expansion strategies from its existing cash and profits derived from its existing operations. These strategies include undertaking further research and development on the Rongyu Products, developing the Premium Range and sourcing Australian TCM products for sale in China.

The use of the funds allocated to meet ongoing working capital requirements will depend on the results achieved and on future opportunities that may arise.

The Directors consider that on completion of the Offer (based on the Minimum Subscription amount) the Company will have adequate capital to meet its current objectives and requirements as set out in this Prospectus.

However, investors should be aware that the Company may expend its cash reserves on its activities more quickly than anticipated. The Directors will consider further equity funding where it considers that the raising of such further capital is necessary to meet the Company's objectives and requirements.



## Section 3

# Details of the Offer

### 3.1 Shares Offered for Subscription

This Prospectus invites investors to apply for a total of up to 100,000,000 Offer Shares at an issue price of \$0.20 per Offer Share to raise up to \$20,000,000. The Offer will be open to investors with registered addresses in Australia and other investors to whom it is lawful to make an offer to pursuant to this Prospectus.

All Offer Shares issued pursuant to this Prospectus will be issued as fully paid and will rank equally in all respects with Shares already on issue.

Applications must be for a minimum of 10,000 Offer Shares and thereafter in multiples of 1,000 Offer Shares.

The details of how to apply for Offer Shares are set out below.

Applicants should be aware that ASX will not admit any Offer Shares issued pursuant to this Offer to Official Quotation until the Company has complied with Chapters 1 and 2 of the Listing Rules and is admitted by ASX to the Official List. As such, the Offer Shares issued under the Offer may not be able to be traded for some time after the close of the Offer.

In the event that the Company does not receive approval for admission to the Official List, the Offer will be withdrawn and the Company will repay all Application monies received by it in connection with the Offer (without interest).

### 3.2 Minimum Application

Applications must be for a minimum of 10,000 Offer Shares. Applications to acquire Offer Shares will only be accepted on submission of the Application Form attached to this Prospectus.

The Directors may reject any application or allocate any Applicant fewer Offer Shares than that Applicant applied for.

### 3.3 Minimum Subscription

The Minimum Subscription for this Offer is 75,000,000 Offer Shares to raise \$15,000,000. If the Minimum Subscription is not achieved within three (3) months after the date of this Prospectus, the Directors will not allot any Offer Shares and all Application monies will be returned without interest.

### 3.4 Over-subscriptions

The Company will not accept over-subscriptions.

### 3.5 Opening and Closing Dates

Subscription for Offer Shares will open on 9.00am AEST on the Opening Date and remain open until 5.00pm AEST on the Offer Closing Date.

The Opening Date and Offer Closing Date are subject to the right of the Directors to either close the Offer at an earlier time and date or to extend the closing time and date without prior notice.

Applicants are encouraged to submit their Applications as early as possible.

### 3.6 Applications for Offer Shares – How to Apply

Applications for Offer Shares offered by this Prospectus may only be made on the Offer Application Form attached to and forming part of this Prospectus. Please read the instructions on the Application Form carefully before completing it.

Completed Application Forms must be accompanied by a cheque in Australian dollars, crossed "Not Negotiable" and made payable to Rong Yu Pharmaceuticals Limited Subscription A/C and may be lodged at any time after the issue of the Prospectus and on or before the applicable closing date as follows:

#### by post to:

Rong Yu Pharmaceuticals Limited  
C/-Security Transfer Australia Pty Ltd  
PO Box 52  
Collins Street West VIC 8007

#### by hand to:

Rong Yu Pharmaceuticals Limited  
C/-Security Transfer Australia Pty Ltd  
Suite 913, 530 Little Collins Street  
Melbourne VIC 3000

No brokerage or stamp duty is payable by Applicants.

### 3.7 Acceptance of Applications

An Application for Offer Shares may be accepted in full, for any lesser number, or rejected by the Directors, in consultation with the Lead Manager. If any Application is rejected, in whole or in part, the relevant Application monies will be returned without interest.



Suppliers of ingredients and packaging materials are carefully selected based on **product quality**

## Section 3

### Details of the Offer continued

#### 3.8 Capital Structure After the Offer

The effect of the Offer on the Company's capital structure is set out below.

##### Shares

Shareholder	Minimum Subscription		Maximum Subscription	
	Number of Shares	%	Number of Shares	%
Rongyu Ye	206,250,000	55.00%	206,250,000	51.56%
<b>Existing Minority Shareholders</b>				
Zhou Zhang <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Yarong Wang <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Yanhong Cai <sup>1</sup>	13,500,000	3.60%	13,500,000	3.38%
Guiping Rao <sup>1</sup>	6,000,000	1.60%	6,000,000	1.50%
Suping Zhong <sup>1</sup>	7,500,000	2.00%	7,500,000	1.88%
Lijuan Xiu <sup>1</sup>	10,500,000	2.80%	10,500,000	2.63%
Aihua Shui <sup>1</sup>	6,000,000	1.60%	6,000,000	1.50%
Qinghe Zheng <sup>1</sup>	3,000,000	0.80%	3,000,000	0.75%
Yinghua Huang <sup>1</sup>	3,000,000	0.80%	3,000,000	0.75%
Shan Hong <sup>1</sup>	10,500,000	2.80%	10,500,000	2.63%
Brilliant Sky Management Ltd <sup>2</sup>	3,000,000	0.80%	3,000,000	0.75%
A3 International Investment Ltd <sup>3</sup>	3,750,000	1.00%	3,750,000	0.94%
<b>Shares held by the Existing Minority Shareholders</b>	<b>93,750,000</b>	<b>25.00%</b>	<b>93,750,000</b>	<b>23.44%</b>
<b>Shares on issue as at the date of Prospectus</b>	<b>300,000,000</b>	<b>80%</b>	<b>300,000,000</b>	<b>75%</b>
<b>Shares offered under this Prospectus</b>	<b>75,000,000</b>	<b>20%</b>	<b>100,000,000</b>	<b>25%</b>
<b>Total</b>	<b>375,000,000</b>	<b>100%</b>	<b>400,000,000</b>	<b>100%</b>

Note:

1. These persons are not related parties to the Company.
2. Brilliant Sky Management Ltd is not held by a related party to the Company.
3. A3 International Investment Ltd is not held by a related party to the Company

#### 3.9 Compliance with Chapters 1 and 2 of the ASX Listing Rules

The ASX requires the Company to comply with Chapters 1 and 2 of the ASX Listing Rules in order to be admitted to Official Quotation on the Official List of the ASX.

There is a risk that the Company may not be able to meet the ASX's requirements for listing. In the event that the conditions to the Offer are not satisfied, or the Company does not receive conditional approval for quotation of its securities on the ASX, then the Company will not proceed with the Offer and will repay all Application monies received.

Key requirements of Chapters 1 and 2 of the ASX Listing Rules are:

- a prospectus must be issued and lodged with ASX. This Prospectus is anticipated to fulfil this requirement;
- the shareholder spread requirements set out in Listing Rule 1.1 relating to the minimum spread of shareholdings and the minimum number of shareholders must be met;
- the Company must satisfy either the "profits test" or the "assets test" contained in Listing Rule 1.2 and 1.3 respectively (the Company is relying on the "profits test" for Admission); and
- the issue price of the Shares under the Prospectus must be at least \$0.20.

### 3.10 Company Constitution and Rights Attaching to Shares

The Constitution sets out the internal rules of the Company. The section below summarises the material provisions of the Constitution, including the rights and liabilities attached to Shares. This summary is not intended to constitute an exhaustive statement of the rights and liabilities of Shareholders.

#### Issue of Shares

The issue of Shares by the Company is under the control of the Directors, subject to the Corporations Act, ASX Listing Rules and any rights attached to any special class of shares.

#### Transfer of Shares

Pursuant to the Constitution, a Shareholder may transfer a Share by any means permitted by the Corporations Act or by law.

The Company participates in the share registration and transfer system known as CHESS, which is operated by ASX under the Security Clearing House Business Rules. Under CHESS, the Company may issue holding statements in lieu of share certificates. The Company is not permitted to charge any fee for registering a transfer of shares. The Directors may refuse to register a transfer of Shares only if the refusal would not contravene the Corporations Act or the Listing Rules, where the registration would create a new parcel of unmarketable securities.

#### Variation of Shares

The rights attached to any class of Shares may, unless their terms of issue state otherwise, be varied with the written consent of 75% of the holders of issued Shares of the affected class, or authorised by a special resolution passed at a separate meeting of the holders of the shares of the affected class.

#### Meetings of Members (General Meetings)

The Directors may call a meeting of members whenever they think fit.

Members may call a meeting in accordance with the Corporations Act. Pursuant to the Constitution, the Notice of General Meeting sent to Shareholders must contain certain information. The Constitution contains provisions prescribing the content requirements for notices of meetings sent to Members. All Members are entitled to attend, and will receive at least 21 days' notice of a general meeting (where the Company is listed on the ASX, a notice period of 28 days applies). A quorum for a general meeting is two (2) Members who are eligible to vote at the general meeting.

The Company will hold an annual general meeting in accordance with the Corporations Act and the Listing Rules.

#### Voting Rights

Subject to any rights or restrictions for the time being attached to any Shares or class of shares of the Company, each Shareholder, whether present in person or by proxy, attorney or representative at a meeting of Shareholders, has one (1) vote on a show of hands and one (1) vote on a poll for each fully paid share held and a fraction of a vote for each partly paid share, equivalent to the proportion paid up on that share. Resolutions of members will be decided by a show of hands unless a poll is demanded.

A poll may be demanded by the chairperson of the meeting, at least five (5) Shareholders (or their proxy, attorney or representative) entitled to vote on the resolution, or any one or more Shareholders holding not less than five percent (5%) of the votes that may be cast on the resolution on a poll.

#### Directors

The business of the Company is to be managed by or under the direction of the Directors. The Company must have at least three (3) Directors and not more than ten (10). The Board may appoint a person to be a Director at any time, but any such Director must retire at the next annual general meeting (at which meeting he or she may be eligible for election as director).

The Company in general meeting may elect Directors by ordinary resolution.

At each annual general meeting, with the exception of the Managing Director and those Directors appointed by the Board, one third of the Directors and any Director who will have been in office for three (3) or more years must retire from the Board, and are eligible for re-election.

The aggregate remuneration of the non-executive Directors must not exceed the amount last fixed by ordinary resolution.

#### Dividends

The Directors may pay any interim and final dividends as, in their judgment, the financial position of the Company justifies.

Subject to any rights attaching to Shares which may in the future be issued with special or preferred rights, the Directors may fix the amount, the time for payment and the method of payment of a dividend. Subject to any special rights attaching to Shares (such as preference Shares), dividends will be paid proportionately. The Company is not required to pay any interest on dividends.

#### Winding Up

On a winding up of the Company a liquidator may, with the sanction of a special resolution of the Shareholders, divide among the Shareholders the property of the Company in proportion to the Shares held by them. The liquidator may determine how the division is to be carried out as between the members or different classes of members.

## Section 3

### Details of the Offer continued

#### 3.11 Dividend Policy

The Board of the Company has adopted a dividend policy which is summarised in this Section 3.11. It is the intention of the Board to pay unfranked dividends in respect of full financial years for the Company ending on 31 March each year.

The Company intends to distribute a minimum of 10% of NPAT to shareholders by way of dividends in respect of each financial year, commencing for the financial year ending 31 March 2018. The maximum intended distribution of NPAT by way of dividends in a given financial year will be 20% of NPAT.

The Company intends to commence payment of dividends to its Shareholders on an annual basis on or around June/July of each year.

The Company shall fund the dividends it intends to distribute pursuant to its dividend policy through the dividends it receives from its wholly owned subsidiary, Rong Sheng. Rong Sheng shall receive dividends from its wholly owned subsidiary, JRYP, which shall be generated from profits in connection with the Business.

Although the Company may derive Australian sourced income as part of the intended expansion of the Business to Australia, the Board anticipates that the majority of the Company's income and gains will be foreign sourced. The potential Australian tax treatment of distributions of dividends pursuant to the Company's dividend policy is set out in the Taxation Report contained in Section 9 of this Prospectus.

The Business has been profitable in past financial years, and so the Company considers that there is a reasonable basis for the adoption of the dividend policy referred to in this Section 3.11 and to presume that there will be profits available for distribution to shareholders by way of dividends in accordance with this dividend policy. However, investors should note that past performance should not be relied upon as being indicative of future performance. Please refer to Section 7 of this Prospectus for further information in relation to the historical financial position of the Business.

However investors should be aware that despite the Business generating profits in the past, there is no guarantee that it will continue to be profitable in the future. Investors should be aware that past performance should not be relied upon as being indicative of future performance. The payment of dividends by the Company is at the discretion of the Board and subject to a number of factors including repatriation of dividends out of profits from JRYP, the future business conditions affecting the Business, the future cash flow requirements of the Rongyu Group, taxation considerations, and contractual, legal or regulatory considerations that the Board may deem relevant to the decision as to whether a dividend can be paid in respect of any given period.

Despite the intentions set out in this Section 3.11, no guarantee can be given about the level or payment of dividends, the level of imputation or franking of such dividends, or the payout ratios, as these matters depend upon future profits of the Rongyu Group, its financial and taxation position and the Board's view of the most appropriate payout ratio at that time.

Applicants should also note that the Chinese government imposes controls on the convertibility of RMB into foreign currency and, in certain cases, the remittance of currency out of China. As at the date of this Prospectus, Chinese regulations allow profit and dividends generated in China to be paid to shareholders outside China without prior approval, provided that the Company complies with certain procedural requirements. However, the Chinese government may, at its discretion, impose restrictions on currency exchange or require approval for the conversion of RMB into foreign currency, which may restrict JRYP from remitting sufficient foreign currency to pay dividends or other payments to the Company. Similarly, the payment of dividends to the Company also depends on the repatriation of profits from JRYP, through Rong Sheng, before such dividends are paid to the Company. If the existing legal and regulatory regime governing the receipt and payment of dividends in Hong Kong are amended, the Company's ability to receive and therefore pay dividends may be adversely affected. Likewise, the directors of Rong Sheng and JRYP have a discretion to pay dividends. If the board of one of the Company's subsidiaries elects not to pay dividends, the Company will not receive a dividend and will therefore be unable to pay dividends to its shareholders.

For more information on the risks relating to the controls imposed by the Chinese government on the convertibility of RMB into foreign currency and, in certain cases, the remittance of currency out of China, please refer to Section 6.2(d) of this Prospectus.

#### 3.12 Allotment

Acceptance of an Application by the Company creates a legally binding contract between the Applicant and the Company for the number of Shares for which the Application is accepted.

The Company will allot and issue the Shares offered by this Prospectus as soon as possible after the grant of quotation of the Shares offered under this Prospectus.

Following the allotment and issue of the Shares, statements illustrating Applicants' shareholdings in the Company will be despatched. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell Shares before they receive their holding statements will do so at their own risk.

### 3.13 Application Monies Held on Trust

All Application monies received for the Shares offered under this Prospectus will be held in trust in a bank account established solely for the purpose of depositing application monies received pursuant to this Prospectus until the Shares are allotted. Application monies will be returned (without interest) if the Shares are not allotted.

### 3.14 Taxation

The taxation consequences of an investment in the Shares under the Offer contained in this Prospectus, including the acquisition and disposal of Shares, will depend on the particular circumstances of each Applicant. Pitcher Partners SA Pty Ltd has prepared the Taxation Report contained in Section 9 of this Prospectus, as a general guide to investors contemplating investing in the Company.

It is the responsibility of each Applicant to be satisfied as to the particular taxation treatment that applies to each investment. Persons who are considering making an investment in the Company should seek independent professional advice with respect to the tax consequences arising from such an investment.

### 3.15 Foreign Selling Restrictions and Overseas Applicants

This Prospectus does not, and is not intended to, constitute an offer of securities in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Company has not taken any action to register or qualify the Shares the subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia.

It is the responsibility of any applicant for Shares that is based in a foreign jurisdiction (outside Australia) to ensure compliance with all laws of any foreign jurisdiction that are relevant and applicable to their Application. The return of a properly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of any applicable foreign jurisdiction laws and that all necessary approvals and consents have been obtained.

#### (a) People's Republic of China

This Prospectus may not be circulated or distributed in the PRC and the Shares offered by this Prospectus have not been offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

The contents of this Prospectus have not been reviewed by any PRC regulatory authority. You are advised to exercise in caution relation to the Offer. If you are in doubt about any content of this Prospectus, you should obtain independent professional advice. For the purpose of the paragraphs above, the PRC does not include Taiwan and the Special Administrative Regions of Hong Kong and Macao.

#### (b) Hong Kong

The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong SAR. Investors are advised to exercise caution in relation to the offer. If Investors are in doubt about any contents of this prospectus, Investors should obtain independent professional advice.

This Prospectus has not, and will not be registered as a prospectus under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "**Companies Ordinance**") and it has not been authorised for registration by the Securities and Futures Commission in Hong Kong SAR and accordingly, this Prospectus must not be issued to the public (i) offering Shares of the Company for subscription or purchase for cash or (ii) inviting offers by the public to subscribe for or purchase for cash or other consideration any Shares in or debentures of the Company.

The Company has not offered or sold and will not offer or sell in Hong Kong SAR, by means of any document, any of the Shares, other than:

- (i) to "professional investors" as defined in the Securities and Futures Ordinance ("**SFO**") (Chapter 571D of the Laws of Hong Kong) and any rules under the SFO or as otherwise permitted under the Seventeenth Schedule of the Companies Ordinance; or
- (ii) in other circumstances which do not result in the document being a "prospectus" as defined under the Companies Ordinance or which do not constitute an offer to the public within the meaning of the Companies Ordinance.

## Section 3

### Details of the Offer continued

Unless permitted by the securities law of Hong Kong SAR, no person may issue or have in its possession for issue, whether in Hong Kong or elsewhere, any other invitation, advertisement or document relating to shares in the Company, which is directed at, or the contents of which are likely to be accessed or read by the public of Hong Kong (except if permitted to do so under the securities law of Hong Kong) other than with respect to Shares in the Company, which are intended to be disposed of only to person outside Hong Kong or only to “professional investors” as defined in the SFO or as otherwise permitted under the Seventeenth Schedule of the Companies Ordinance and any other applicable sections under the SFO.

#### 3.16 Escrow

The Company is applying to be admitted under the profits test and therefore it is anticipated that escrow restrictions will not be imposed by ASX on the shareholdings of Mr Rongyu Ye and the Existing Minority Shareholders.

However, Mr Rongyu Ye has agreed to enter into voluntary escrow arrangements in relation to the 206,250,000 Shares held, for a period of twenty-four (24) months, commencing on the date of quotation of the Shares on the ASX.

Additionally, the Existing Minority Shareholders have agreed to enter into voluntary escrow arrangements in relation to the 93,750,000 Shares held, for a period of six (6) months, commencing on the date of quotation of the Shares on the ASX.

The Company has applied to ASIC for a declaration that the Corporations Act is modified such that the Company does not have a relevant interest in its own shares by virtue of entering into the Restriction Agreements with Mr Rongyu Ye and the Existing Minority Shareholders, as well as a modification of Section 671B of the Corporations Act to require the Company to make substantial holding disclosure of the relevant interest it would have acquired but for the relief, as a result of the Restriction Agreements. For a summary of the key terms of the Restriction Agreements, please refer to Section 10.11 of this Prospectus.

The Company has not applied for or obtained any modifications of, or exemptions from, the ASX Listing Rules pursuant to this Offer.

#### 3.17 CHES

The Company will apply to participate in the Clearing House Electronic Sub-Register System (**CHES**) operated by ASX Settlement Pty Ltd (**ASX Settlement**), a wholly owned subsidiary of ASX, in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules.

Under this system, the Company will not issue certificates to investors. Instead, investors will receive a statement of their holdings in the Company.

If an investor is broker sponsored, ASX Settlement will send them a CHES statement. The CHES statement will set out the number of securities allotted to each investor under the Prospectus, give details of the investor’s Holder Identification Number (HIN) and provide the participant an identification number of the sponsor.

Alternatively, if an investor is registered on the issuer sponsored subregister, their statement will be dispatched by the Share Registry and will contain the number of securities allotted under the Prospectus and the investor’s Security holder Reference Number (SRN) and their Sponsor Issuer Number.

A CHES statement or issuer sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. A Shareholder may request a statement at any other time. However, a charge may be made for additional statements.

#### 3.18 Professional Advice

The Directors recommend that potential investors, when making an informed assessment of what will be the assets and liabilities, financial position, profits and losses and prospects of the Company should read this Prospectus in its entirety. Potential investors who have any questions about investing in the Company or are in any doubt about any matter relating to the Offer, should seek the advice of their professional advisers.

#### 3.19 Withdrawal

The Company may at any time decide to withdraw this Prospectus and the Offer in which case the Company will return all Application monies without interest at the earliest practicable time.

## Industry and Market Overview

Unless otherwise specified, the information that appears in this “Industry and Market Overview” section has been prepared by Euromonitor International Limited. The information prepared by Euromonitor International Limited is intended to reflect estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in the Rongyu Group. The Directors believe that the sources of information contained in this “Industry and Market Overview” section are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor International Limited and set out in this “Industry and Market Overview” section has not been independently verified by the Rongyu Group or any other party involved in the Offer and none of them gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

The Euromonitor Report, from which some of the information contained in this “Industry and Market Overview” section was extracted, was last updated in September 2015 based on data available at the time of publishing. In compiling and preparing the Euromonitor Report, Euromonitor International Limited used secondary and primary research methodologies to collect multiple sources, validate the data and information collected, and cross-check each respondent’s information and views against those of others.

The forecasting data in the Euromonitor Report is based on the following assumptions:

- the Chinese economy is expected to maintain steady growth over the forecast period;
- the Chinese social, economic, and political environment is expected to remain stable in the forecast period; and
- there will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of traditional Chinese medicine in China during the forecast period.

### 4.1 Market for Products

#### 4.1.1 TCM Industry in China

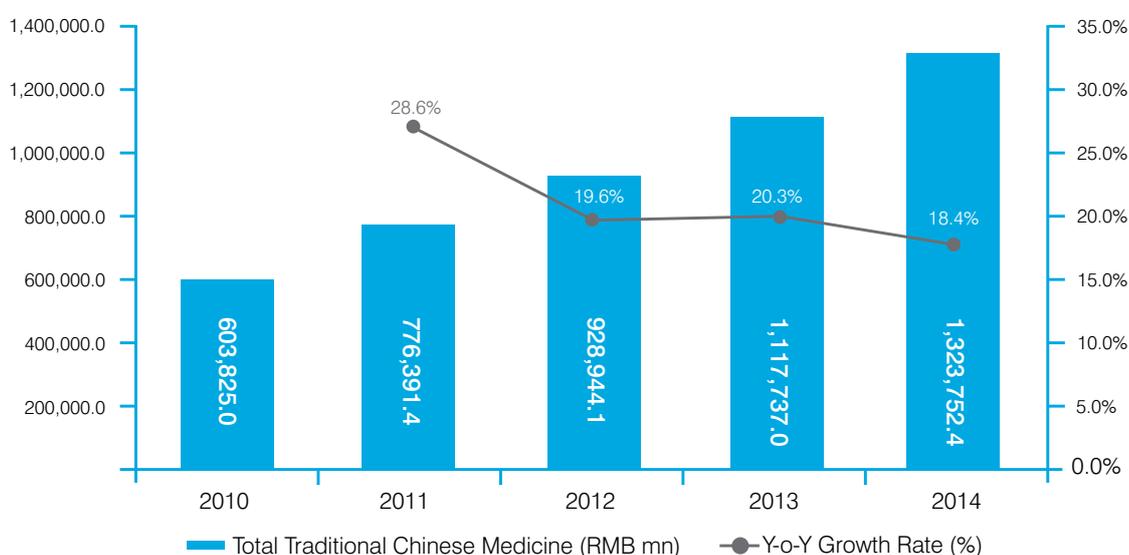
##### Historical Overview

TCM is China’s national treasure and has been used in China for several thousand years. TCM products are considered as alternative remedies to Western medicine products in China and are believed by users to be better for curing the root cause of the illness and strengthening the immune systems. TCM products are typically made from natural herbs.

The TCM industry encompasses proprietary Chinese medicines, TCM decoction pieces and Chinese healthcare products (collectively, **‘TCM products’**). The global market for TCM products is estimated to be increasing by 10% to 20% on a year-on-year basis.<sup>1</sup> Although, a substantial portion of the TCM market has historically been attributed to the Chinese and overseas Chinese community, in recent times, the TCM market has also enjoyed rapid growth in the Western market.<sup>2</sup>

Over 2010 to 2014, the TCM market in China achieved a steady growth rate, supported by the long history of using TCM as alternative remedy to western medicine in China. During this period, the total retail sales value of TCM products in China increased from ¥603.8b to ¥1,323.8b, which equates to a compound annual growth rate of 21.7%.

Chart 1 – Total TCM retail sales value (2010 – 2014)\*



\* Source: Euromonitor estimates from trade interviews and desk research.

1. <http://learnchinesebusiness.com/2014/03/06/traditional-chinese-medicine-a-profitable-worldwide-trend/>

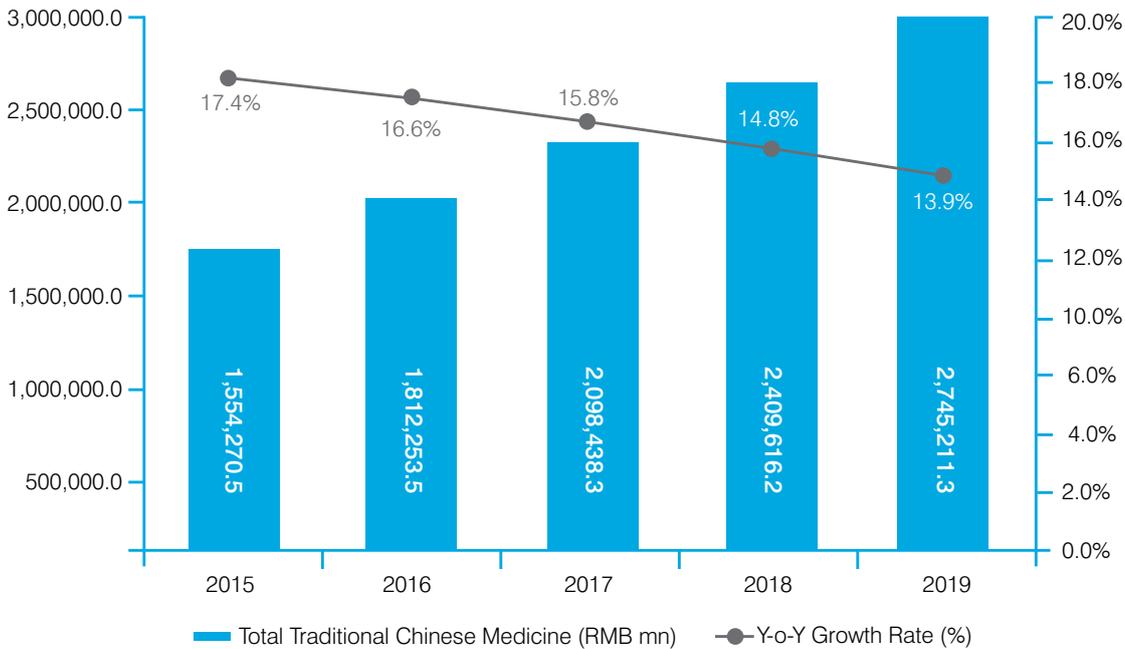
2. <http://learnchinesebusiness.com/2014/03/06/traditional-chinese-medicine-a-profitable-worldwide-trend/>

Industry and Market Overview continued

Market Drivers and Outlook

The total market size of the TCM industry in China is expected to reach ¥2,745 billion by 2019, representing a compound annual growth rate of 15.7% from 2015.

Chart 2 – Total TCM retail sales value estimates (2015 – 2019)\*



\* Source: Euromonitor estimates from trade interviews and desk research.

This projected growth in the Chinese TCM industry, is expected to be stimulated by several market drivers in China including favourable government policies for the industry, an aging population, the increased incidence of chronic diseases and increasing urbanisation and disposable income.

(a) Favourable Government policies

The TCM industry in China is supported by various government policies which encourage participation in the TCM industry, including the National 12th Five-Year Plan on Science and Technology, which placed particular emphasis on the construction of TCM hospitals, on improving the training for TCM-related occupations and on reviewing the legal and intellectual property framework in order to facilitate the protection of TCM proprietary information.

Other examples of executive initiatives to bolster the TCM industry in China include ‘The Suggestion to Support and Promote the Development of TCM Industry’, the ‘Notice to Strengthen the Regulation of the Extract on the Production Process of TCM’, and the ‘Notice to Strengthen the Regulation of the Traditional Chinese Medicine Market’, which were promulgated by the State Council and the Chinese Food and Drug Administration respectively.

The implementation of these favourable policies, have facilitated a robust environment for the development of and investment into the TCM industry. Furthermore, the Chinese Ministry of Finance estimated that total governmental expenditure on healthcare and medical services amounted to a total of ¥206.3b in 2013. As a related industry of this market, the TCM industry will benefit directly from such investments into the healthcare sector.

#### *(b) Aging population and increased incidence of chronic diseases*

China's population is not only the world's largest, but is also aging rapidly. The percentage of China's population who are aged 65 and over was 9.6% in 2015, and is projected to grow to 16.2% by 2030 and reaching 25% by 2050. This trend is anticipated to drive the TCM market in China because the aged are typically larger consumers of pharmaceuticals products than other demographic groups.

Furthermore, it is anticipated that the impact of the aging population on the Chinese TCM industry will be exacerbated by the increased incidence of chronic diseases in China. For instance, the International Diabetes Federation reported that the incidence of diabetes in China was increasing at a higher rate than that of the global population. Similarly, the deaths rates associated with cardiovascular diseases in China is one of the highest in the world.

#### *(c) Increasing urbanisation and disposable income*

Recent years have seen China's urbanization progress accelerate. In 2011, China's urban population surpassed its rural population for the first time in history and as of 2014, urban residents accounted for approximately 54.8% of China's total population. The growth in China's GDP has translated into increased average income for both urban and rural residents. During the period from 2009 to 2013, the per capita expenditure on health and/or medical care by Chinese citizens increased by a compound annual growth rate of 6.9% and 20.9% for urban and rural residents respectively. Thus, the TCM industry is expected to benefit from this trend as the increasing public awareness of health/medical care, especially among the rural population, will support further development of the health/medical care related industries.

### **4.1.2 TCM Industry in Australia**

In Australia, the TCM industry is classified within the larger category of 'Complementary Medicines', which includes 'herbal medicines, vitamin and mineral supplements, other nutritional supplements, traditional medicines, homoeopathic medicines and aromatherapy oils'.<sup>3</sup> Complementary Medicines Australia estimates that the Complementary Medicines industry in Australia in 2016 was valued at \$4.2b.<sup>4</sup>

Complementary Medicines, which includes TCM products, are now sold in over 3,500 local supermarkets, 5,500 pharmacies and 3,500 health food stores in Australia.<sup>5</sup> Recent data indicates that pharmacies continue to be the preferred source Complementary Medicines as pharmacies often offer a more extensive product range that is complemented by professional advice from a supervising pharmacist or healthcare professional. In addition there are over 4,700 registered TCM practitioners in Australia,<sup>6</sup> who prescribe TCM products for their patients but are also looking for unique and reliable TCM products they can enhance and/or differentiate their TCM practice.

It is estimated that 2 in 3 Australians use Complementary Medicines each year. These Australian statistics are consistent with worldwide trends of Complementary Medicines growing as a substitute or supplement to Western medicines.<sup>7</sup> That is the Directors anticipate that the almost 750,000 strong Australian-Chinese and visiting Chinese population has the capacity to act as a strong base of consumers who will have an interest in purchasing TCM products.

The growing relevance of TCM products in Australia, can be demonstrated in the increase in consumption of alternative medicines in Australia, of which sales have been growing at a faster rate than over-the-counter and prescription medicine. During the period from 2011 to 2015 total expenditure on prescription medicines in Australia increased at a compounded annual growth rate of 2.92% to reach A\$9.34m, while sales of over-the-counter medicines increased at a compounded annual growth rate of 2.69%.<sup>8</sup>

The strength of the Complementary Medicines market in Australia is also evidenced by the recent corporate mergers and acquisitions activity in this sector, including the recent acquisition of Global Therapeutics by Blackmores, which is a market-leading Australian manufacturer and distributor of vitamins, minerals and nutritional supplements. Global Therapeutics is a significant provider of retail Chinese herbal medicine formulations, through the 'Fusion' and 'Oriental Botanicals' brands.

3. Expert Committee on Complementary Medicines in the Health System. Complementary Medicines in the Australian Health System. Report to the Parliamentary Secretary to the Minister for Health and Ageing. Canberra: Commonwealth of Australia, 2003, p. 43.

4. Complementary Medicines Australia –Australia's High Quality Complementary Medicines Industry (June 2016).

5. Complementary Medicines Australia –Australia's High Quality Complementary Medicines Industry (June 2016).

6. <http://www.smh.com.au/business/retail/blackmores-dives-into-chinese-herbal-medicine-with-23m-buy-20160505-gonp9g.html>

7. Complementary Medicines Industry, 2014 Complementary Medicines Industry Survey, <http://i2p.com.au/complementary-medicines-advance-market-share/>

8. Pharmaceutical Benefits Scheme, Expenditure and Prescriptions, Twelve Months to June 2016.

# Industry and Market Overview continued

## 4.2 Competitor Activity

### 4.2.1 Competitor Activity in China

The Chinese TCM market is characterised as a highly fragmented market consisting of many industry participants. Tongrentang, Jiang Zhong, Yunnan Baiyao and Jiuzhitang are widely considered to be the most well-known brands for TCM products in China. While there are several other market players that are well-recognised and attract a stable and wide consumer base, the majority of other brands and products operate on a relatively smaller scale, and are often confined to a specific Province or local city.

However, the market development and high barriers to entry in this industry, has resulted in consolidation of the TCM industry in China, with large and more reputable TCM manufacturers acquiring smaller, local players. This consolidation has been compounded by the limited profit margins of particular products and fierce market competition, which has forced some smaller operators to exit the market. Notwithstanding this, industry experts believe that such consolidation will be beneficial to the TCM market because it will allow the market to be more regulated and sustainable to future growth.

As noted in this Prospectus, a considerable segment of the Company's products are targeted at women's health, being the products containing Angelica Roots and Nan Dates that comprise approximately 45% of the Company's sales. The main competing products for this segment are the Gynaecologic Qianjin Tablets (妇科千金片) produced by Qianjin Pharmaceutical Co., Ltd (株洲千金药业), JinJi capsule (金鸡胶囊) produced by Guangxi Lingfeng Pharmaceutical Co., Ltd (广西灵峰药业), Hua-Hong Tablets (花红片) by Guangxi Huahong Pharmaceutical Co., Ltd (广西花红药业), Guizhi Fuling capsule (桂枝茯苓胶囊) produced by Jiangsu Kanion Pharmaceutical Co., Ltd (江苏康缘药业).

### 4.2.2 Competitor Activity in Australia

As noted above, Global Therapeutics, which was recently acquired by Blackmores in May 2016, has a significant market presence in the Australian TCM industry via their 'Fusion' and 'Oriental Botanicals' brands.<sup>9</sup> In 2015, Global Therapeutics achieved sales in excess of \$20m and was responsible for approximately 80% of TCM sales transacted at Australian health food stores.<sup>10</sup>

9. <http://www.smh.com.au/business/retail/blackmores-dives-into-chinese-herbal-medicine-with-23m-buy-20160505-gonp9g.html>

10. <http://www.smh.com.au/business/retail/blackmores-dives-into-chinese-herbal-medicine-with-23m-buy-20160505-gonp9g.html>

## Section 5

# Board and Corporate Governance

The Company is very cognizant of investor expectations with respect to governance and communications. In that regard, the Board is constituted of directors who have extensive skills and experience in both business operations and governance. The Board and senior management have a broad base of experiences covering operational, technical, corporate and commercial backgrounds spanning a number of decades across a range of different industries. The Board is well positioned to implement, oversee and monitor the Company's strategic objectives.

### 5.1 Directors' Profiles

	Experience
<b>Rodney Hannington</b>	<p>Rodney has been working in marketing and strategy services in consumer health and fast moving consumer goods in Asia Pacific for over 15 years and has recently joined the board as a non-executive director. He has valuable international experience in Australia, China, Japan, South Korea and South East Asia, Middle East / Africa, Russia and Ukraine markets.</p> <p>Working and consulting with SPRIM, Mondelez and Novartis he has extensive in market experience including living in Australia, China and Singapore with a very strong network in the health and food industries.</p> <p>He is a strategic and innovative consumer health marketer with deep experience in China and Australia. He has led and been a part of several significant company acquisitions and new product launches in China and Australia as a board member, consultant and employee. He has strong interpersonal skills with broad cultural experience dealing with diverse cross-functional teams.</p> <p>After two decades of overseas living and travel Rodney is now located Australia and looking forward to bringing both his Asia Pacific experience and Australian knowledge and expertise to the board. Mr Hannington has been a member of the Monash University Department of Marketing Industry Advisory Board since 2013.</p> <p>Rodney is currently an executive director of ASX listed company, Eagle Health Holdings Limited (ASX:EHH).</p>
<b>Role</b>	Non-Executive Chairman
<b>Expertise/ Qualifications</b>	Bachelor of Marketing (Monash University)
<b>Location</b>	Australia
<b>Independence or affiliations</b>	Independent
<b>Legal or disciplinary action</b>	Nil
<b>Insolvent companies</b>	Nil

## Section 5

# Board and Corporate Governance continued

Experience	
<b>Rongyu Ye</b>	<p>Mr Ye commenced his career as an entrepreneur when he firstly founded a paper manufacturing company named Fuzhou Jiangnan Paper Co., Ltd in 1996. Mr Ye has since then gained extensive experience in business management and administration and expand into pharmaceutical industry and established JRYP in 2004.</p> <p>Mr Ye was a member of the Chinese People's Political Consultative Conference (CPPCC) and executive member of the SME Council in Linchuan District, Fuzhou in 2000. He is currently a member of the National People's Congress (NPC), the vice-chairman of Sole Traders' Council in Fuzhou and also the vice-chairman of Association of Industry and Commerce in Linchuan District.</p>
<b>Role</b>	Executive Director
<b>Expertise/ Qualifications</b>	Master of Business Administration (Tsinghua University)
<b>Location</b>	China
<b>Independence or affiliations</b>	Not independent
<b>Legal or disciplinary action</b>	Nil
<b>Insolvent companies</b>	Nil
<b>Shilin Yang</b>	<p>Professor Shilin Yang has extensive experience in the Chinese Medicine industry. Professor Yang has held research positions at various organisations including the Institute of Materia Medica (IMM) which is part of the Chinese Academy of Medical Science (CAMS) in China and the Institute of Medicinal Plant Development (IMPLAD). Since 2002, Professor Yang has been a professor at the Jiangxi University of Traditional Medicine and was also appointed as the deputy chancellor of this institute from 2008 to 2014.</p> <p>From 2002 to 2008, Professor Yang served as an adjunct R&amp;D director for Jiangxi HuiRen Group, a conglomerate involved in Chinese traditional medicine. Since June 2006 Professor Yang has also been visiting professor at the School of Pharmacy of Suzhou University.</p>
<b>Role</b>	Non-Executive Director
<b>Expertise/ Qualifications</b>	<ul style="list-style-type: none"><li>• Bachelor of Chinese Medicine (Beijing Chinese Medicine College)</li><li>• PhD in Pharmacy (University of London)</li><li>• Postdoctoral scholar with GlaxoSmithKline</li></ul>
<b>Location</b>	China
<b>Independence or affiliations</b>	Independent
<b>Legal or disciplinary action</b>	Nil
<b>Insolvent companies</b>	Nil

## Experience

### Keren Tian

From April 1969 to July 1972, Mr Tian studied medicine at the Gan'Nan Medical College. From July 1972 to February 1984, he served in the ShangYou County Health Department. From February 1984 to November 1993, he held various positions in the ShangYou County Government including Deputy Head, Deputy Secretary of the Head. From November 1993 to February 2007, Mr Tian was the director of the Ganzhou City Health Bureau (which was formerly the Food and Drug Administration).

From February 2007 to May 2015, Mr Tian was the Deputy Director of the Jiangxi Food and Drug Administration.

**Role** Non-Executive Director

**Expertise/ Qualifications** Postgraduate Diploma (Jiangxi Provincial Communist Party School)

**Location** China

**Independence or affiliations** Independent

**Legal or disciplinary action** Nil

**Insolvent companies** Nil

### Phillip Grundy

Phillip Grundy is a partner at Moray & Agnew Lawyers, specialising in Corporate law and Mergers & Acquisitions.

Phillip has acted as a legal advisor to many ASX-listed public companies across a broad range of industry sectors. He has advised several Australian and international companies in relation to ASX-listings, initial public offerings, backdoor listings, capital raisings, corporate takeovers, continuous disclosure requirements, corporate governance, Corporations Act and the Listings Rules compliance, and general commercial transactions.

He also previously worked for Chen & Co Law Firm in Beijing (2006) and was a director at Pointon Partners Lawyers (where he worked between 2007-2017), and has assisted several clients with China-related transactions. In addition, Phillip advises a number of international companies in relation to inbound Australian investment, mergers and acquisitions, capital raisings in the Australian market, and cross-border transactions.

Phillip is currently non-executive director of the ASX listed companies, Broo Ltd (ASX:BEE) and Golden Mile Resources Ltd (ASX:G88).

**Role** Non-Executive Director

**Expertise/ Qualifications**

- Masters of Laws (Commercial Law) (Monash University)
- Bachelor of Arts (Deakin University)

**Location** Australia

**Independence or affiliations** Not independent – Phillip Grundy is a partner at Moray & Agnew Lawyers, the Company's legal advisor.

**Legal or disciplinary action** Nil

**Insolvent companies** Nil

## Board and Corporate Governance continued

### 5.2 Company Secretary – Mr Chow Yee Koh

Mr Koh graduated with a Bachelor of Commerce from the University of Strathclyde, Scotland and is a member of the Association of Chartered Certified Accountants (UK) and a fellowship member of the Association of Chartered Certified Accountants (ACCA). Mr Koh has over 18 years' experience in accounting and corporate finance accumulated with accounting firms and listed companies in Australia, China, Singapore and Malaysia. Mr Koh is currently non-executive director and secretary of the ASX listed companies, Stemcell United Limited (ASX:SCU) and Invitroecue Limited (ASX:IVQ). Mr Koh is also company secretary to ASX listed Sunbridge Group Limited (ASX:SBB).

### Disclosure of Directors and Company Secretary's interests and Related Party Transactions

#### Directors' and Company Secretary's interests

Other than as set out below or elsewhere in this Prospectus, no Director and no firm in which a Director is a partner, has an interest in the promotion or in property proposed to be acquired by the Company in connection with its formation or promotion. Other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any Director or any firm in which any Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in which he is a partner in connection with the formation or promotion of the Company.

Prior to the Offer the Directors and Company Secretary had relevant interests in Shares as set out in the table below:

Director	Shares	% of Total Shares
Rodney Hannington	Nil	Nil
Rongyu Ye*	206,250,000	68.75%
Shilin Yang	Nil	Nil
Keren Tian	Nil	Nil
Phillip Grundy	Nil	Nil
<b>Company Secretary</b>		
Chow Yee Koh	Nil	Nil
<b>Total</b>	<b>206,250,000</b>	<b>68.75%</b>

\* Note: Mr Rongyu Ye will not be applying for any Offer Shares offered under this Prospectus.

After the Offer has occurred, assuming the Directors and Company Secretary do not participate in the Offer, the Directors and Company Secretary will have relevant interests in Shares as set out in the table below:

Director	Shares	% of Total Shares	
		Minimum Subscription	Maximum Subscription
Rodney Hannington	Nil	Nil	Nil
Rongyu Ye*	206,250,000	55%	51.56%
Shilin Yang	Nil	Nil	Nil
Keren Tian	Nil	Nil	Nil
Phillip Grundy	Nil	Nil	Nil
<b>Company Secretary</b>			
Chow Yee Koh	Nil	Nil	Nil
<b>Total</b>	<b>206,250,000</b>	<b>55%</b>	<b>51.56%</b>

\* Note: Mr Rongyu Ye will not be applying for any Offer Shares offered under this Prospectus.

#### 5.3.2 Related Party Transactions

Related parties of the Company relevantly include Directors and entities controlled by Directors. Chapter 2E of the Corporations Act prohibits a public company or an entity that it controls from giving a financial benefit to a related party of the public company unless either the giving of the financial benefit falls within one of the nominated exceptions to the prohibition, or shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

One of the nominated exceptions to the prohibition is where the financial benefit is reasonable in the circumstances if the public company or entity and the related party were dealing at arm's length.

Except where indicated below, the following contracts or transactions with related parties have been determined by Directors who do not have a material personal interest in the matter to fall within the arm's length exception.

##### (a) Agreements with Directors

The Company has entered into Director's Service Agreements and Deeds of Indemnity, Access and Insurance with each of the Directors of the Company. The Company has also entered into an Executive Services Agreement with Mr Rongyu Ye.

The remuneration payable by the Company under such agreements to each Director is as follows:

- Rodney Hannington (Non-Executive Chairman): \$75,000 (plus superannuation);
- Rongyu Ye (Executive Director): \$100,000 per annum (plus superannuation);
- Shilin Yang (Non-Executive Director): \$25,000 per annum (plus superannuation);
- Keren Tian (Non-Executive Director): \$25,000 per annum (plus superannuation);
- Phillip Grundy (Non-Executive Director): \$50,000 (plus superannuation).

For more information, please refer to Section 10 of this Prospectus.

## 5.4 Directors of Rongyu Group companies

### Rong Sheng Pharmaceutical (Hong Kong) Holdings Limited

The sole director of Rong Sheng Pharmaceutical (Hong Kong) Holdings Limited is Mr Rongyu Ye, who is also a director of the Company. For Mr Rongyu Ye's profile please refer to Section 5.1 of this Prospectus.

### Jiangxi Rongyu Pharmaceuticals Co., Ltd

The directors of Jiangxi Rongyu Pharmaceuticals Co., Ltd are Mr Rongyu Ye, Mr Fayu Ye and Ms Yan Ye. Mr Rongyu Ye is also a director of the Company, please refer to Section 5.1 of this Prospectus for Mr Rongyu Ye's profile. Mr Fayu Ye and Ms Yan Ye are Mr Rongyu Ye's brother and sister respectively.

Mr Fayu Ye holds a diploma from the Jiangxi College of Chinese Traditional Medicine. Upon obtaining his qualifications, Mr Ye gained valuable experience, focusing on distribution and marketing within the pharmaceutical industry. Mr Fayu Ye is currently responsible for overseeing the marketing function of the Rongyu Business.

Ms Yan Ye holds a bachelor's degree in computer software engineering from the Heilongjiang University. Since obtaining her bachelor's degree, Ms Yan has been responsible for overseeing the accounting function of the Rongyu Business.

## 5.5 Corporate Governance (Role of the Board)

The Board is responsible for the following principal matters:

- the strategic direction of the Company;
- overseeing, negotiating and implementing the significant capital investments and material transactions entered into by the Company;
- management goals and the Company's policies;
- monitoring and reviewing the financial and operational performance of the Company;

- risk management strategy and review; and
- future expansion of the Company's business activities.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board;
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company;
- Overseeing Planning Activities: the development of the Company's strategic plan;
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company;
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company; and
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.

The Board has adopted a Board Charter which sets out its responsibilities, processes and duties in greater detail.

### ASX Corporate Governance Principles and Guidelines

The Board is committed to principles of best practice in corporate governance.

The Board will conduct itself in accordance with the ASX Corporate Governance Principles and Recommendations, 3<sup>rd</sup> Edition (2014) as issued by the ASX Corporate Governance Council, to the extent that such principles and recommendations are applicable to an entity of the size and structure of the Company.

The Company has formulated its own Corporate Governance policies and practices using the ASX Principles and Recommendations as a guide.

The Board will review on an ongoing basis the corporate governance policies and structures that the Company has in place to ensure that these are appropriate for the size of the Company and nature of its activities, and that these policies and structures continue to meet the corporate governance standards that the Board is committed to.

# Section 5

## Board and Corporate Governance continued

Summary of Company's position in relation to ASX Principles and Recommendations:

ASX Principle and Recommendation	Company's Position
Principle 1 – Lay solid foundations for management and oversight	<p><b>The Role of the Board</b></p> <p>The Board is responsible for, and has the authority to determine, all matters relating to strategic direction, policies, practices, management goals and the operations of the Company.</p> <p><b>The Role of Management</b></p> <p>It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.</p> <p>The Company's officers and management have all entered into service contracts which outline the responsibilities of each of the company's officers and of management personnel when performing their roles for the Company.</p>
Principle 2 – Structure the Board to add value	<p>At the date of this Prospectus, the Company has five (5) directors, being Rongyu Ye, Shilin Yang, Keren Tian, Rodney Hannington and Phillip Grundy.</p> <p>The Board is an appropriate size to effectively and efficiently oversee the management and operations of the Company, based on the present size of the Company's activities.</p> <p>An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. Three (3) of the Directors are independent, being Shilin Yang, Keren Tian, and Rodney Hannington. The Company considers that three of the Directors being independent is appropriate for a company of its size.</p> <p>The Board is responsible for the nomination and selection of directors. Given the size of the Company and the nature of its operations, the Board does not believe it to be appropriate to establish a nomination committee at this time. The composition of the Board, its performance and the appointment of new Directors will be reviewed periodically by the Board, taking advice from external advisers where considered appropriate.</p>

## ASX Principle and Recommendation

### Company's Position

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Principle 3 – Act ethically and responsibly

#### Code of Conduct

The Board has established a *Code of Conduct* for the Board and Management.

The Board is committed to meeting their responsibilities under the Constitution and *Corporations Act 2001* (Cth) when carrying out their functions as company officers.

#### Diversity Policy

The Board has established a *Diversity Policy* in accordance with the *2014 Amendments to the ASX Corporate Governance Principles and Recommendations*, and will endeavour to provide for appointments to the Board and Company in accordance with this Policy as the Company develops and grows.

#### Securities Trading Policy

The Company has adopted a *Securities Trading Policy* for directors, officers and employees.

The purpose of the *Securities Trading Policy* is to reduce the risk of insider trading and ensure that the Company's directors, officers and employees are aware of the legal restrictions on trading shares in the Company whilst in possession of undisclosed information concerning the Company.

The *Securities Trading Policy* sets out when trading in the Company's shares by directors, officers and employees is not permitted. Restrictions on trading are imposed by the Company to reduce the risk of insider trading and to minimise the chance that misunderstandings or suspicions arise that the Company's directors, officers, or employees are trading while in possession of undisclosed information concerning the Company.

#### Reporting Unethical or Illegal Practices

Company policy requires employees who are aware of unethical or illegal practices to report these practices to management. Any reports of unethical or illegal practices are investigated by the Board. Reporters of unethical practices may remain anonymous.

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Principle 4 – Safeguard integrity in corporate reporting

The Company has established an *Audit and Risk Committee* which shall be responsible for monitoring and reviewing financial reporting by the Company.

The Company has adopted a Charter for the *Audit and Risk Committee* which sets out the committee's responsibilities, procedures, guidelines and composition.

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# Section 5

## Board and Corporate Governance continued

### ASX Principle and Recommendation

### Company's Position

Principle 5 – Make timely and balanced disclosure

The Company has adopted a *Communication and Disclosure Policy* to ensure compliance with the ASX Listing Rules disclosure requirements.

To comply with the ASX Listing Rules, the Company intends to immediately notify the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- that would, or would be likely to, influence persons who commonly invest in securities.

The *Communication and Disclosure Policy* includes processes designed to ensure that Company information:

- is disclosed in a timely manner;
- is factual;
- does not omit material information; and
- is expressed in a clear and objective manner that allows the input of the information when making investment decisions.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company. Accordingly, in following and adhering to its *Communications and Disclosure Policy* the Company will comply with its continuous disclosure obligations.

Principle 6 – Respect the rights of security holders

The Board is committed to ensuring that the Company's shareholders receive information relating to the Company on a timely basis and shall endeavour to keep shareholders well informed of all material developments of the Company.

The Board has adopted a *Communications and Disclosure Policy*, and as part of this policy, will ensure that all relevant announcements and documents are published on the Company's website in a prompt fashion.

The Company will respect the rights and entitlements of the Company's shareholders under the Constitution and the *Corporations Act 2001* (Cth).

Principle 7 – Recognise and manage risk

The Company has established an *Audit and Risk Committee* which shall be responsible for monitoring, identifying and managing risks, and ensuring that these risk identification and management procedures are implemented and followed.

The Audit and Risk Committee has adopted a Charter.

The Company has also adopted a *Risk Management Policy* designed to ensure:

- all major sources of potential opportunity for harm to the company (both existing and potential) are identified, analysed and treated appropriately;
- business decisions throughout the Company appropriately balance the risk and reward trade off;
- regulatory compliance and integrity in reporting is achieved; and
- the Company's good standing with its stakeholders continues.

## ASX Principle and Recommendation

### Company's Position

Principle 8 –  
Remunerate fairly  
and responsibly

The Board is responsible for the Company's remuneration policy and has adopted a *Nomination and Remuneration Policy* which outlines the processes by which the Board shall review officer and management remuneration. The Company has provided disclosure of a summary of its remuneration policies for the Company's officers in this Prospectus.

The Company is committed to remunerating its officers and executives fairly and to a level which is commensurate with their skills and experience and which is reflective of their performance. Further disclosure of officer and executive remuneration will be made in accordance with the ASX Listing Rules and the *Corporations Act 2001* (Cth).

As at the date of Admission, the Company will have complied with all of the ASX Principles and Recommendations except as set out below:

### ASX Recommendation

### Summary of Company's position

#### Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board has not, at this time adopted a board skills matrix. However the Company will seek to have directors with an appropriate range of skills, experience and expertise and an understanding of and competence to deal with current and emerging issues of the Business.

#### Recommendation 7.2

The board or a committee of the board should (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place

While the Company has established an Audit and Risk Committee the first annual review of the Company's risk management framework has not yet been held.

#### Recommendation 8.1(b)

The board of a listed entity should, if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Given the size of the Board and the Company's current operations, as at the date of this Prospectus, the Company has not established a separate Remuneration and Nomination Committee as it is considered that no efficiencies or other benefits would be gained by establishing a separate committee. Prior to establishment of a separate committee, the Board will oversee matters usually within the responsibility of a Remuneration and Nomination Committee. The Board will review this position on an ongoing basis.

#### Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.

This recommendation is not applicable to the Company as the Company does not currently have an equity-based remuneration scheme.

Under the ASX Listing Rules, the Company will be required to provide a Corporate Governance Statement on its website or in its annual report disclosing the extent to which it has followed the ASX Recommendations and Principles in the reporting period. Where the Company does not follow an ASX Recommendation and Principle, it must identify the ASX Recommendation and Principle that has not been followed and give reasons for the departure. Except as set out above, the Board does not anticipate that the Company will depart from the ASX Recommendations and Principles, however, it may do so in the future if it considers that such a departure would be reasonable.

## 5.6 Substantial Shareholders

As at the date of this Prospectus, the following Shareholders hold 5% or more of the total number of Shares on issue in the Company:

Holder	No. of Shares	% (undiluted)
Rongyu Ye	206,250,000	68.75%

# Section 6

## Risk Factors

As with any share investment, there are risks involved. This Section identifies the major areas of risk associated with an investment in the Company, but should not be taken as an exhaustive list of the risk factors to which the Company, its subsidiaries and Shareholders are exposed.

### 6.1 Company-specific Risk Factors

#### (a) Reliance on Suppliers and Increases in Raw Materials Costs

The Rongyu Group has a number of important arrangements with its suppliers of materials and ingredients and relies on these arrangements to manufacture and distribute the Rongyu Products. While the Rongyu Group typically identifies alternate suppliers for all of its ingredients and materials, if relationships with any of its suppliers deteriorate significantly, or the supplier ceases trading due to financial difficulties or fails to supply products at an adequate quality or in a timely fashion, and inventory (including any safety stock) is depleted, the Rongyu Group may not be able to source alternative products immediately or, if it can do so, it may be on less favourable terms. This could have an adverse impact on the operating and financial performance of the Rongyu Group. In addition, a significant portion of the Rongyu Group's cost of goods sold are raw materials costs. If the cost of raw materials increases significantly and the Rongyu Group is unable to pass those costs on to its customers, the Rongyu Group could be adversely affected. Furthermore the ability and speed with which the Rongyu Group can respond to increases in the cost of raw materials by adjusting the prices charged to its customers or sourcing more competitively priced ingredients may be limited and may result in lower margins on the sale of its products.

#### (b) Brand Reputation

The success of the Rongyu Group is heavily reliant on its reputation in branding. The Rongyu Group's inability to address adverse publicity or other issues including concerns about product safety, quality, efficacy or similar matters, real or perceived, could negatively impact sentiments towards the Rongyu Group and its products and brands. Any facts or events that diminish the Rongyu Group reputation, brand names or related trade marks may adversely affect the operating and financial performance of the Rongyu Group.

Consumer perception of pharmaceutical products and the Rongyu Group's products in particular can be substantially influenced by scientific research or findings, national media attention or other publicity about product use. Adverse publicity from these sources regarding pharmaceutical products and the Rongyu Group's products could harm the Rongyu Group's reputation and the results of its operations. The publication of

news articles or reports asserting that such products may be harmful or questioning their efficacy could have an adverse effect on the operating and financial performance of the Rongyu Group.

#### (c) Key Personnel Risk

The Rongyu Group's performance reflects, to a large extent, the efforts and abilities of its senior management team. While, in most cases these executives are party to an employment contract with the Rongyu Group, under the terms of these contracts each executive is permitted to terminate their contract upon a certain notice period. Currently, the Rongyu Group employs a highly experienced and dedicated senior management team; however, its disbandment may have a material adverse impact on the operating and financial performance of the Rongyu Group.

#### (d) Disruptions in the Rongyu Group's Manufacturing Capacity

The Rongyu Group undertakes its own production for most of its business operations, and operates a single plant in Fuzhou City, Jiangxi Province operating at approximately 70% capacity utilisation. There is a risk that this premise will not be able to operate at its full potential due to fire, explosion, industrial dispute, contamination or industrial accident. If this occurs, there is a risk that production could not be sourced from third party manufacturers or, if it can do so, at quality satisfactory to the Rongyu Group. This could lead to delivery and quality control issues or the Rongyu Group not being able to produce at all, which may have an adverse impact on the operating and financial performance of the Rongyu Group.

#### (e) Environmental Non-compliance

Certain activities carried on in the course of the Rongyu Group's business are subject to regulation by environmental legislation. The Company's China legal advisors have confirmed that the Rongyu Group has been in compliance with the applicable PRC laws and regulations concerning environment protection, pollution prevention and pollutant discharge; and has not been subject to any penalties for violation of PRC environment laws and regulations.

Notwithstanding the above, environmental laws and regulations are constantly changing and, while the Rongyu Group endeavours to ensure that its operations and activities comply with applicable environmental laws, it cannot guarantee that it will always be in compliance with applicable environmental laws and regulations, or that it will not incur additional costs to comply with such laws and regulations. Failure to comply with any of these laws and regulations could result in penalties, a delay on the delivery of goods, a need to temporarily shut down operations,

delayed receipt of sales revenue, loss of income, the incurring of significant costs and fines and the suspension or termination of contracts. Any limitations or costs incurred as a result of the Rongyu Group's non-compliance with environmental laws and regulations may have a materially adverse effect on the Rongyu Group's business, financial condition, results of operations and reputation.

#### **(f) Foreign Sales**

As at the date of this Prospectus, all of the Company's sales are transacted in China. Notwithstanding that the Rongyu Group intends to establish Australian operations following successful completion of the Offer, it is envisaged that a majority of the Rongyu Group's sales will be international sales. Therefore the Rongyu Group will be subject to a number of risks inherent in selling and operating abroad which could adversely affect our ability to increase or maintain foreign sales. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local and international economic and political conditions;
- disruptions of capital and trading markets;
- accounts receivable collection and longer payment cycles;
- difficulties in staffing and managing foreign operations;
- potential hostilities and changes in diplomatic and trade relationships;
- restrictive governmental actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- the laws and policies of Australia and other countries affecting trade, foreign investment and loans, and import or export licensing requirements; and
- tax laws.

Changes in circumstances or market conditions resulting from these risks may restrict the Company or its subsidiaries' ability to operate in an affected region and/or adversely affect the profitability of the Company or its subsidiaries' operations in that region.

#### **(g) Management Inexperienced in Plantation**

While the management of the Rongyu Group have been operating the Business since 2004, they do not have any specific prior experience in plantation of herbs, nor do they have any specific training in running such a plantation. With no direct technical training or prior experience in this area, management may not be fully aware of many of the specific requirements related to working within this industry. As a result, the Company and its China subsidiary's management may lack certain skills that are advantageous in managing the plantation.

Therefore, there is no guarantee that the Rongyu Group will be able to successfully cultivate the TCM herbs used in the production of the Rongyu Products on the Land nor is there any guarantee that the TCM herbs cultivated (if any) will satisfy the Company's standards of quality. Consequently, the Company's

operations, earnings, and ultimate financial success could suffer harm due to management's lack of experience in plantation.

#### **(h) Returns Not Guaranteed**

There is no guarantee of any income distribution or capital return on the Shares nor is there a guarantee of repayment of capital amounts. Shareholders will not be entitled to any guaranteed distributions of profits or capital.

There is no guarantee that distributions will be at a certain level or that there will be distributions at all.

#### **(i) Taxation**

Given the Rongyu Group will consist of foreign subsidiaries, the Rongyu Group will be subject to various forms of taxation including but not limited to PAYG, GST and resident and non-resident withholding tax. Any increase, change in the application, or introduction of a new tax in China and/or Australia could materially affect the performance and financial position of the Company.

#### **(j) Counterparty Performance**

There is a risk that counterparties who have contracted with the Rongyu Group do not perform their obligations pursuant to such contracts. The non-performance or termination of such contracts by the counterparties could materially affect the performance and financial position of the Company.

#### **(k) Control Risk**

Mr Rongyu Ye currently holds 68.75% of the Company prior to the Offer. Assuming that the Maximum Subscription is met, Mr Ye will hold 51.56% of the Company and will therefore be in a position to exert considerable influence over the outcome of matters relating to the Company, including Board composition and the approval of significant corporate transactions (where they are not excluded from voting). While the interests of Mr Ye and other shareholders in the Company are likely to be consistent, there may be instances where such interests diverge.

The concentration of ownership may adversely affect the liquidity of the market for the Shares on the ASX, and any sale of the shares held by Mr Ye may adversely affect the market price of the Shares.

Likewise, Mr Ye will have a significant influence on any potential change in control of the Company.

#### **(l) Reliance on limited Range of Products**

Currently, all of the Company's revenue is generated from a limited range of products, namely the five (5) Rongyu Products. Any decline in demand for, or failure to achieve continued market acceptance of, these five products or any new version of these products could harm the Company's Business, and thereby the financial performance of the Company.

Whilst the Rongyu Group is undertaking further research and development of new product range, there is no guarantee that new products will successfully developed. Nor is that any guarantee that any such new product will gain market acceptance readily and profitably.

### Risk Factors continued

#### (m) Intellectual Property protection risk

The Company believes that reputation and brand recognition are vital to its business and effective protection of intellectual property rights is critical to its interests. As such the Rongyu Group has invested significant resources to protect its brand and intellectual property rights. However, the Group may be unable to strictly enforce its intellectual property rights, including its trademarks, from infringement. The Rongyu Group's failure to enforce its intellectual property rights could diminish the value of its brand and products and harm the Rongyu Group's business, future growth prospects and financial and operating performance.

The industry in which the Group operates is characterised by vigorous pursuit and protection of intellectual property rights, which may result in protracted and expensive litigation. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and the Rongyu Group cannot be certain that it would be successful in defending intellectual property claims. Further, many potential litigants have the capability to dedicate substantially greater resources than the Rongyu Group can to enforce their intellectual property rights and to defend claims that may be brought against them. In addition, a successful claimant could secure a judgment that requires the Rongyu Group to pay substantial damages or prevents the Group from distributing products or performing certain business activities.

#### 6.2 Risks Factors Related to Operating in China

##### (a) Economic, Legal, Political and Social Environment in China

Since 1978, the PRC has implemented various reforms to its economic system. As a result of the reforms, the PRC's economy has been growing significantly for the past three decades. However, given the unprecedented and experimental nature of the reforms, they are potentially subjected to refinement and changes as the PRC government deem fit. Political, economic and social factors are also expected to play a role in refinement and changes of these policies. The possibility of such refinement and adjustment may consequently have a material impact on the Rongyu Group's operations in the PRC and in turn its financial performance. Additionally, its performance may be affected by other key factors relating to changes in the law and regulations or the interpretation or implementation thereof.

##### (b) Chinese Legal System

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in the PRC. The Company conducts its business through its subsidiaries established in the PRC. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC. However, as the PRC legal system

continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit the legal protections available to the Rongyu Group.

Further, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. For example, the Rongyu Group may have to resort to administrative and court proceedings to enforce a law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection in the PRC than in other more developed legal systems. These uncertainties may impede the Rongyu Group's ability to enforce the contracts it has entered into with its business partners, distributors and suppliers.

Such uncertainties, including the inability to enforce contracts, together with any development or interpretation of PRC law that is adverse to the Rongyu Group, could materially and adversely affect its business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in more developed countries.

The Rongyu Group cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof. These uncertainties could limit the legal protections available to the Group and other foreign investors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of the Rongyu Group's resources and management attention.

##### (c) Foreign Exchange Risk

The Rongyu Group's consolidated financial statements are reported in AUD whereas the financial condition and results of operation of the Rongyu Group are measured and recorded in the relevant domestic currency of the jurisdictions in which the Rongyu Group carries on business (namely, China), and then, as required, translated into AUD for inclusion in the Rongyu Group's consolidated financial statements. As a result, the Rongyu Group is exposed to translation risks from fluctuations in foreign exchange rates, in particular fluctuations between the RMB and AUD.

Upon successful completion of the Offer and successful establishment of Australian operation, sales of the Rongyu Group's products in Australia will be denominated in AUD. Therefore the Rongyu Group's cash flows from Australian operations will be sensitive to movements in the AUD to RMB exchange rates as the majority of the Rongyu Group's AUD denominated sales will be sourced from the Rongyu Group's manufacturing facilities in China and have packaging, raw material and production costs that are purchased in RMB. Therefore, fluctuations in the exchange rates of currencies relevant to the jurisdictions in which the Rongyu Group carries on business may have an adverse impact on the operating and financial performance of the Rongyu Group.

Additionally, while the Rongyu Group has revenues, costs and expenses denominated in RMB, its Shares trade in AUD. Accordingly, the Company's share price may be influenced by fluctuations in exchange rates between the AUD and RMB.

#### **(d) Government Control of Currency Conversion**

The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. As at the date of this Prospectus, the Rongyu Group receives all of its revenue in RMB, and the Company relies principally on dividends from JRYP, to fund any cash and financing requirements that the Company may have.

The inability of JRYP to transfer dividends or other payments to the Company could materially and adversely affect the Company's ability to grow, make investments or acquisitions that could be beneficial to its business, pay dividends, or otherwise fund and conduct its business.

Under existing PRC foreign exchange regulations, payment of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without approval from the PRC State Administration of Foreign Exchange (SAFE), by complying with certain procedural requirements. Approval from or registration with appropriate government authorities is required where RMB are to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Current Chinese regulations permit JRYP to pay dividends only out of accumulated after-tax profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, JRYP is required to set aside a certain amount of its after-tax profits each year, in any, to fund certain statutory reserves. These reserves are not distributable as cash dividends.

If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its foreign currency demands, it may not be able to pay dividends in foreign currencies to the Company's shareholders.

#### **(e) PRC Enterprise Income Tax Law**

Under the PRC Enterprise Income Tax Law and its implementation regulations, a reduced withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors to the extent such dividends are sourced within the PRC. Under the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income applicable in Hong Kong to income derived in any year of assessment commencing on or after 1 April 2007 and in mainland China to any year commencing on or after 1 January 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds an equity interest of 25% or more in each

such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. As such, dividends paid to the Company by JRYP through Rong Sheng may be subject to a reduced withholding tax at a rate of 5% under this arrangement, provided that Rong Sheng is deemed a "beneficial owner" of such income and that neither the Company nor Rong Sheng are deemed to be PRC tax resident enterprises.

However, pursuant to the Notice on Interpretation and Determination of "beneficial owner" under tax treaties (Circular 601), the definition of "beneficial owner" is narrowed to individuals, enterprises or other organisations who "normally engage in substantive operations". The Circular 601 also introduced various factors to be considered in determination of whether an entity is a "beneficial owner". If Rong Sheng is not deemed a beneficial owner under the Circular 601, it may not be able to enjoy the 5% preferential tax treatment and as a result the dividends distributed by JRYP through Rong Sheng will be adversely affected.

#### **(f) Chinese Labour Costs**

As the Rongyu Group undertakes its own production for most of its business operations, including the manufacturing and packaging of its products, the Rongyu Group will be exposed to fluctuations in Chinese labour costs. While there has been a general trend of increasing labour costs in China, labour costs in the Jiangxi Province where the Rongyu Group conducts its operations, tend to be lower than the eastern coastal Provinces of China. Notwithstanding this, there can be no guarantee that labour costs in the Jiangxi Province, or in China, will not increase significantly in the future. Should this occur, the Rongyu Group's business prospects, financial condition and results of operations may be adversely affected.

#### **(g) Land-use Rights in China**

According to relevant PRC law, most lands in the PRC are state-owned. Individuals, businesses and other organisations can possess land by being granted land-use rights from the local government for limited time periods. According to the Urban Real Estate Administration Law of the PRC, after the expiration of the term of the land-use right, the land user that has maintained continuous use of the land has the right to apply to the land administration department for an extension of the term at least one year before the expiration of the term. The application shall be approved, subject to considerations of public interest.

When the term of the land-use right expires, and if the land user has not applied for an extension, the right to use the land is returned to the state. Under special circumstances, the state may also reclaim the land prior to the expiry of the granted land-use right in consideration of public interest. However, the state is required to give compensation to the related land user determined by the remaining effective term of the land-use right, and the conditions of development of the reclaimed land.

## Section 6

### Risk Factors continued

The land-use rights with respect to existing land occupied by the Rongyu Group in relation to the Manufacturing Site will expire on 27 January 2055, while the land-use rights with respect to the Land are estimated to expire on or about May 2067 (upon expiry of the 50-year term of the Land Tenure Agreement). While the Rongyu Group is not aware of any intention by the relevant local governments to reclaim land-use rights held by or related to any property occupied by the Rongyu Group relevant to the Business, if the local government exercises its power to revoke such land-use rights, reclaim such land or refuse the extension of the land-use tenure, the normal business operations of the Rongyu Group may be significantly disturbed.

#### (h) Business Approvals

The Rongyu Group currently operates its existing business in China under various permits and licences granted by relevant regulatory authorities in China. These permits and licences are generally valid for fixed periods and are renewable upon expiry. Similarly, the Rongyu Group will need to obtain the necessary regulatory approvals, licenses and permits in Australia in order to undertake the expansion of the Business to Australia.

As at the date of this Prospectus, the Rongyu Group's existing business operations conforms to applicable Chinese laws and regulations and JRYP holds all necessary licences and certificates required to carry out the Business, including but not limited to business licences, company licences, tax registration certificates and bank account permits. Furthermore JRYP has filed all necessary tax returns and paid any taxes payable by JRYP under State and Local Taxation Bureaus, has not violated any taxation laws or regulations and is not currently a party to any tax-related dispute with either State or Local Taxation Bureaus.

Notwithstanding the above, there can be no assurance that existing laws applicable to the conduct of business operations in China, will not be amended, repealed or replaced in the future. Any change to the existing statutory framework or the imposition of new laws, regulations, regulatory policies or changes to the enforcement practices or the interpretation of laws and regulatory policies applicable to the conduct of business operations in China may have a material adverse impact on the operating and financial performance of the Rongyu Group.

#### (i) Lack of Insurance Coverage

In China it is not customary for businesses to take out extensive insurance protection. Apart from social security coverage, JRYP has not taken out any other insurance policies covering risks to its Business. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material and adverse effect on the Company or its subsidiaries' business, net assets, financial condition, and operational results.

This lack of comprehensive insurance coverage is by reason of the early stage of the Chinese insurance industry. Insurance companies in China offer limited commercial insurance products for the pharmaceutical manufacturing sector or only offer them on unattractive terms. When balancing the risk of disruption or product liability or risk of damage against the cost of insuring against these risks and the difficulty of procuring commercially reasonable insurance product terms, JRYP considers that it is not commercially sensible to acquire such insurance.

### 6.3 Industry-specific Risk Factors

#### (a) Regulation of Industry

The industry in which the Rongyu Group operates in is highly regulated. The manufacture, packaging, labelling and advertising for the Rongyu Group's products are regulated by various federal, state and local agencies in China and will be similarly regulated in Australia, following successful completion of the Offer and expansion of the Business to Australia. The Rongyu Group will be subject to regular inspections, examinations, inquiries and audits by governmental authorities to obtain or renew the various licences, certifications and permits required for its operations. While the Rongyu Group holds the licences, certificates, permits and approvals required for the operation of the Business and the manufacture of the Rongyu Products, a finding of non-compliance or failure to obtain, maintain or timely renew the necessary licences, certificates, permits or approvals, including but not limited to the permits referred to in Sections 2.2.1 and 2.3, could have a negative impact on the Rongyu Group's operations and financial condition.

There can be no assurance that existing laws to which the Rongyu Group is subject will not be amended, repealed or replaced in the future. Any change to the existing statutory framework or the imposition of new laws, regulations, regulatory policies or changes to the enforcement practices or the interpretation of laws and regulatory policies which are applicable to the industry that the Rongyu Group operates in may have a material adverse impact on the operating and financial performance of the Rongyu Group.

*For more information about the approvals required for the sale of the Rongyu Products, the operation of the Business in China and the expansion of the Business to Australia, please refer to Section 2 of the Prospectus.*

#### (b) Changing Consumer Preferences and Market Trends

The Rongyu Group's revenues are generated from TCM products which can be subject to changes in consumer preferences. As a consequence, failure by the Rongyu Group to predict or respond to changes in consumer preferences could adversely impact the Rongyu Group's future financial and operating performance.

If the Rongyu Group misjudges or fails to predict consumer preferences or fails to convert market trends into appealing product offerings on a timely basis, this may result in lower revenue margins for the Rongyu Group and could adversely impact the Rongyu Group's future financial performance. Furthermore, any changes in consumer preferences may also lead to an increased obsolete inventory risk for the Rongyu Group. Notwithstanding that the Rongyu Group expects to capitalise on the growing Asian demand for TCM products, the volatility of market trends within the Asian market and the resulting impact this may have on consumer preferences, particularly in light of the Rongyu Group's product offerings, could adversely impact on the ability of the Rongyu Group to capitalise on the anticipated growth within this market.

### **(c) Failure to Compete Effectively**

The pharmaceutical and TCM industries are competitive particularly with regards to:

- prices at which products are sold;
- shelf space and store placement;
- brand and product recognition; and
- new product introductions.

The Rongyu Group faces competition in the pharmaceutical and TCM industries from large, nationally known brands, private labels and many smaller wholesalers of pharmaceutical products. While the Rongyu Group is competitive now, there can be no assurances that the actions of existing or new competitors or changes in consumer preferences will not adversely affect the Rongyu Group performance. The Rongyu Group's response to aggressive pricing or promotional strategies of competitors differs from business to business and region to region. However, in any of these circumstances, the Rongyu Group's net profit and cash flow from operations could decline.

Additionally, as the Company intends to expand its Business, the Company will be subject to competition from competitors operating in such jurisdictions, including in Australia. As such competitors may include companies with a significant existing market share and/or substantially greater resources there is a risk that the Company may not be able to compete successfully where aggressive pricing policies are employed by such competitors to maintain their existing market share. Such competition could affect the success of the Company's proposed expansion of its Business which could materially and adversely affect the Company's growth prospects, operating results and financial performance.

### **(d) Product Liability and Recalls**

As a marketer and distributor of products designed for human consumption, the Rongyu Group could be subject to product liability claims if the use of its products is alleged to have resulted in injury. Some of the Rongyu Group's products are classified as dietary supplements and other are not subject to pre-market regulatory approval in Australia, China or internationally. The Rongyu Group has strict quality control policies; however events outside the Rongyu Group's control could occur which could adversely affect the financial and operating performance of the Rongyu Group.

The Rongyu Group takes all reasonable precautions to ensure so far as it is possible that its products are free from contamination. However, in the event that a contamination of one of the Rongyu Group's products occurs, it may lead to business interruption, product recalls or liabilities to customers.

### **(e) Favourable Government Policies**

As noted earlier in this Prospectus, the TCM industry in China has benefited from the support of the Chinese government as reported in the PRC's 12th 5-year plan in addition to increasing demand for TCM products generally. For instance, the PRC government has promulgated policies which provide preferential tax treatment and subsidies, in order to promote the

standardisation and modernisation of TCM herb cultivation. If these governmental policies change to become less favourable, the Rongyu Group's operation and financial results could be adversely affected.

### **(f) Natural Disasters, Weather Conditions and Diseases**

As the Rongyu Group is heavily reliant on raw materials in the production of the Rongyu Products, natural disasters such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect the operations of the Rongyu Group. Additionally such natural disasters may cause a material economic downturn in the affected area, thereby reducing demand for the Rongyu Products.

Furthermore, the Rongyu Group currently procures the herbs used in the production of its products from herb markets but intends to acquire and establish its own herb cultivation site following successful completion of the Offer. Therefore a major outbreak of disease or contamination at any of the cultivation sites from which ingredients are sourced or on the Land which the Rongyu Group intends to acquire could result in significant shortfall in quantity or deterioration in quality of the raw materials required to produce the Rongyu Products, thereby adversely affecting the Rongyu Group's operational and financial performance.

### **(g) Inability to Protect Intellectual Property Rights**

The Rongyu Group has invested significant resources to protect its brand and intellectual property rights. However, the Rongyu Group may be unable or unwilling to strictly enforce its intellectual property rights, including its trademarks, from infringement. The Rongyu Group's failure to enforce its intellectual property rights could diminish the value of its brands and products and harm the Rongyu Group's business, future growth prospects and financial and operating performance.

The industry in which the Rongyu Group operates in is characterised by vigorous pursuit and protection of intellectual property rights, which may result in protracted and expensive litigation. Third parties may assert claims of misappropriation of trade secrets or infringement of intellectual rights against the Rongyu Group or against its end customers or partners for which the Rongyu Group may be liable. Further, many potential litigants have the capacity to dedicate substantially greater resources than the Rongyu Group can to enforce their intellectual property rights and to defend claims that may be brought against them. In addition, a successful claimant could secure a judgment that requires the Rongyu Group to pay substantial damages or prevents the Rongyu Group from distributing products or performing certain business activities.

## **6.4 General Investment Risks**

Some of the general risks of investment which are considered beyond the control of the Company are as follows:

## Section 6

### Risk Factors continued

#### **(a) State of Australian and International Economies**

A downturn in the Australian and/or the international economy may negatively impact the performance of the Company which in turn may negatively impact the value of securities in the Company. Any deterioration in the local or international economic conditions may have an adverse effect on the performance of the Company. The Company's entitlement to revenues may be negatively influenced by changes in regional or local economic variables and consumer confidence. Unemployment rates, levels of personal disposable income and regional or local economic conditions may adversely affect consumer spending, decreasing demand for the Rongyu Group's products. These factors may have an adverse effect on the Company's activities as well as its ability to finance future projects.

#### **(b) Changes to Government Policies and Legislative Changes**

Government policy and legislative changes which are outside the control of the Company may also have a negative impact on the financial performance of the Company.

#### **(c) Movements in Local and International Stock Markets**

The price of stocks in a publicly listed company can be highly volatile and the value of a company's securities can be expected to fluctuate depending on various factors, including stock market sentiment, government policies, investor perceptions, economic conditions and market conditions which affect the retail industry. It is therefore possible that the Company's securities will trade at below the offer price.

#### **(d) On-going Funding Requirements**

Further funding may be required by the Company to develop its business model and commercial activities. There is no guarantee that the Company will be able to raise the additional required funding on a timely basis, on favourable terms or that such further funding will be sufficient to enable the Company to implement its planned commercial strategy. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities.

If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations, which may adversely affect the business and financial condition of the Company and its performance. Further, the Company may not be able to maintain access to capital markets in order to fund unforeseen expenditure or to undertake further development of the technologies.

#### **(e) Potential Acquisitions**

As part of its business strategy, the Company may make acquisitions or significant investments in other companies or enterprises. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies or enterprises. Further, there

is no guarantee that the Company will make any future acquisitions.

#### **(f) Insurance Risk**

The Company may, where economically practicable and available, endeavour to mitigate some business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover. While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers there will remain the risk that an insurer defaults in the legitimate claim by the Company under an insurance policy. Insurance against all risks associated with the Company's business operations is not always available and where available the cost may be prohibitive.

#### **(g) Unforeseen Expenses**

The Company is not aware of any expenses that it will be required to incur in the two years after listing and which it hasn't already taken into account. However, if the Company is required to incur any such unforeseen expenses then this may adversely affect the currently proposed expenditure plan and existing budgets for the Company's activities.

#### **(h) Reliance on Key Personnel**

Senior management and key personnel of the Company shall direct the Company's operations and provide strategic management. However, if key employees cease to be employed there may be a detrimental impact to the Company.

#### **(i) Changes in Accounting Standards**

Australian Accounting Standards are developed and implemented by the Australian Accounting Standards Board (AASB). The AASB may introduce new or refined accounting standards, which may affect the measurement and recognition of balance sheet items and income statements, including revenue and receivables. Conversely, interpretations of existing Accounting Standards may differ. Changes to Accounting Standards issued by the AASB or changes to generally held views about the application of such Accounting Standards may adversely affect the performance and position reported in the Company's consolidated financial statements.

#### **(j) Unforeseen Litigation**

Any unforeseen litigation may adversely affect future earnings of the Company due to the associated legal costs and expenses that may need to be met to protect the Company's position. The performance of the Company will be influenced by any litigation involving the Company. The legal costs and expenses associated with litigation may adversely affect future earnings of the Company and investment returns.

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares.

# Section 7

## Financial Information

### 7.1 Overview

This Section contains a summary of the Pro Forma Historical Financial Information and Pro Forma Consolidated Historical Financial Information (collectively referred to as the **“Financial Information”**) in relation to Rong Yu Pharmaceuticals Limited (**“Company”**) which the Directors consider relevant to investors. Investors are referred to Section 2.1 of the Prospectus for an overview of the Company’s corporate structure. Investors should note that the Rongyu Group’s financial year (**“FY”**) is from 1 April to 31 March.

Investors should note that the information included in this Prospectus on the past performance of the Rongyu Group including the financial information included in this Section 7 should not be relied upon as being indicative of future performance of the Rongyu Group.

The Financial Information comprises the following:

#### 7.1.1 Pro Forma Historical Financial Information

The Pro Forma Historical Information relates solely to Jiangxi Rongyu Pharmaceutical Group Co., Ltd (JRYP), a company incorporated in the PRC and consists of:

- (a) Audited Pro Forma Historical Statements of Comprehensive Income for FY2015, FY2016 and FY2017 as set out in Section 7.3.1;
- (b) Audited Pro Forma Historical Statements of Cash Flows for FY2015, FY2016, and FY2017 as set out in Section 7.3.2; and
- (c) Audited Pro Forma Historical Statements of Financial Position as at 31 March 2015, 31 March 2016, and 31 March 2017 as set out in Section 7.3.3.

The audit reports of the financial statements for JRYP from which the above Pro Forma Historical Financial Information was compiled were qualified on closing stock and comparative information for FY2015, qualified on closing stock for FY2016 and FY2017. Details of the qualification are set out in Section 8 (Investigating Accountant’s Report) of this Prospectus.

#### 7.1.2 Pro Forma Consolidated Historical Financial Information

The Pro Forma Consolidated Historical Financial Information includes the Historical Financial Information of the Company, the Financial Information of JRYP at 31 March 2017, assumes the pro forma transactions as set out in section 7.5 have occurred and consists of:

- a Pro Forma Consolidated Historical Statement of Financial Position of the Company as at 31 March 2017; and
- a Pro Forma Consolidated Historical Statement of Changes in Equity of the Company as at 31 March 2017.

The Pro Forma transactions which include the acquisition of JRYP, have been included in the Pro Forma Consolidated Statement of Financial Position as at 31 March 2017 to provide potential shareholders with a view of the Rongyu Group’s financial position.

The Financial Information contained in this section of the Prospectus is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian equivalents to International Financial Reporting Standards (**“AIFRS”**) and the Corporations Act. In the view of the Directors of the Company, the omitted disclosures would provide no further relevant information to potential investors.

The Financial Information should be read in conjunction with the risk factors associated with an investment in the Company set out in Section 6, the Investigating Accountant’s Report in Section 8 and the other information contained in this Prospectus. Investors should note the scope and limitations of the Investigating Accountant’s Report.

# Section 7

## Financial Information continued

### 7.2 Basis of Preparation of the Financial Information

#### 7.2.2 Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been compiled from the audited financial statements of JRYP for FY2015, FY2016 and FY2017 (“**Financial Statements**”). The Financial Statements have been audited by Pitcher Partners SA Pty Ltd (“**Pitcher Partners**”). The Financial Statements were audited in accordance with Australian Auditing Standards by Pitcher Partners and on which audit opinions issued were qualified on closing stock and comparative information for FY2015, qualified on closing stock for FY2016 and FY2017.

The Financial Statements were audited in accordance with Australian Auditing Standards. Pitcher Partner’s audit reports on the Financial Statements were provided solely in the context of their compliance with International Financial Reporting Standards (“**IFRS**”) and expressed no opinion on the Financial Statements’ compliance with the relevant accounting, statutory and regulatory requirements in the PRC.

The Financial Statements are prepared and presented in its functional currency (“**RMB**”). The Pro Forma Historical Financial Information has no adjustments to those Financial Statements other than the conversion to Australian Dollars (\$) at the applicable exchange rates for illustrative purposes.

#### 7.2.3 Pro Forma Consolidated Historical Financial Information

The Pro Forma Historical Financial Information of the Company has been compiled from the audited financial information of Company for the period ended 31 March 2017 and the Pro Forma Historical Financial Information of JRYP for the period ended 31 March 2017.

#### 7.2.4 Foreign Currency Translation

In accordance with the requirements of Australian Accounting Standards, the Company has adopted the foreign currency translation accounting policy set out in Section 7.5 in which assets and liabilities of the Company and its controlled entities are translated at exchange rates in effect at the reporting date. Revenue and expenses are translated at the exchange rates in effect at the date of the transaction. Exchange differences arising are recognised directly to the Rongyu Group’s foreign currency translation reserve in the Statement of Financial Position.

The exchange rates used in the preparation of the Financial Information in this Section 7 are as follows:

Year	RMB: AUD	
	Year Ended Average	Year Ended Spot
31 March 2013	0.15418	0.15434
31 March 2014	0.17510	0.17429
31 March 2015	0.18438	0.21121
31 March 2016	0.21362	0.20197
31 March 2017	0.19728	0.18963

The share capital of JRYP was converted at the spot rates applicable on the date of capital injection.

## 7.3 Pro Forma Historical Financial Information

Set out below is the Financial Information for JRYP. The basis of preparation of the Financial Information is set out in Section 7.2. The accounting policies adopted by JRYP in preparation of the Financial Statements are set out in Note 1 of Section 7.5.

### 7.3.1 Pro Forma Historical Statement of Comprehensive Income

<b>Pro Forma Historical Statement of Comprehensive Income</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	41,547	62,290	71,446
Cost of sales	(23,594)	(34,706)	(41,242)
<b>Gross profit</b>	<b>17,953</b>	<b>27,584</b>	<b>30,204</b>
Other revenue	69	90	78
Operating expenses	(1,162)	(1,982)	(2,350)
Administration expenses	(969)	(1,542)	(2,158)
Finance costs	(50)	(46)	-
Other expenses	(7)	(8)	(9)
<b>Profit before income tax expense</b>	<b>15,834</b>	<b>24,096</b>	<b>25,765</b>
Income tax expense	(3,961)	(6,027)	(6,444)
<b>Profit after income tax expense</b>	<b>11,873</b>	<b>18,069</b>	<b>19,321</b>
<b>Other comprehensive income</b>			
Foreign currency translation gain/(loss)	3,277	(1,027)	(1,261)
<b>Total comprehensive income</b>	<b>15,150</b>	<b>17,042</b>	<b>18,060</b>

The above Pro Forma Historical Statements of Comprehensive Income have been translated from RMB to AUD\$ at the average exchange rates applicable for the reporting period, as set out Section 7.2.4.

## Section 7

### Financial Information continued

#### 7.3.2 Pro Forma Historical Statements of Cash Flows

<b>Pro Forma Historical Statements of Cash Flow</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers	39,841	55,241	61,022
Payments to suppliers, employees and others	(24,309)	(36,895)	(43,683)
Interest received	36	52	43
Finance expense paid	(50)	(46)	-
Income tax paid	(3,392)	(6,010)	(6,043)
<b>Net cash provided by (used in) operating activities</b>	<b>12,126</b>	<b>12,342</b>	<b>11,339</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1)	(3,002)	(9)
<b>Net cash provided by (used in) investing activities</b>	<b>(1)</b>	<b>(3,002)</b>	<b>(9)</b>
<b>Cash flows from financing activities</b>			
Proceeds/(repayment) from/(of) borrowings	(579)	(1,038)	-
Cash receipts(Advanced) From(to) related parties	25	-	(6)
Dividends paid to shareholders	(9,219)	(14,953)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(9,773)</b>	<b>(15,991)</b>	<b>(6)</b>
<b>Net change in cash and cash equivalents held</b>	<b>2,352</b>	<b>(6,651)</b>	<b>11,324</b>
Exchange rate impact on cash flow	1,583	(65)	(628)
Cash and cash equivalents at beginning of financial year	5,857	9,792	3,076
<b>Cash and cash equivalents at end of financial year</b>	<b>9,792</b>	<b>3,076</b>	<b>13,772</b>

The above Pro Forma Historical Statements of Cash Flows should be read in conjunction with the notes hereto.

Notes:

1. Cash and cash equivalents at the beginning and end of the financial year have been translated at the applicable spot rates at the balance date, as set out in Section 7.2.4.
2. Other than as stated above, all other figures have been translated from RMB to AUD at the average exchange rates applicable for the reporting period, as set out in Section 7.2.4.

### 7.3.3 Pro Forma Historical Statement of Financial Position

Pro Forma Historical Statement of Financial Position	FY2015 \$'000	FY2016 \$'000	FY2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	9,792	3,076	13,772
Trade and other receivables	7,078	13,469	22,706
Inventory	1,652	1,595	1,751
Other current assets	-	-	-
<b>Total current assets</b>	<b>18,522</b>	<b>18,140</b>	<b>38,229</b>
<b>Non-current assets</b>			
Property, plant and equipment	6,772	9,007	7,359
Intangible assets	604	563	516
<b>Total non-current assets</b>	<b>7,376</b>	<b>9,570</b>	<b>7,875</b>
<b>Total assets</b>	<b>25,898</b>	<b>27,710</b>	<b>46,104</b>
<b>Current liabilities</b>			
Trade and other payables	3,810	4,599	5,438
Short-term borrowings	1,026	-	-
Current tax liabilities	1,489	1,448	1,753
<b>Total current liabilities</b>	<b>6,325</b>	<b>6,047</b>	<b>7,191</b>
<b>Total liabilities</b>	<b>6,325</b>	<b>6,047</b>	<b>7,191</b>
<b>Net assets</b>	<b>19,573</b>	<b>21,663</b>	<b>38,913</b>
<b>Equity</b>			
Issued capital <sup>1</sup>	8,268	8,268	8,268
Statutory reserves	2,632	4,433	4,705
Retained earnings <sup>2</sup>	13,304	20,354	24,451
Dividend paid	(9,219)	(14,953)	-
Foreign currency translation reserve <sup>4</sup>	4,588	3,561	1,489
<b>Total equity</b>	<b>19,573</b>	<b>21,663</b>	<b>38,913</b>

The above Pro Forma Statements of Financial Position should be read in conjunction with the notes hereto.

Notes:

- JRYP was registered on 11 November 2004. On 10 November 2004 the first paid up capital totalling \$421,183 was contributed (translated at the spot rate RMB1: AUD\$0.15894). On 1 November 2005, \$7,847,069 has been contributed to the capital of JRYP (translated at the spot rate RMB1: AUD\$0.16572).
- Opening retained earnings as at 1 April 2012 have been translated at the average rate between 10 November 2004 and 31 March 2012 at RMB1: AUD\$0.16271 plus trading result of FY2013 translated at the average rate between 1 April 2012 and 31 March 2013 at RMB1: AUD\$0.15418. The relevant impact of net profit on retained earnings have been translated at the average exchange rate for the relevant year.
- All other items in the Pro Forma Historical Statement of Financial Position have been translated at the spot rate at the applicable balance date, as set out Section 7.2.4.
- The impact on translation reserve as a result of translating the assets, liabilities, equity, revenue and expenses at different rates is summarised as follows:

	FY2015 \$'000	FY2016 \$'000	FY2017 \$'000
Impact of translation of opening retained earnings/ (Accumulated losses) at historical average rate	4,076	4,392	480
Impact of translation of dividend paid at historical average rate	(3,508)	(1,676)	545
Impact of translation of net profit/(losses) of the year at average rate	1,728	(985)	(749)
Impact of share capital at historical spot rate	2,292	1,830	1,213
<b>Total foreign currency translation reserve</b>	<b>4,588</b>	<b>3,561</b>	<b>1,489</b>

# Section 7

## Financial Information continued

### 7.4 Management Discussion and Analysis

#### 7.4.1 General Factors Affecting the Operating Results

Below is a discussion of the main factors which affected JRYP's operations and relative financial performance in FY2015, FY2016 and FY2017 which JRYP expects may continue to affect it in the future. The discussion of these general factors is intended to provide a brief summary only and does not detail all factors that affected JRYP's historical operating and financial performance, or everything that may affect JRYP's operations and financial performance in the future. The section should be read in conjunction with the Basis of Preparation of the Financial Information set out in Section 7.2.

The management discussion and analysis set out in this Section 7.4.1 of the Prospectus does not form of the scope of the Investigating Accountant's review.

#### (a) Revenue

A revenue breakdown is shown as follows:

Revenue	FY2015 \$'000	FY2016 \$'000	FY2017 \$'000
<b>Revenue</b>			
Sale of goods	50,667	75,963	87,129
Sales rebate	(9,120)	(13,673)	(15,683)
<b>Total revenue</b>	<b>41,547</b>	<b>62,290</b>	<b>71,446</b>
Cost of goods sold	(23,594)	(34,706)	(41,242)
<b>Gross profit</b>	<b>17,953</b>	<b>27,584</b>	<b>30,204</b>
<b>Other income</b>			
Interest received	36	52	42
Other operating income – rental	33	38	36
<b>Total other income</b>	<b>69</b>	<b>90</b>	<b>78</b>

JRYP commits to an 18% sales rebate based on the sales amount to each customer. The sales rebate has been implemented as a strategy to better motivate customers to promote and sell JRYP's products.

Revenue increased from A\$41.547 million in FY2015 to A\$62.290 million in FY2016 (a 49.92% increase), and for FY2017 the revenue has reached to A\$71.446 million.

The gross margin has been stable at 35%~36% for financial year 2015, 2016 and 2017 excluding sales rebates. JRYP has been operating for 13 years with mature production management system and all main raw materials have been purchased from long-term suppliers. This control of manufacturing costs is the main contributor to the stability of gross margin for JRYP in the past years.

JRYP generates the majority of its revenue through the production and distribution of Chinese medicines and relevant health products. In recent years, the Chinese medicine market has entered into a high-speed development phase, and as a result, JRYP has benefited from the market with significant expansion. The products of the JRYP enjoy a good reputation among customers due to the strict supervision and control JRYP imposes over the quality in production. During the past three years, JRYP experienced a steady growth of sales revenue due to an increase in customer numbers and sales volumes.

#### (b) Operating Expense

The operating expense line items are shown below:

Operating Expenses	FY2015 \$'000	FY2016 \$'000	FY2017 \$'000
Salary expense	148	396	536
Sales commission	507	760	871
Transportation expense	439	696	801
Other operating expenses	68	130	142
<b>Total operating expense</b>	<b>1,162</b>	<b>1,982</b>	<b>2,350</b>

Operating expenses are costs directly related to sales activities. The overall increase in operating expense reflects a general expansion in operating activities.

### (c) Administration Expense

The administrative expense line items are shown below:

	FY2015	FY2016	FY2017
	\$'000	\$'000	\$'000
<b>Administration Expenses</b>			
Salary expense and welfare	450	650	735
Depreciation	190	220	742
Amortisation	13	15	14
Hospitality expense	67	113	116
Taxes and levies	135	164	159
Sewage expense	26	39	51
Travelling expense	14	22	31
Research and development expense	-	36	24
Repair and maintenance	8	35	3
Professional fees including IPO related expenses	-	198	226
Other administration expenses	66	50	57
<b>Total administration expense</b>	<b>969</b>	<b>1,542</b>	<b>2,158</b>

Administration expenses are those not directly related to sales. The overall increase of administration expense is consistent with the expansion of the business.

JRYP has completed the upgrade and renovation of its production facility with GMP certification by year ended 31 March 2016 and as a result, a higher depreciation expense has been recognised in FY2017.

### (d) Finance Expense

The finance expense line item is shown below:

	FY2015	FY2016	FY2017
	\$'000	\$'000	\$'000
<b>Finance Expense</b>			
Interest expense on borrowing	50	46	-
<b>Total finance expense</b>	<b>50</b>	<b>46</b>	<b>-</b>

Interest expense represents standard interest incurred on bank loans with financial institutions. The movement in interest expense between years is reflective of the bank loan balance. The borrowing was repaid by JRYP during FY2016, and therefore no interest expense was incurred for FY2017.

### (e) Income Tax Expense

The income tax rate applicable to the main operating subsidiary, Jiangxi Rongyu Pharmaceutical Group Co., Ltd (JRYP), is 25% in FY2015, FY2016 and FY2017 in accordance with the income tax law of the People's Republic of China.

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### Financial Information continued

#### 7.5 Pro Forma Consolidated Historical Financial Information

##### 7.5.1 Reviewed Statement of Comprehensive Income

The parent entity Rong Yu Pharmaceuticals Limited was registered in Australia on 27 February 2017. The table below sets out the reviewed Statement of Comprehensive Income of the Company from registration to 31 March 2017.

	Reviewed \$'000
Revenue	-
Other revenue	-
Operating expenses	-
Administration expenses	(2)
Finance costs	-
<b>Profit/(loss) before income tax expense</b>	<b>(2)</b>
Income tax expense/(benefit)	-
<b>Profit/(loss) after income tax expense</b>	<b>(2)</b>

##### 7.5.2 Pro Forma Consolidated Statement of Financial Position As At 31 March 2017

	Note	Reviewed 31 March 2017 Company <sup>1</sup>	Audited 31 March 2017 JYRP <sup>2</sup>	Pro Forma Minimum Subscription <sup>3</sup>	Pro Forma Maximum Subscription <sup>4</sup>
\$'000					
<b>Current assets</b>					
Cash and cash equivalents		-	13,772	27,130	31,757
Trade and other receivables	4	-	22,706	22,706	22,706
Inventory	5	-	1,751	1,751	1,751
<b>Total current assets</b>		<b>-</b>	<b>38,229</b>	<b>51,587</b>	<b>56,214</b>
<b>Non-current assets</b>					
Property, plant and equipment	6	-	7,359	7,359	7,359
Intangible assets	7	-	516	516	516
<b>Total non-current assets</b>		<b>-</b>	<b>7,875</b>	<b>7,875</b>	<b>7,875</b>
<b>Total assets</b>		<b>-</b>	<b>46,104</b>	<b>59,462</b>	<b>64,089</b>
<b>Current liabilities</b>					
Trade and other payables	8	2	5,438	5,440	5,440
Current tax liabilities	9	-	1,753	1,753	1,753
<b>Total current liabilities</b>		<b>2</b>	<b>7,191</b>	<b>7,193</b>	<b>7,193</b>
<b>Total liabilities</b>		<b>2</b>	<b>7,191</b>	<b>7,193</b>	<b>7,193</b>
<b>Net assets</b>		<b>(2)</b>	<b>38,913</b>	<b>52,269</b>	<b>56,896</b>
Share capital	10	-	8,268	22,053	26,680
Statutory reserves	11	-	4,705	4,705	4,705
Retained earnings		(2)	24,451	24,022	24,022
Foreign currency translation reserve	11	-	1,489	1,489	1,489
<b>Total equity</b>		<b>(2)</b>	<b>38,913</b>	<b>52,269</b>	<b>56,896</b>

The above Pro Forma Historical Statements of Financial Position and Pro Forma Consolidated Statement of Financial Position should be read in conjunction with the notes hereto and accompany the notes set out in Section 7.5.4.

Notes:

- The Australian parent company, Rong Yu Pharmaceuticals Limited, was registered on 27 February 2017.
- Reflects the Pro forma Historical Statement of Financial Position of JYRP as at 31 March 2017, at Section 7.3.3 above to provide potential shareholders with a view of the Rongyu Group's financial position as at that date.
- Reflects the impact of the following pro forma adjustments related to the IPO assuming the Minimum Subscription is achieved:
  - Minimum subscription of 75,000,000 issued shares at an issue price of \$0.20, with cash proceeds of the Offer totalling \$15,000,000.
  - Total expenses of the Offer are \$1,818,344, of which \$1,214,927 has been directly off set against raised capital and \$603,417 has been expensed in accordance with Australian Accounting Standards.
- Reflects the impact of the following pro forma adjustments related to the IPO assuming the Maximum Subscription is achieved:
  - Maximum subscription of 100,000,000 issued shares at an issue price of \$0.20 per share, with cash proceeds of the Offer totalling \$20,000,000.
  - Total expenses of the Offer are \$2,191,094, of which \$1,587,788 has been directly off set against raised capital and \$603,306 has been expensed in accordance with Australian Accounting Standards.

### 7.5.3 Pro Forma Statement of Change in Equity for the Period from Incorporation to 31 March 2017

This table below sets out the audited Pro Forma Historical Statement of Changes in Equity and Pro Forma Consolidated Statement of Changes in Equity for the period from incorporation of the Company to 31 March 2017.

<b>Pro Forma Statement of Change in Equity</b>	<b>Issued Capital \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Statutory Reserve \$'000</b>	<b>Retained Earnings \$'000</b>
<b>Balance at incorporation</b>				
Share issued on incorporation – 20,000 Ordinary Shares	0.02	-	-	-
Net profit/(loss) after income tax expense				(2)
<b>Pro forma transaction</b>				
Amounts recognised as a consequence of a common control transaction – refer Note 3	8,268	1,489	4,705	24,451
Issue of 75,000,000 Offer Shares in the Company pursuant to this Prospectus - Minimum Subscription	15,000	-	-	-
Expenses of the offer – refer Note 2	(1,215)	-	-	(427)
<b>Pro forma balance – minimum subscription</b>	<b>22,053</b>	<b>1,489</b>	<b>4,705</b>	<b>24,022</b>
Issue of an additional 25,000,000 Offer Shares in the Company pursuant to this Prospectus – Maximum Subscription	5,000	-	-	
Additional expenses of the offer – refer Note 2	(373)	-	-	3
<b>Pro forma balance – Maximum Subscription</b>	<b>26,680</b>	<b>1,489</b>	<b>4,705</b>	<b>24,022</b>

The above Pro Forma Historical Statements of Changes in Equity should be read in conjunction with the notes hereto and accompany notes set out in Section 7.5.4.

### 7.5.4 Notes to the Consolidated Financial Statements for the Period Ended 31 March 2017

#### Note 1: Statement of Significant Accounting Policies

##### (a) New Accounting Standards and Interpretations

Certain new accounting standards and IFRIC interpretations have been published that are not mandatory for current reporting periods. The Company's and its controlled entities' (the Rongyu Group) assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical or reported pro forma financial information.

##### (b) Principle of Consolidation

A controlled entity is any entity that the Company controls. The consolidated entity controls an entity when it is exposed to, or has rights to variable returns from its investment with the entity and has the ability to affect those returns through its power to direct the activities of that entity.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the period then ended. Where controlled entities have entered (left) the Rongyu Group during the period, their operating results have been included (excluded) from the date control was obtained (ceased).

Common control transactions are transactions in which the shareholders of the Rongyu Group are the same party or parties before and after the transaction.

The share transfer agreements detailed in note 2 represent a capital restructure transaction. The Company has elected to account for these transactions using the predecessor value method. The method requires financial statements to be prepared using predecessor book value. Predecessor book values represent the carrying amount of net assets before the common control transaction.

All intercompany balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

# Section 7

## Financial Information continued

### (c) Incorporation

The Company was registered on 27 February 2017.

### (d) Foreign Currency Translation

#### (i) Functional and Presentation Currency

The functional currency of each of the Rongyu Group's entities is measured using the currency of the primary economic environment in which that entity operates.

The presentational currency and the functional currency of its main operating subsidiary, Jiangxi Rongyu Pharmaceutical Group Co., Ltd is Chinese Renminbi, and the Pro Forma Consolidated Historical Financial Information is presented in Australian Dollars, the presentational and functional currency of the Company.

#### (ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction(s). Foreign exchange gains and losses resulting from the settlement of such transaction(s) and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Transaction differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

#### (iii) Group Entities

The financial results and position of foreign operations whose functional currency is different from the Rongyu Group's presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates;
- income and expenses are translated at the average rates for the period;
- retained earnings are translated at historical average rates; and
- share capital is translated at historical spot rates.

Exchange differences arising on the translation of foreign operations are recognised directly to the Rongyu Group's foreign currency translation reserve in the Consolidated Statement of Financial Position.

### (e) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income).

The current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

### (f) Property, Plant and Equipment

Property, plant and equipment are measured at cost less depreciation and any impairment losses.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

### *Depreciation*

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Office equipment	20%
Buildings	5%
Plant and equipment	10%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Comprehensive Income.

### *(g) Intangible Assets – Land Use Right*

Land use rights have a finite useful life and are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of land use rights over its estimated useful life, which is 46 years.

### *(h) Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of fixed overheads. Overheads are applied on the basis of direct material usage. Costs are assigned on the basis of weighted average costs.

### *(i) Financial Instruments*

#### *Initial Recognition and Measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument and are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Financial instruments are classified and subsequently measured as set out below.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the effect of discounting is material, loans and receivables are carried at amortised cost using the effective interest rate method.

#### *Financial Liabilities*

When the effect of discounting is material, non-derivative financial liabilities (excluding financial guarantees) are carried at amortised cost using the effective interest rate method.

#### *Impairment of Financial Assets*

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## Section 7

### Financial Information continued

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### (j) Impairment of Non-financial Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying amount over its recoverable amount is expensed to the Statement of Comprehensive Income.

#### (k) Employee Benefits

Salary and wages are paid on a monthly basis and recognised as an expense when incurred and no leave entitlements accrue at the end of the reporting period.

#### (l) Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (m) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any sales rebates. Any consideration deferred is treated as comprising a finance component and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement by the Company in those goods.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All revenue is stated net of the amount of value added tax (VAT).

#### (n) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets, less any provision for impairment.

#### (o) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 90 days of recognition of the liability.

#### (p) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

#### (q) Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except where the amount of VAT incurred is not recoverable from the local taxation office. In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of VAT.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.

#### (r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### (s) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the Financial Statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Key Estimates – Impairment of Non-Financial Assets*

The Company assesses impairment at each reporting date by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

#### *Significant Judgments – Provision for Impairment of Receivables/Inventory*

The Company assesses the provision for impairment of receivables and inventory at each reporting date by evaluating the ageing likely recoverability of the outstanding balances.

### **Note 2: Basis of Preparation for Pro Forma Consolidated Statement of Financial Position**

The Pro Forma Consolidated Statement of Financial Position has been prepared from the Historical Statement of Financial Position of the Company and the Pro Forma Historical Statement of Financial Position of Jiangxi Rongyu Pharmaceutical Group Co., Ltd (JRYP) adjusted for the following transactions as if they had taken place on 31 March 2017:

#### (a) Restructure Agreements

Pursuant to a Share Sale Agreement dated 15 March 2017 the Company has issued 299,980,000 Ordinary Shares to the existing shareholders of Rong Sheng Pharmaceutical (Hong Kong) Holdings Limited (Rong Sheng) as purchase consideration for 100% of the share capital of that entity. This transaction is one referred to as a common control acquisition transaction. Details of the transaction are set out in Note 3.

Rong Sheng is a holding company registered in Hong Kong on 7 July 2015. Pursuant to a Share Transfer Agreement dated 17 April 2016, Rong Sheng acquired 100% of the registered capital contribution in Jiangxi Rongyu Pharmaceutical Group Co., Ltd (JRYP). When combined with the transaction above, Rong Sheng becomes the intermediate holding company for the Rongyu Group.

#### (b) Assuming Minimum Subscription

The issue of 75,000,000 Offer Shares at an issue price of \$0.20 per share to raise \$15,000,000, less associated capital raising costs estimated to be \$1,818,344. Total capital raising costs associated with the Minimum Subscription are estimated to be \$1,818,344, of which \$1,214,927 has been directly off set against raised capital and \$603,417 has been expensed in accordance with Australian Accounting Standards.

#### (c) Assuming Maximum Subscription

The issue of an additional 25,000,000 Offer Shares at an issue price of \$0.20 per share to raise an additional \$5,000,000, less additional capital raising costs estimated to be \$372,750. Total capital raising costs associated with the Maximum Subscription are estimated to be \$2,191,094, of which \$1,587,788 has been directly off set against raised capital and \$603,306 has been expensed in accordance with Australian Accounting Standards.

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### Financial Information continued

#### Note 3: Capital Restructure

The Pro Forma Consolidated Statement of Financial Position has been:

- (a) prepared on the basis that the Company has acquired JRYP's assets and liabilities as noted below; and
- (b) adjusted to reflect transactions in the agreements as discussed in Note 2(a).

Through this transaction, effective control of JRYP passed to the shareholders of the Company. The transaction is one referred to in **AASB 3 Business Combinations** as a common control acquisition, where following the corporate restructure of the Rongyu Group, the Company took control of JRYP with no change in underlying control.

As the Company was incorporated specifically for the purpose of this transaction and the subsequent Offer, the fair value of the equity instruments issued has been estimated by reference to the value of historical net assets of JRYP.

The following has been extracted from the Financial Information of JRYP as at 31 March 2017, converted from Chinese Renminbi to Australian Dollars using an exchange rate outlined in Note 1(d).

The assets and liabilities of JRYP as at 31 March 2017, were:

	31 March 2017 \$'000
Cash and cash equivalents	13,772
Trade and other receivables	22,706
Inventory	1,751
Other current assets	-
Property, plant and equipment	7,359
Intangible assets	516
Trade and other payables	(5,438)
Current tax liabilities	(1,753)
<b>Total net asset/(deficiency) acquired</b>	<b>38,913</b>
<b>Accounted for as:</b>	
Issued capital <sup>1</sup>	8,268
Statutory reserves	4,705
Foreign currency translation reserve	1,489
Retained earnings/(accumulated losses)	24,451
<b>Total</b>	<b>38,913</b>

Notes:

1. Pursuant to IFRS, the amount of capital paid for JRYP is RMB 50,000,000. The conversion of RMB to AUD is at the spot exchange rates applicable on the date of the respective capital injections.

#### Note 4: Trade and Other Receivables

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Current</b>			
Trade receivables	-	22,700	22,700
Other receivables	-	6	6
<b>Total current trade and other receivables</b>	-	<b>22,706</b>	<b>22,706</b>

#### Note 5: Inventory

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Current</b>			
Raw material	-	1,187	1,187
Work in progress	-	214	214
Semi-finished goods	-	23	23
Finished goods	-	327	327
<b>Total inventory</b>	-	<b>1,751</b>	<b>1,751</b>

#### Note 6: Property, Plant and Equipment

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Office equipment</b>			
At cost	-	122	122
Accumulated depreciation	-	(113)	(113)
<b>Total office equipment</b>	-	<b>9</b>	<b>9</b>
<b>Buildings</b>			
At cost	-	8,555	8,555
Accumulated depreciation	-	(3,861)	(3,861)
<b>Total buildings</b>	-	<b>4,694</b>	<b>4,694</b>
<b>Plant and equipment</b>			
At cost	-	5,633	5,633
Accumulated depreciation	-	(2,981)	(2,981)
<b>Total plant and equipment</b>	-	<b>2,652</b>	<b>2,652</b>
<b>Motor vehicles</b>			
At cost	-	77	77
Accumulated depreciation	-	(73)	(73)
Total motor vehicles	-	4	4
<b>Total property, plant and equipment</b>	-	<b>7,359</b>	<b>7,359</b>

## Section 7

### Financial Information continued

#### Note 7: Intangibles

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Land use right</b>			
At cost	-	629	629
Accumulated amortisation	-	(113)	(113)
<b>Total land use right</b>	-	<b>516</b>	<b>516</b>
<b>Total intangible assets</b>	-	<b>516</b>	<b>516</b>

#### Note 8: Trade and Other Payables

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Current</b>			
Trade payables	2	3,843	3,843
Salary payable	-	115	115
VAT payable	-	1,051	1,051
Other tax payables	-	197	197
Other payables	-	234	234
<b>Total current trade and other payables</b>	<b>2</b>	<b>5,440</b>	<b>5,440</b>

#### Note 9: Current Tax Liabilities

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Current</b>			
Income tax payable	-	1,753	1,753
<b>Total current tax liabilities</b>	-	<b>1,753</b>	<b>1,753</b>

#### Note 10: Issued Capital

	Number of shares issued	\$'000
<b>Shares on issue at incorporation – 20,000</b>		
<b>Ordinary share</b>	<b>20,000</b>	<b>0.02</b>
<b>Pro forma transactions</b>		
– Issue of 299,980,000 Ordinary Shares for the acquisition of Rong Sheng	299,980,000	8,268
– Issue of 75,000,000 Offer Shares in the Company pursuant to this Prospectus	75,000,000	15,000
Less capital raising costs	-	(1,215)
<b>Pro forma issued capital – minimum subscription</b>	<b>375,000,000</b>	<b>22,053</b>
– Issue of additional 25,000,000 Offer Shares in the Company pursuant to this Prospectus	25,000,000	5,000
Less capital raising costs	-	(373)
<b>Pro forma issued capital – maximum subscription</b>	<b>400,000,000</b>	<b>26,680</b>

Note:

As set out in Note 3 – Business Combinations, the Company has adopted the common control method for the acquisition of JRYP and whereby the issued capital is recognised in accordance with the contributed capital as recorded in the Financial Statements of JRYP.

## Note 11: Reserves

	Reviewed \$'000	Pro Forma Minimum Subscription \$'000	Pro Forma Maximum Subscription \$'000
<b>Current</b>			
Statutory reserve	-	4,705	4,705
Foreign currency translation reserve	-	1,489	1,489
<b>Total reserve</b>	-	<b>6,194</b>	<b>6,194</b>

## Note 12: Controlled Entities

Name of Entity	Registration Date	Country of Incorporation	Pro Forma Equity Holding
<b>Ultimate Holdings Company</b>			
Rong Yu Pharmaceuticals Limited	27 February 2017	Australia	
<b>Subsidiary of Rong Yu Pharmaceuticals Limited</b>			
Rong Sheng Pharmaceutical (Hong Kong) Holdings Limited	7 July 2015	Hong Kong	100%
<b>Subsidiary of Rong Sheng Pharmaceutical (Hong Kong) Holdings Limited</b>			
Jiangxi Rongyu Pharmaceutical Group Co., Ltd	11 November 2004	People's Republic of China	100%

## Note 13: Commitments

### (a) Capital Commitments

As at 31 March 2017, the Rongyu Group is not aware of any commitments that should be disclosed.

### (b) Operating Commitments

As at 31 March 2017, the Rongyu Group does not have any operating commitments.

## Note 14: Contingent Assets and Liabilities

As at 31 March 2017, the Rongyu Group is not aware of any contingent assets or liabilities that should be disclosed in accordance with IAS 37

## Note 15: Subsequent Events

The Rongyu Group is not aware of any subsequent events, other than those pro forma transactions set out in Note 2.

## Investigating Accountant's Report

### MOORE STEPHENS

Moore Stephens (Vic) Pty Ltd

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Melbourne VIC 3000

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[www.moorestephens.com.au](http://www.moorestephens.com.au)

16 October 2017

The Directors  
Rong Yu Pharmaceuticals Limited  
c/- Moray & Agnew  
6/505 Little Collins St,  
Melbourne VIC 3000

Dear Sirs

#### INVESTIGATING ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE INDEPENDENT LIMITED ASSURANCE REPORT ON RONG YU PHARMACEUTICALS LIMITED

##### 1. Introduction

Rong Yu Pharmaceuticals Limited ACN 617 647 293 (**Company**) has authorised the issue of a **Prospectus**, dated 16 October 2017, for the issue of between 75 million and 100 million ordinary shares in the Company at an issue price of AUD \$0.20 per share to raise between AUD \$15 and 20 million (**Offer**) and the subsequent listing of the Company's shares on the Australian Securities Exchange (**ASX**).

The Company has engaged Moore Stephens (Vic) Pty Ltd (**Moore Stephens**) to report on the Pro Forma Historical and Pro Forma Consolidated Historical Financial Information for inclusion in the Prospectus in respect of the Offer.

Details concerning the operations and objectives of the Company are set out in Section 2 of the Prospectus. The principal purposes of the Offer are set out in Section 1 of the Prospectus.

Expressions and terms defined in the Prospectus have the same meaning in this Report, unless the context otherwise requires.

The nature of this Report is such that it can only be issued by an entity that holds an Australian Financial Services Licence under the Corporations Act 2001 (Cth). Moore Stephens holds the appropriate Australian Financial Services Licence. Moore Stephens's Financial Services Guide is attached as **Appendix A** to this Report.

## 2. Scope

You have requested Moore Stephens to review the following financial information included in the Prospectus:

- a) Pro Forma Historical Financial Information of Jiangxi Rongyu Pharmaceutical Group Co., Ltd, a company incorporated and domiciled in the PRC (**JRYP**), as set out in Section 7.3; and
- b) Pro-Forma Consolidated Historical Financial Information of the Company assuming completion of the acquisition<sup>1</sup> of JRYP and the Offer, as at 31 March 2017, as set out in Section 7.5

Collectively referred to as the Financial Information. The stated basis of preparation of the Financial Information is:

### Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information, detailed in Section 7.3 of the Prospectus comprises the Historical Statements of Financial Performance, Historical Statements of Financial Position, and Historical Statements of Cash Flows for the years ended 31 March 2015, 31 March 2016 and 31 March 2017 of JRYP, restated and presented in Australian dollars at applicable exchange rates for the relevant periods.

The Pro Forma Historical Financial Information has been extracted from the audited (for the years ended 31 March 2015, 31 March 2016 and 31 March 2017) financial statements of JRYP prepared in accordance with International Financial Reporting Standards (IFRS) and denominated in RMB, its functional currency. Those financial statements were audited / reviewed by Pitcher Partners Adelaide in accordance with Australian Auditing Standards and on which qualified audit opinions were issued for:

- a) For the year ended 31 March 2015, the 2015 financial statements of the Company do not disclose 2014 comparative figures as required by 'International Financial Reporting Standard 1: First-time Adoption of International Financial Reporting Standards; and
- b) In respect of the balance of closing inventory for the years ended 31 March 2015, 2016 and 2017. This matter is described in Pitcher Partner SA's report as:

#### For the year ended 31 March 2015

*We were appointed auditors of Jiangxi Rongyu Pharmaceutical Group Co., Ltd in May 2017 and as a consequence, we were not able to observe the counting of inventories which comprise of raw materials, semi-finished goods, finished goods, and work in progress as at 31 March 2015. We were unable to satisfy ourselves concerning inventory quantities by alternative means which are stated in the statement of financial position at RMB 7,822,874.*

*As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.*

#### For the year ended 31 March 2016

*We were appointed auditors of Jiangxi Rongyu Pharmaceutical Group Co., Ltd in May 2017 and as a consequence, we were not able to observe the counting of inventories which comprise of raw materials, semi-finished goods, finished goods, and work in progress as at 31 March 2016. We were unable to satisfy ourselves concerning inventory quantities by alternative means which are stated in the statement of financial position at RMB 7,899,511.*

---

<sup>1</sup> As stated in Note 3 Statement of Significant Accounting Policies in Section 7.5 of the Prospectus, the acquisition of JRYP by the Company is accounted for as a restructure where there is no change in underlying control and the accounts of the Company represent a continuation of the accounts of JRYP.

## Investigating Accountant's Report continued

### MOORE STEPHENS

Rong Yu Pharmaceuticals Limited  
Independent Limited Assurance Report  
16 October 2017

*As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.*

For the year ended 31 March 2017

*We were appointed auditors of Jiangxi Rongyu Pharmaceutical Group Co., Ltd in May 2017 and as a consequence, we were not able to observe the counting of inventories which comprise of raw materials, semi-finished goods, finished goods, and work in progress as at 31 March 2017. We were unable to satisfy ourselves concerning inventory quantities by alternative means which are stated in the statement of financial position at RMB 9,233,602.*

*As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.*

The management discussion and analysis set out in Section 7.4 of the Prospectus does not form part of Pro Forma Historical Financial Information and does not form part of the scope of our review.

#### **Pro Forma Consolidated Historical Financial Information**

The Pro Forma Consolidated Historical Financial Information detailed in Section 7.5 of the Prospectus comprises the Statement of Comprehensive Income, the Historical Statement of Financial Position, the Consolidated Historical Statement of Financial Position and the Pro Forma Statement of Changes in Equity of the Company as at 31 March 2017 after accounting for the effects of the events and transactions described in Section 7.5.2 of the Prospectus, including the acquisition of JRYP and completion of the Offer, as if those events and transactions had occurred at that date.

The Financial Information is presented in the Prospectus in an abbreviated form, in so far as it does not include all of the presentation and disclosures required by International Financial Reporting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001 (Cth).

#### **3. Directors' Responsibility**

The Directors of the Company are responsible for the preparation of the Financial Information, including the basis of preparation and the selection and determination of pro forma adjustments included in the Pro Forma Consolidated Historical Financial Information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

We have assumed, and relied on representations from the Directors, that all material information concerning the Company, the Financial Information and the pro forma transactions as set out in the Prospectus have been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

#### **4. Our Responsibility**

Our responsibility is to express limited assurance conclusions on the Financial Information, and the reasonableness of the Financial Information, based on our review. We have conducted our engagement in accordance with Australian Auditing and Assurance Standards applicable to assurance engagements<sup>2</sup>

<sup>2</sup> Standard on Assurance Engagement ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information

Our limited assurance procedures consisted of examining work papers prepared by and making enquiries of the auditors and other persons responsible for financial and accounting matters, reviewing the Prospectus Due Diligence Committee minutes of meetings, disclosures made in the Prospectus and other review procedures. A limited assurance engagement is substantially less in scope than an audit in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

#### **5. Basis for Modified Conclusions**

The Financial Information is based upon the accounts of JRYP in which the auditor, Pitcher Partners Adelaide, issued qualified audit opinion as described in Section 2 above, principally in respect of inventory quantities. As a consequence we were also unable to satisfy ourselves concerning the existence of inventory as at 31 March 2015, 2016 and 2017 and therefore are unable to determine whether adjustments might have been necessary in respect of the income for the year ending 31 March 2015, 2016 and 2017 reported in the Historical statement of comprehensive income and the net cash flows from operating activities reported in the Historical statement of cash flows.

#### **6. Modified Conclusions**

Based on our limited assurance engagement, which is not an audit, except for the matter referred to in Section 5 above, nothing has come to our attention which causes us to believe that the Financial Information, as described in Sections 7.3 and 7.5 of the Prospectus, and comprising:

- a) Pro Forma Historical Financial Information of JRYP, which comprised of the Pro Forma Historical Statements of Financial Performance, Pro Forma Historical Statements of Financial Position, and Pro Forma Historical Statements of Cash Flows for the years ended 31 March 2015, 31 March 2016 and 31 March 2017 restated in Australian dollars, as set out in Section 7.3; and
- b) Pro Forma Consolidated Historical Financial Information of the Company, which comprised of the Statement of Comprehensive Income, the Historical Statement of Financial Position, the Consolidated Historical Statement of Financial Position and the Pro Forma Statement of Changes in Equity assuming completion of the acquisition of JRYP and the Offer, as at 31 March 2017, as set out in Section 7.5,

is not prepared fairly, in all material respects, in accordance with the basis of preparation as stated in Section 7.1 and 7.2 of the Prospectus.

#### **7. Restriction on Use**

Without modifying our conclusions, we note that the purpose of the Financial Information is for inclusion in the Prospectus to assist investors in assessing the Offer. As a result, the Financial Information may not be suitable for use for other purposes. We disclaim any assumption of responsibility for any reliance on this Report, or the Financial Information to which it relates, for any purposes other than for which it was prepared.

#### **8. Consent**

Consent to the inclusion of this Limited Assurance Report in the Prospectus in the form and context in which it appears has been given. At the date of this Report, this consent has not been withdrawn.

#### **9. Liability**

The Company has agreed to indemnify and hold harmless Moore Stephens and its employees from any claims arising out of misstatement or omission in any material or information supplied by the Company to Moore Stephens for the purposes of preparation of this Report and the Prospectus.

## Investigating Accountant's Report continued

**MOORE STEPHENS**

*Rong Yu Pharmaceuticals Limited  
Independent Limited Assurance Report  
16 October 2017*

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### **10. Independence or Declaration of Interest**

Neither Moore Stephens nor its directors or employees have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion on this matter.

During the last 2 years Moore Stephens has not provided any professional services to the Company or other entities associated with its directors or shareholders. Neither Moore Stephens nor its directors or employees has any interest in the outcome of the Offer other than in the preparation of this Report for which normal professional fees will be received in accordance with its normal fee billing arrangements.

Yours faithfully

**Moore Stephens (Vic) Pty Ltd**

Holder of Australian Financial Services Licence No: 247262



**GARY GRACO**  
Director

APPENDIX A – Moore Stephens (Vic) Pty Ltd Financial Services Guide

**This Financial Services Guide is dated 16 October 2017  
and forms part of the Independent Limited Assurance Report.**

Moore Stephens (Vic) Pty Ltd (ACN 052 362 348) (**Moore Stephens**) holds Australian Financial Services Licence no 247262 authorising it to provide general financial product advice in relation to various financial products such as securities, interests in managed investment schemes, and superannuation to wholesale and retail clients. Moore Stephens has been engaged by Rong Yu Pharmaceuticals Limited (**Company**) to provide a report in the form of an Independent Limited Assurance Report (**this Report**) for inclusion with the Prospectus issued by the Company on or about 16 October 2017 to potential investors considering investing in the Project Group.

The *Corporations Act 2001* (Cth) requires Moore Stephens to provide this Financial Services Guide (**FSG**) in connection with its provision of this Report. Moore Stephens does not accept instructions from retail clients. Moore Stephens provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Moore Stephens does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

Moore Stephens is only responsible for this Report and this FSG. Moore Stephens is not responsible for any material publicly released by the Company in conjunction with this Report or the Offer. Moore Stephens will not respond in any way that might involve any provision of financial product advice to any retail investor.

This Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of this Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

When providing reports in the form of this Report, Moore Stephens's client is the Company to which it provides the Report. Moore Stephens receives its remuneration from the Company based upon the time incurred in respect to the Report at normal charge rates, plus reimbursement of out-of-pocket expenses from the Company. Directors or employees of Moore Stephens or other associated entities may receive distributions, salary or wages from Moore Stephens. Moore Stephens and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products.

Moore Stephens has professional indemnity insurance cover for reports of this nature under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the *Corporations Act 2001* (Cth).

Moore Stephens has internal complaints-handling mechanisms. If you have concerns regarding this Report, please contact us in writing to Mr Kevin Mullen, Moore Stephens (Vic) Pty Ltd, Level 18, 530 Collins Street, Melbourne, Vic, 3000. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

## Taxation Report



**PITCHER PARTNERS**  
ACCOUNTANTS AUDITORS & ADVISORS

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Adelaide SA 5000  
Australia

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Pitcher Partners is an association of Independent firms  
Adelaide | Brisbane | Melbourne | Newcastle | Perth | Sydney

12 September 2017

The Directors  
Rong Yu Pharmaceuticals Limited  
C/- Moray & Agnew Lawyers  
Level 6, 505 Collins Street  
MELBOURNE VIC 3000  
AUSTRALIA

Dear Sirs,

### TAXATION REPORT

Pitcher Partners SA Pty Ltd has been engaged by the Directors of Rong Yu Pharmaceuticals Limited ACN 617 647 293 ("Rong Yu Pharmaceuticals" or "the Company") to prepare this Taxation Report for inclusion in the Prospectus to be dated on or about 16<sup>th</sup> October 2017 relating to the offer for subscription of ordinary shares at an issue price of \$0.20 per share in the Company.

Rong Yu Pharmaceuticals will list on the Australian Stock Exchange ("ASX") and will act as the international holding company of its wholly owned subsidiary Rong Sheng Pharmaceuticals (Hong Kong) Holding Limited ("RSPHK"), a company registered in Hong Kong. RSPHK, in turn, has a wholly owned subsidiary, Jiangxi Rong Yu Pharmaceutical Group Co. Limited ("JRYP"), a company registered in the People's Republic of China.

This report has been prepared on the assumption that the shares will be held on capital account and it therefore does not deal with the tax issues that apply to shareholders who are in the business of share trading or who hold the shares on income account.

All information contained in this Taxation Report must be read in the context of the Prospectus and in conjunction with our disclaimer.

### 1. INTRODUCTION

The taxation consequences of any investment will depend upon a taxpayer's particular circumstances.

This report considers the Income Tax Assessment Act 1936 ("ITAA 1936"), the Income Tax Assessment Act 1997 ("ITAA 1997") and associated Acts (the "Australian Tax Legislation").

This report is based on Australian Tax Legislation and established interpretations of that legislation at the date of issue and is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of investors.

## **1. INTRODUCTION (Continued)**

The capital that will be raised by Rong Yu Pharmaceuticals involves the issue of shares which will be “equity interests” for Australian tax purposes (determined in accordance with Australian Tax Legislation and the debt / equity classification rules therein).

Rong Yu Pharmaceuticals is incorporated in Australia, will be an Australian tax resident company and is understood to own (directly and indirectly) subsidiary companies located in tax jurisdictions outside Australia (“foreign subsidiaries”).

We are advised that the main income derived by Rong Yu Pharmaceuticals will be from the receipt of dividends from its foreign subsidiaries.

Based on the information contained in the Prospectus, there should be no income subject to Australian taxation under the Controlled Foreign Company (“CFC”) provisions from the operations of the foreign subsidiaries.

## **2. TAXATION TREATMENT OF DIVIDENDS PAID BY RONG YU PHARMACEUTICALS**

### ***2.1 Dividends paid to Australian resident shareholders***

The tax treatment of receiving dividends will vary depending on the circumstances relating to the particular individual or entity.

All tax payers should seek professional advice in respect of their particular circumstances.

Dividends paid by an Australian resident company constitute assessable income, the taxation of which will depend on the nature of the taxpayer and the level to which the dividends are franked with franking credits.

A franking credit is commonly referred to as an imputation credit and is a share of the Australian tax already paid by the Australian company on the profits from which dividends are paid.

Franked dividends carry an associated franking credit which may reduce the amount of tax payable by the shareholder.

Unfranked dividends have had no Australian company tax paid on the profits from which they are paid. Unfranked dividends do not carry an associated franking credit.

Where Rong Yu Pharmaceuticals does not pay Australian company tax on its profits, it will not generate franking credits.

Based on the information contained in the Prospectus, the Company is not likely to be subject to any Australian tax and will generate no franking credits - it is anticipated therefore, that any dividends paid by Rong Yu Pharmaceuticals will be unfranked.

### **2.1 Dividends paid to Australian resident shareholders (continued)**

The proposed expansion into Australia will give rise to Australian tax if the legal structure and nature of activities undertaken generate taxable income in either:

- an Australian Permanent Establishment, or
- a legal entity resident in Australia.

Where JRYP merely engages in importing and exporting materials in and out of the Australian market there is unlikely to be any Australian tax payable.

#### **2.1.1 Australian resident Individual Taxpayers**

An individual receiving a dividend will include the amount of the dividend in their assessable income in the year it is paid or credited to them. Tax is paid at the individual's marginal rate of tax.

The individual's assessable income is grossed up to include any franking credits attached to the dividends they receive. The individual may be entitled to a tax offset for the amount of the franking credits.

Where an individual's marginal rate of tax is greater than any attached franking credits, the dividend income may give rise to additional tax payable.

Where the individual's marginal rate of tax is less than the attached franking credits, the franking credits may be available to offset tax payable on other income of the individual. Any excess franking credits may give rise to a refund of tax.

Additional levies such as Medicare Levy may be payable as a result of receiving the dividends.

#### **2.1.2 Australian resident Company Taxpayers**

A company receiving a dividend will include the dividend as assessable income and pay tax at the corporate tax rate, generally 30% unless the company is a "small business entity".

Where dividends are franked, the company tax rate is applied to the grossed up dividend.

A tax offset equivalent to the franking credit will generally be available. In the event the dividend is fully franked, a company taxpayer would pay no further tax on the dividend.

Company taxpayers that have tax losses and receive franked dividends may be able to convert any excess franking offsets to tax losses.

#### **2.1.3 Australian resident Trust Taxpayers**

Specific taxation rules apply to income received by trusts. The tax liability depends on the type of trust, the trust deed and whether income is distributed to beneficiaries. In many circumstances, the trust is not liable to pay tax and the income is taxed in the hands of the beneficiaries.

#### **2.1.4 Australian resident Complying Superannuation Funds**

Complying Superannuation Funds are required to gross up any franked dividend for income tax purposes. Any franking credit may be available to offset tax payable on other income of the complying superannuation entity or alternatively results in a refund of the excess franking credits.

#### **2.1.5 Tax File Number Withholding**

If a resident shareholder chooses not to provide a tax file number to Rong Yu Pharmaceuticals, the Company will be required to withhold tax at 49% (being the current top marginal tax rate plus the Medicare Levy) from the unfranked part of the dividend.

#### **2.1.6 Tax Avoidance**

Various measures are contained in the Australian Tax Legislation to target tax avoidance including, dividend streaming and franking credit trading. Taxpayers should take their own advice to ensure that such measures do not apply to their situation.

#### **2.2 Dividends paid to non-Australian resident shareholders**

The tax treatment of receiving dividends paid by an Australian company will vary depending on the circumstances relating to the particular individual or entity and their country of residence.

All non-Australian resident tax payers should seek professional advice in respect of their particular circumstances.

Dividends paid by the Company to non-resident shareholders will not be assessable income of the non-resident in Australia but will prima facie be subject to Australian withholding tax unless those dividends are either:

- paid out of profits that have borne Australian company tax and are franked with franking credits; or
- paid out of amounts that are regarded as Conduit Foreign Income.

##### **2.2.1 Franking credits**

A franking credit is commonly referred to as an imputation credit and is a share of the Australian tax already paid by the Australian company on the profits from which dividends are paid.

Franked dividends carry an associated franking credit which reduces the amount of withholding tax otherwise payable on dividends paid to non-Australian resident shareholders. Dividends that are fully franked are not subject to withholding tax in Australia.

Unfranked dividends have had no Australian company tax paid on the profits from which they are paid. Unfranked dividends do not carry an associated franking credit and are prima facie fully subject to withholding tax.

### **2.2.1 Franking credits (continued)**

Where Rong Yu Pharmaceuticals does not pay Australian company tax on its profits, it will not generate franking credits.

Based on the information contained in the Prospectus, the Company is not likely to be subject to any Australian tax and will generate no franking credits. It is anticipated therefore, that any dividends paid by Rong Yu Pharmaceuticals will be unfranked.

The unfranked portion of any such dividends will ordinarily be subject to Australian withholding tax. The rate of this withholding tax is 30% but is generally reduced to 15% where the shareholder is a tax resident of a jurisdiction with which Australia maintains a double tax agreement.

### **2.2.2 Conduit Foreign Income**

Withholding tax is not however, payable in respect to the amount of the unfranked dividend that the Company is able to declare as “Conduit Foreign Income”. The Conduit Foreign Income rules allow certain foreign sourced income derived by an Australian company that is paid to foreign shareholders to flow through Australia without incurring Australian income tax.

Based on the information contained in the Prospectus it is expected that the Company would be able to make use of the Conduit Foreign Income rules because the income of the Company is expected to include dividends received from its subsidiaries that will be non-assessable non-exempt foreign income under the Australian Tax Legislation.

Amounts declared to be Conduit Foreign Income are not assessable income of a non-resident shareholder for Australian tax purposes.

## **3 DISPOSAL OF SHARES**

### **3.1 Implications for Australian tax resident shareholders**

The disposal of the shares acquired by shareholders in the capital raising will constitute a CGT event.

The shareholder will make a capital gain in respect to the CGT event if the proceeds received from the disposal of the shares exceed the cost base of the shares. Alternatively the shareholder will make a capital loss if the reduced cost base of the shares exceeds the proceeds from the disposal. Capital losses can only be used to offset capital gains.

Individuals, trusts and complying superannuation funds that dispose of shares that they have owned for at least 12 months may be able to reduce the capital gain. The reduction available is one-third for complying superannuation funds and 50% for individuals and trusts. The reduction is calculated after capital losses have been applied.

Any net capital gain is included in the assessable income of the shareholder.

### **3.2 Implications for non-Australian tax resident shareholders**

Any gain or loss on the disposal of shares in the Company by a shareholder who is a non-resident of Australia, and who held the shares on capital account, will not be assessable in Australia unless the shares are "Taxable Australian Property".

Generally the shares will only be Taxable Australian Property if the shareholder and its associates beneficially owned a 10% or greater interest in the Company (at the time of the disposal or for a 12 month period within the two year period before disposal) and the Company's value is principally (i.e. more than 50%) derived from real property, being land and buildings situated in Australia.

### **4 GOODS & SERVICES TAX**

The acquisition of shares is a financial supply for Australian GST purposes and accordingly GST should not be payable in respect of the amount payable for the allotment of shares.

### **5 STAMP DUTY**

No stamp duty should be payable in respect to the acquisition of the shares.

### **6 LIMITED SCOPE OF REPORT**

The purpose of this Taxation Report is to provide a general outline of Australian tax issues for investors who accept the offer to acquire shares in Rong Yu Pharmaceuticals.

This outline is a general overview of the Australian tax law and is based on relevant Australian tax law and interpretations at the date of the Prospectus. It is not intended to provide a complete statement of the specific implications for each shareholder.

The Report also does not address the tax issues for investors that, due to their particular circumstances, are subject to specific tax rules - such as calculation of the tax payable by a non-resident in respect to a capital gain; tax exempt organisations; banks; taxpayers subject to the Australian Taxation of Financial Arrangements ("TOFA") rules; shares acquired under an employee share plan; taxpayers who cease to be an Australian tax resident; or non-resident entities with an Australian permanent establishment.

Therefore, each investor should seek their own independent tax advice to determine the possible taxation consequences of accepting the offer to acquire shares.

## Taxation Report continued

### 7 DISCLAIMER

Pitcher Partners SA Pty Ltd ABN 36 112 219 735 ("Pitcher Partners") is a registered tax agent under the Tax Agent Services Act 2009 (registration no. 45218002) and is authorised to provide this report about liabilities, obligations or entitlements that arise under Commonwealth taxation laws for tax purposes.

This report is provided in the ordinary course of Pitcher Partners' activities as a registered tax agent, and only addresses certain taxation implications of the offer of shares in Rong Yu Pharmaceuticals. In particular, this report does not take into account any user's personal objectives, situation or needs and is not intended to imply any recommendation or opinion about a financial product.

This report does not constitute financial product advice under the Corporations Act 2001 (Cth). It is recommended that any user of this report obtains financial product advice before making any decision on the offer of shares in Rong Yu Pharmaceuticals, including any decision to purchase shares or invest in Rong Yu Pharmaceuticals under the offer.

To the extent this tax report contains any information about a 'financial product' within the meaning of that term in the Corporations Act 2001, taxation is only one of the matters that must be considered when making a decision on a financial product.

Yours faithfully

**PITCHER PARTNERS**



**P W SHEPHERD**  
Principal

# Section 10

## Material Contracts

The Company and its subsidiaries have entered into various agreements which the Board consider to be material and relevant to potential investors in the Company. Set out below is a summary of these material contracts.

### List of Material Contracts

1. Share Purchase Agreement in relation to the acquisition of Rong Sheng by the Company from Mr Rongyu Ye and the Existing Shareholders.
2. Land Lease Intention Agreements between JRYP and various parties, dated 16 August 2016 (**Land Tenure Agreement**);
3. Herb Procurement Agreement between JRYP and various parties, various dates (**Herb Procurement Agreement**);
4. Distribution Agreement between JRYP and various Distributors, various dates (**Distribution Agreement**);
5. Materials Procurement Agreements between JRYP and various parties, various dates (**Materials Procurement Agreement**);
6. Research and Development Agreement between JRYP and the Jiangxi Pharmaceutical Technology Development Department, dated 30 May 2015 (**Development Agreement**);

### Employment Agreements and Restriction Agreements

7. Labor Contract between JRYP and Ye Rong Yu, dated 1 April 2016 (**Executive Employment Agreement**);
8. Directors' Service Agreements;
9. Directors' Deeds of Indemnity, Access and Insurance;
10. Lead Manager Mandate between the Company and Beer & Co (**Lead Manager Mandate**); and
11. Restriction Agreements between the Company and Mr Rongyu Ye and the Existing Minority Shareholders.

### 1. Share Purchase Agreement

Pursuant to the provisions of the Share Purchase Agreement between the Company and Mr Rongyu Ye and the Existing Minority Shareholders, the Company acquired Rong Sheng from Mr Rongyu Ye and the Existing Minority Shareholders on the following terms and conditions:

- Mr Rongyu Ye and the Existing Minority Shareholders shall sell, and the Company shall purchase, all the issued share capital in Rong Sheng, being 20,000 ordinary shares.

- In consideration for such purchase, the Company shall issue 299,980,000 shares to Mr Rongyu Ye and the Existing Minority Shareholders in proportion to their shareholdings in Rong Sheng.
- If either party is in breach of any provision of the agreement, that party must rectify the breach within seven days of receipt of a written notice from the non-defaulting party of the breach; if the defaulting party fails to rectify the breach, the defaulting party may terminate the agreement.
- Any claims under the Share Purchase Agreement are limited to the value of the purchase consideration paid.
- It is noted that Completion of the Share Purchase Agreement took place in March 2017 when Rong Sheng became 100% owned by the Company.

### 2. Land Tenure Agreement

Generally, as set out in Articles 8 and 9 of the Land Administration Law of the PRC, land in urban areas is owned by the State, and land in rural areas is collectively owned, unless otherwise specified by law. Land located within a rural collective economic organisation or a village are collectively owned by rural residents, unless such land is stipulated by law as being owned by the State. If individuals, organisations or businesses are granted land use rights of collectively owned or state owned agricultural land, they may develop, hold and lease those lands. Collectively owned land may be reclaimed by the State in accordance with law.

JRYP, a Chinese wholly owned subsidiary of the Company, has entered into two (2) Land Tenure Agreements, on identical terms as follows

1. Land Tenure Agreement between JRYP and Shangyuan Village, Hebu Xiang, Linchuan District, Fuzhou City, dated 16 August 2016, relating to a parcel of land of 4,000 acres; and
2. Land Tenure Agreement between JRYP and Sihe Village Committee, Hebu Xiang, Linchuan District, Fuzhou City, dated 16 August 2016, relating to a parcel of land of 6,000 acres.

The key terms of the Land Tenure Agreements are as follows:

- the Land Tenure Agreement is conditional on the Company's being granted in principle approval to list on the ASX;
- the term of the lease is 50 years from the date of the Company's Admission;

# Section 10

## Material Contracts

- the land is to be used for growing herbs and constructing wells, housing facilities and other related productions facilities. During the term of the lease JRYP shall have exclusive use of the land rented;
- the annual rent payable on the land is ¥680 per acre, with rent being payable in advance every five years on or before 10<sup>th</sup> of January of each corresponding period. That is, upon successful completion of the Offer, ¥34,000,000 in aggregate (approximately A\$6,707,520 at the rate of ¥1 = A\$0.19728) will be payable by JRYP on or before the following 10<sup>th</sup> of January; and
- upon expiration of the term, JRYP may elect to extend the term of the Land Tenure Agreement on identical terms and conditions. If JRYP does not elect to extend the term of the agreement, the landowners may acquire the herbs and cultivations facilities existing on the Land at such time at a 50% discount to their prevailing market value.

### 3. Herb Procurement Agreement

JRYP has entered into Herb Procurement Agreements with suppliers (Supplier) of herbs (Goods) used in the manufacture of the Rongyu Products. The key terms of such Herb Procurement Agreements are as follows:

- the Supplier shall deliver the Goods to a location designated by JRYP and upon delivery JRYP shall have seven (7) days within which non-conforming Goods may be rejected or returned;
- JRYP shall be liable for payment of the Goods within sixty (60) days of invoicing;
- the Supplier warrants that the Goods meet the national quality standards and the requirements of JRYP;
- the Supplier shall be responsible for all freight costs and warrants that the transportation of the Goods will be in accordance with applicable regulations governing the transportation of the Goods; and
- the Herb Procurement Agreements shall be governed by the laws of the People's Republic of China.

The Company's China legal advisors have confirmed that the Herb Procurement Agreements have been validly formed and have been implemented according to the laws of PRC and are not outside the ordinary course of business. Additionally such material contracts do not restrict a transfer of the shares in JRYP.

### 4. Distribution Agreement

JRYP has entered into Distribution Agreements with the Distributors for the sale of the Rongyu Products. The key terms of such Distribution Agreements are as follows:

- JRYP warrants that the relevant products supplied to the Distributors meet the national quality and production standards applicable to such products;

- JRYP shall be liable for payment for the packaging and transportation of the products ordered by the Distributors;
- the Distributors may, within 7 days of receipt of the products ordered, return the goods ordered, to JRYP if they fail to meet the pre-determined acceptance criteria, provided that such goods returned are in substantially the same conditions as when delivered;
- the Distributors are liable for payment of the products received within ninety (90) days of delivery, or as otherwise agreed between the parties; and
- the Distribution Agreements shall be governed by the laws of the People's Republic of China.

In addition, JRYP has agreed to pay the Distributors a sales rebate of 18% based on the amount of sales of the Rongyu Products achieved by the relevant Distributor. The Distributors will receive such rebate as a reduction in the price of subsequent purchase orders submitted to JRYP.

The Company's China legal advisors have confirmed that the Distribution Agreements have been validly formed and have been implemented according to the laws of PRC and are not outside the ordinary course of business. Additionally such material contracts do not restrict a transfer of the shares in JRYP.

### 5. Materials Procurement Agreement

JRYP has entered into procurement agreements (**Materials Procurement Agreements**) with various suppliers of packaging materials and other ingredients (**Suppliers**) for use in the production of the Rongyu Products, in preparation for their sale to the Distributors. The key terms of such Materials Procurement Agreements are as follows:

- the Supplier warrants that the relevant materials supplied to JRYP meet the national quality and production standards applicable to such products;
- the Supplier shall be liable for payment for the packaging and transportation of the materials ordered by JRYP;
- JRYP may, within 7 days of receipt of the materials ordered, return the materials ordered, to the Suppliers if they fail to meet the pre-determined acceptance criteria, provided that such goods returned are in substantially the same conditions as when delivered;
- JRYP is liable for payment of the materials received within sixty (60) days of delivery, or as otherwise agreed between the parties; and
- the Materials Procurement Agreements shall be governed by the laws of the People's Republic of China.

## 6. Development Agreement

On 30 May 2015, JRYP entered into a research and development agreement (**Development Agreement**) with the Jiangxi Pharmaceutical Technology Development Department (**Department**), focusing on the research and development of TCM products for children, on the following terms and conditions:

- the Department will undertake research and development activities to explore and develop TCM results (**Successful Results**), which are to be subsequently developed into resulting TCM pharmaceutical products to be sold by JRYP (**New Product**). Successful Results are determined to be Results which are to the satisfaction of JRYP and are capable of commercialisation into a New Product. Delivery of successful New Products to JRYP shall occur at the business premises of the Department;
- until such time as a New Product is successfully developed, JRYP will not be liable for any research and development costs incurred by the Department nor will it be liable to compensate the Department for any research and development services provided;
- following the successful development of a New Product, JRYP will have the first right of refusal to purchase the New Product (**Purchase**), including any right to exploit such New Product and associated intellectual property rights;
- the parties acknowledge that prior to any Purchase, all intellectual property rights associated with the New Product will be owned by the Department. However upon the completion of a Purchase of a New Product, JRYP will unconditionally acquire all intellectual property rights associated with the relevant New Product, including proprietary software, trade secrets and any rights to file applications for the protection of the New Product and associated intellectual property rights (including but not limited to patents). At such time, the Department shall not retain any technical information or research and development results relating to the relevant New Product except to the extent necessary to provide ongoing technical maintenance services to JRYP in relation to such New Product;
- following completion of a Purchase of a New Product, the Department warrants that it will not utilise the New Product and any associated Successful Results for any purpose, other than with the express written consent of JRYP. The Department acknowledges that JRYP is under no obligation to consent to such request from the Department, and may require the payment of a licence fee from the Department as consideration for agreeing to allow such use;

- where JRYP does not elect to Purchase a Successful Result upon delivery by the Department, the parties acknowledge that the Department will be entitled to deal with such Successful Result and any corresponding product that may be derived from the Successful Result in its sole and unfettered discretion to the exclusion of any interference by JRYP;
- the Parties agree to maintain confidentiality on all information exchanged and/or disclosed under this Agreement and agree to indemnify the other party for any economic losses suffered as a result of a breach of this obligation. The Parties agree that this obligation shall survive the termination of this Agreement;
- the Development Agreement shall be governed by the laws of the People's Republic of China.

## 7. Executive Employment Agreement

JRYP has entered into an Executive Employment Agreement with Mr Rongyu Ye in relation to the appointment of Mr Ye as Chairman of JRYP. The key terms of the Executive Employment Agreement are as follows:

- Mr Ye will be appointed as Chairman of JRYP for a term of three (3) years, being from 1 April 2016 to 31 March 2019; and
- Mr Ye will be entitled to a monthly salary of ¥15,000 (approximately A\$3,000 at the rate of ¥1 = A\$0.19728) as well as an additional attendance bonus of ¥300 (approximately A\$60 at the rate of ¥1 = A\$0.19728), which is to be paid to Mr Ye on the 15th day of each calendar month.

## 8. Directors' Service Agreements

### (a) Directors' Service Agreement – Rodney Hannington (Non-Executive Chairman)

The Company has entered into a Directors' Service Agreement with Rodney Hannington. Pursuant to such agreement, Rodney Hannington shall be entitled to directors' fees of \$75,000 per annum (plus superannuation).

### (b) Directors' Service Agreement – Rongyu Ye (Executive Director)

The Company has entered into a Directors' Service Agreement with Rongyu Ye. Pursuant to such agreement, Rongyu Ye shall be entitled to directors' fees of \$100,000 per annum (plus superannuation).

# Section 10

## Material Contracts continued

### (c) Directors' Service Agreement – Shilin Yang (Non-Executive Director)

The Company has entered into a Directors' Service Agreement with Shilin Yang. Pursuant to such agreement, Shilin Yang shall be entitled to directors' fees of \$25,000 per annum (plus superannuation).

### (d) Directors' Service Agreement – Keren Tian (Non-Executive Director)

The Company has entered into a Directors' Service Agreement with Keren Tian. Pursuant to such agreement, Keren Tian shall be entitled to directors' fees of \$25,000 per annum (plus superannuation).

### (e) Directors' Service Agreement – Phillip Grundy (Non-Executive Director)

The Company has entered into a Directors' Service Agreement with Phillip Grundy. Pursuant to such agreement, Phillip Grundy shall be entitled to directors' fees of \$50,000 per annum (plus superannuation).

## 9. Directors' Deeds of Indemnity

Each of the Directors has entered into Deeds of Indemnity, Insurance and Access. The material terms of the Deeds of Indemnity, Insurance and Access are as follows:

- To the extent permitted by law, the Company indemnifies the Director from any liabilities arising out of the Director discharging their duties and providing services as director.
- The Directors will be given access to board papers and company files for a period up to seven (7) years from the date in which the Directors cease to be an officer of the Company.
- The Company must maintain an insurance policy for the Directors for the term in which they hold office and for a period of seven (7) years following the date they cease to be a Director.

## 10. Lead Manager Mandate

The key terms of the Lead Manager Mandate between the Company and Beer & Co Pty Ltd as the lead manager of the Offer, are as follows:

- The term of the Lead Manager Mandate is twelve (12) months from the date of the Lead Manager Mandate, being 23 November 2016;
- Beer & Co shall assist with the raising of up to \$20,000,000 under the Offer;
- Beer & Co is entitled to receive a capital raising fee of 6.0% of the funds raised by Beer & Co under the Offer;
- Beer & Co is entitled to receive an issue management fee of 1.0% of the funds raised by Beer & Co from its own network, together with a flat fee of 0.5% of the total funds raised under the Offer; and
- Beer & Co is also entitled to receive a monthly corporate advisory fee of \$13,500 (ex. GST), payable during the first six (6) months of the term of the Lead Manager Mandate.

## 11. Restriction Agreements

As indicated earlier in this Prospectus, Mr Rongyu Ye and the Existing Minority Shareholders have agreed to enter into voluntary restriction agreements, notwithstanding that the Company is seeking Admission under the profits test. The voluntary restrictions will operate as follows:

- Mr Ye has agreed to enter into voluntary escrow arrangements for a period of twenty-four (24) months, commencing on the date of quotation of the Shares on the ASX.
- The Existing Minority Shareholders have agreed to enter into voluntary escrow arrangements for a period of six (6) months, commencing on the date of quotation of the Shares on the ASX.

The Company has entered into (or will enter into prior to the listing date) Restriction Agreements with Mr Ye and the Existing Minority Shareholders, in accordance with the above.

# Section 11

## Additional Information

### 11.1 Documents Available for Inspection

The following documents are available for inspection during normal office hours, free of charge, at the registered office of the Company for a period of at least 12 months from the date of lodgement of this Prospectus with the ASIC:

- the current Constitution of the Company; and
- the consents referred to in Section 11.4 of this Prospectus.

### 11.2 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director and no firm in which a Director is a partner, has an interest in the promotion or in property proposed to be acquired by the Company in connection with its formation or promotion. Other than as set out below or elsewhere in this Prospectus no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any Director or any firm in which any Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in which he is a partner in connection with the formation or promotion of the Company.

### 11.3 Interests of Experts and Advisers

Except as disclosed below or elsewhere in this Prospectus, no expert nor any firm of which such expert is a partner, has or has had any interest in the formation or promotion of, or in any property proposed to be acquired by, the Company in connection with its formation or promotion, and no amounts have been paid (in cash or shares or otherwise), or agreed to be paid, to any expert or to any firm in which such expert is a partner for services rendered by him or the firm in connection with the promotion or formation of the Company.

- Professional fees payable to the Company's Auditors for work done in relation to the Offer are \$167,000 (excluding GST) payable to Pitcher Partners SA Pty Ltd.
- Professional fees payable to the Company's investigating accountants for work done in relation to the Offer are \$22,000 (including GST) payable to Moore Stephens (Vic) Pty Ltd
- Professional fees payable to the Company's taxation advisors for work done in relation to the Offer are \$5,500 (including GST) payable to Pitcher Partners SA Pty Ltd.
- Professional fees payable to the Company's Australian legal service providers for work done in relation to the Offer are approximately \$126,500 (including GST). The Company's current Australian legal advisors are Moray & Agnew Lawyers.

- Professional fees payable to the Company's offshore legal service providers (China and Hong Kong) for work done in relation to the Offer are approximately \$104,765 (excluding GST).
- Professional fees payable to the Company's Lead Manager for work done in relation to the Offer are summarised in section 10.10 of this Prospectus.
- Security Transfer Australia Pty Ltd acted as the share registry for the Company. Standard commercial fees are payable to Security Transfer Australia Pty Ltd for share registry services in relation to the Offer made pursuant to this Prospectus.

### 11.4 Consents

The following consents have been given in accordance with the Corporations Act:

- (a) Pitcher Partners SA Pty Ltd has given and has not before lodgement of this Prospectus withdrawn its written consent to be named in this Prospectus as the auditor of the Company and to the inclusion of the financial information in Section 7 of this Prospectus. Pitcher Partners SA Pty Ltd did not authorise or cause the issue of this Prospectus and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Prospectus, other than references to its name and the financial information in Section 7 of this Prospectus.
- (b) Moore Stephens (Vic) Pty Ltd has given and has not before lodgement of this Prospectus withdrawn its written consent to be named in this Prospectus as the Investigating Accountant and to the inclusion in this Prospectus of its Investigating Accountant's Report of this Prospectus in the form and context in which it is included. Notwithstanding that it may be referred to elsewhere in this Prospectus, Moore Stephens (Vic) Pty Ltd has only been involved in the preparation of the Investigating Accountant's Report and was not involved in the preparation of any other part of this Prospectus. Moore Stephens (Vic) Pty Ltd did not authorise or cause the issue of this Prospectus and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Prospectus other than references to its name and the Investigating Accountant's Report.

# Section 11

## Additional Information continued

- (c) Pitcher Partners SA Pty Ltd has given and has not before lodgement of this Prospectus withdrawn its written consent to be named in this Prospectus as the taxation advisor of the Company. Notwithstanding that it may be referred to elsewhere in this Prospectus, Pitcher Partners SA Pty Ltd has only been involved in the preparation of the Taxation Report and was not involved in the preparation of any other part of this Prospectus. Pitcher Partners SA Pty Ltd did not authorise or cause the issue of this Prospectus and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Prospectus other than references to its name and the Taxation Report.
- (d) Moray & Agnew Lawyers have given and have not, before lodgement of this Prospectus, withdrawn their written consent to being named in this Prospectus as solicitors to the Company in the form and context in which they are named. Moray & Agnew Lawyers did not authorise or cause the issue of this Prospectus and do not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Prospectus, other than references to its name.
- (e) Beer & Co Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn its written consent to be named in this Prospectus as the Lead Manager of the Company. Beer & Co Pty Ltd did not authorise or cause the issue of this Prospectus and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Prospectus, other than references to its name.
- (f) Security Transfer Australia Pty Ltd has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as Share Registry in the form and context in which it is named. Security Transfer Australia Pty Ltd has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry to the Company. Security Transfer Australia Pty Ltd has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus, other than references to its name.
- (g) Zhong Yin Law Firm has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the Company's China Legal Advisors in the form and context in which it is named. Zhong Yin Law Firm is the Company's China Legal Advisor and has provided advice to the Company and the Rongyu Group in relation to laws and regulations in China affecting the Business. Zhong Yin Law Firm confirms the accuracy of and consents to the inclusion of all statements contained in the Prospectus regarding JRYP and the operation of the Business in China including JRYP's and the Business' compliance with relevant Chinese laws and regulations, as well as any other statement in the Prospectus otherwise attributable to Zhong Yin Law Firm as the Company's China Legal Advisor or which has been prepared in reliance on advice provided by Zhong Yin Law Firm.
- (h) Euromonitor International Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named in the Prospectus in the form and context in which it is named. Notwithstanding that it may be referred to elsewhere in this Prospectus, Euromonitor International Limited has only been involved in the preparation of the Euromonitor Report, on which the "Industry and Market Overview" section in Section 4 of the Prospectus was based, and was not involved in the preparation of any other part of this Prospectus. Euromonitor International Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus, other than references to its name.

### 11.5 ASIC Relief and Modifications

The Company has applied to ASIC for a declaration that the Corporations Act is modified such that the Company does not have a relevant interest in its own shares by virtue of entering into the Restriction Agreements with Mr Rongyu Ye and the Existing Minority Shareholders, as well as a modification of Section 671B of the Corporations Act to require the Company to make substantial holding disclosure of the relevant interest it would have acquired but for the relief, as a result of the Restriction Agreements. For a summary of the key terms of the Restriction Agreements, please refer to Section 10.11 of this Prospectus.

## 11.6 Expenses of the Offer

The estimated expenses\* of the Offer are as follows:

Estimated expenses	Minimum Subscription	Maximum Subscription
Broker placement fee <sup>1</sup>	922,500	1,230,000
Broker base fee/monthly retainer <sup>1</sup>	236,775	288,025
Australian legal fees <sup>3</sup>	126,500	126,500
Offshore legal fees (China and Hong Kong) <sup>2</sup>	104,765	104,765
Auditor fees <sup>2</sup>	167,000	167,000
Investigating accountant fees <sup>3</sup>	22,000	22,000
Taxation advisor fees <sup>3</sup>	5,500	5,500
ASX listing fees <sup>2</sup>	117,000	131,000
Travel costs for advisory team <sup>2</sup>	30,000	30,000
Independent market research report <sup>2</sup>	49,459	49,459
Road show expenses <sup>2</sup>	15,000	15,000
Prospectus design & printing <sup>2</sup>	17,935	17,935
Share registry <sup>2</sup>	1,560	1,560
ASIC lodgement fees <sup>2</sup>	2,350	2,350
<b>Total estimated expenses</b>	<b>1,818,344</b>	<b>2,191,094</b>

Notes:

1. This is inclusive of 25% of the GST which is not recoverable under reduced input tax credit (RITC).
2. This is exclusive of GST as GST is recoverable or not charged.
3. This is inclusive of GST as GST is not recoverable.

## 11.7 Litigation

The Company is not involved in any litigation, arbitration or other legal proceedings and the Directors are not aware of any threatened or pending litigation or arbitration against the Company.

## 11.8 Working Capital Statement

The Directors believe that, on completion of the Public Offer, the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.

## 11.9 Continuous Disclosure Obligations Following Listing

Following listing on the ASX, and pursuant to Section 111AC of the Corporations Act, the Company will be a disclosing entity and will therefore be subject to regular reporting and disclosure obligations. Following listing on the ASX, the Company is required to continuously disclose all information to the market that a reasonable person would expect to have a material effect on the value or price of the Company's securities. All price-sensitive information will be released through the ASX before it is disclosed to market participants and shareholders, and the distribution of non-price sensitive information will also be managed through the ASX.

## 11.10 Directors' Statement

The Directors state that they have made all reasonable enquiries and have reasonable grounds to believe that any statements by the Directors in this Prospectus are true and not misleading and that in respect to any other statements made in this Prospectus by persons other than Directors, the Directors have made reasonable enquiry and have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given the consent required by section 716 of the Corporations Act to the issue of this Prospectus and have not withdrawn that consent, before lodgement of this Prospectus with the ASIC.

This Prospectus is prepared on the basis that:

- certain matters may be reasonably expected to be known to professional advisers of any kind with whom Applicants may reasonably be expected to consult; and
- information is known to Applicants or their professional advisers by virtue of any Acts or laws of the Commonwealth of Australia or any State of Australia.

## Section 12

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### Director's Authorisation

In accordance with s.720 of the Corporations Act, the lodgement and issue of this Prospectus has been consented to and authorised by each of the Directors.

Signed for and on behalf of the Company

A handwritten signature in black ink, appearing to read 'P Grundy', is written on a light grey rectangular background.

**Mr Phillip Grundy**  
Non-Executive Director  
Dated: 31 October 2017

## Section 13

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# Glossary of Terms

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

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“\$” means Australian dollars.

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“¥” or “RMB” means renminbi.

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“**Admission**” means the Company’s admission to the official list of the ASX following its application for admission under Chapters 1 and 2 of the ASX Listing Rules.

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“**AEST**” means Australian Eastern Standard Time.

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“**Applicant**” means a person who submits an Application.

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“**Application**” means a valid application to subscribe for Shares under this Prospectus.

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“**Application Form**” or “**Application Forms**” means the application form that is attached to and forms part of this Prospectus.

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“**ASIC**” means Australian Securities and Investments Commission.

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“**ASX**” means Australian Stock Exchange Limited (ACN 008 624 691).

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“**ASX Listing Rules**” means the listing rules of ASX as at the date of this Prospectus.

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“**Auditors**” means Pitcher Partners SA Pty Ltd.

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“**Board**” means the Board of Directors of the Company unless the context indicates otherwise.

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“**Business**” means the business model involving the development, manufacture and sale of pharmaceutical products based on principles of traditional Chinese medicine.

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“**CHESS**” means ASX Clearing House Electronic Subregistry System.

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# Section 13

## Glossary of Terms continued

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“**China**” or “**PRC**” means the People's Republic of China.

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“**China legal advisors**” means Zhong Yin Law Firm.

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“**Company**” or “**Rongyu**” means Rong Yu Pharmaceuticals Limited (ACN 617 647 293)

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“**Company Secretary**” means Mr Chow Yee Koh. For Mr Koh's profile, please refer to Section 5.2 of this Prospectus.

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“**Constitution**” means the Constitution of the Company as at the date of issue of this Prospectus.

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“**Corporations Act**” means the Corporations Act 2001 (Cth).

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“**Directors**” means the board of directors of the Company as it is constituted from time to time.

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“**Euromonitor Report**” means the report commissioned by the Rongyu Group on the Traditional Chinese Medicine Market in Mainland China, and on which some information contained in the “Industry and Market Overview” section is based.

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“**Existing Minority Shareholders**” means current shareholders of the Company other than Mr Rongyu Ye, who are external, third-party investors in JRYF. For more information on the shares held by the Existing Minority Shareholders please refer to Section 3.8.

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“**Exposure Period**” means the period of 7 days after the date of lodgement of the Original Prospectus, which period was be extended by ASIC by a further 7 days pursuant to s. 727(3) of the Corporations Act.

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“**Financial Information**” means the information described as Financial Information in Section 7.

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“**Issuer Sponsored**” means securities issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS.

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“**JRYP**” means Jiangxi Rongyu Pharmaceutical Group Co., Ltd, a company incorporated in China.

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“**Land**” means a parcel of agricultural land in Fuzhou City, Jiangxi Province, China of approximately 10,000 acres.

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“**Lead Manager**” means Beer & Co Pty Ltd (ACN 158 837 186) and its wholly owned subsidiary Melbourne Venture Securities Pty Ltd (ACN 102 538 394) which holds Australian Financial Services Licence No. 224313, which will provide the services of lead manager in connection with the Offer.

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“**Manufacturing Site**” means the GMP certified manufacturing production facility located in the Jinchao Economic Development Zone at Fuzhou City, Jiangxi Province, operated by the Rongyu Group for the manufacture of the Rongyu Products.

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“**MOFCOM**” means the Ministry of Commerce of the People’s Republic of China.

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“**Maximum Subscription**” means the maximum amount to be raised under the Offer made by this Prospectus, being \$20,000,000.

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“**Minimum Application**” means the minimum application for Shares that can be made by an Applicant under this Offer, being valid subscriptions for at least 10,000 Shares.

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“**Minimum Subscription**” means the minimum amount to be raised under the Offer made by this Prospectus, being \$15,000,000.

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“**NPAT**” means net profit after tax.

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“**Offer**” means the invitation made to the public pursuant to this Prospectus to subscribe for up to 100,000,000 Shares at an issue price of \$0.20.

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# Section 13

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## Glossary of Terms continued

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“**Offer Application Form**” means the Application Form attached to or accompanying this Prospectus and which relates to the Offer.

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“**Offer Closing Date**” means 11 December 2017 or such earlier or later date as the Directors may determine.

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“**Offer Period**” means the period commencing on the Opening Date and ending on the Offer Closing Date.

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“**Offer Shares**” means the Shares issued under this Prospectus.

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“**Official Quotation**” means official quotation by ASX in accordance with the ASX Listing Rules.

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“**Opening Date**” means 31 October 2017 or as varied by the Directors.

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“**Original Prospectus**” means the prospectus dated 16 October 2017 and which was lodged with ASIC on that date.

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“**Prospectus**” means this replacement prospectus dated 31 October 2017 and which was lodged with ASIC on that date.

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“**Provinces**” means the highest level Chinese administrative divisions, which are formally referred to as provincial-level administrative divisions or first-level administrative divisions.

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“**Rong Sheng**” means Rong Sheng Pharmaceutical (Hong Kong) Holdings Ltd (a company incorporated in Hong Kong).

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“**Rongyu Products**” means the TCM products manufactured and sold by JRYP from time to time.

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“**Rongyu Group**” means the Company, Rong Sheng and JRYP.

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“**Share**” means a fully paid ordinary share in the capital of the Company.

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“**Shareholder**” means a holder of shares in the Company.

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“**Share Registry**” means Security Transfer Australia Pty Ltd.

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“**Taxation Advisors**” means Pitcher Partners SA Pty Ltd.

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“**Taxation Report**” means the taxation report prepared by the Taxation Advisors, which is contained in Section 9 of this Prospectus.

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“**TCM**” means traditional Chinese medicine.

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# Section 14

## Corporate Directory

### Directors of the Company

Mr Rodney Hannington (Non-Executive Chairman)  
Mr Rongyu Ye (Executive Director)  
Professor Shilin Yang (Non-Executive Director)  
Mr Keren Tian (Non-Executive Director)  
Mr Phillip Grundy (Non-Executive Director)

### Company Secretary

MR Chow Yee Koh

### Principal Place of Business

169 Jin'ni Road  
Jin Cao Development Zone  
Fuzhou City  
Jiangxi Province  
China

### Registered Address

C/- Moray & Agnew Lawyers  
Level 6, 505 Collins Street  
Melbourne VIC 3000

### ASX Code

RY8

### Share Registry\*

Security Transfer Australia Pty Ltd  
Suite 913, 530 Little Collins Street  
Melbourne VIC 3000

\* This entity is included for information purposes only.  
It has not been involved in the preparation of this Prospectus.

### Solicitors to the Company (Australia)

Moray & Agnew Lawyers  
Level 16, 505 Collins Street  
Melbourne VIC 3000

### Auditor

Pitcher Partners SA Pty Ltd  
Level 1, 100 Hutt Street  
Adelaide SA 5000

### Investigating Accountant

Moore Stephens (Vic) Pty Ltd  
Level 18, 530 Collins Street  
Melbourne VIC 3000

### Taxation Advisors

Pitcher Partners SA Pty Ltd  
Level 1, 100 Hutt Street  
Adelaide SA 5000

### China Legal Advisors

Zhong Yin Law Firm  
31th Floor, Building A of East District,  
Jianwai SOHO Plaza,  
NO. 39, Middle Road of EastnThird Ring,  
Chaoyang District, Beijing, China, 100022

### Lead Manager

Beer & Co Pty Ltd  
Level 2 South, 11-19 Bank Place  
Melbourne VIC 3000

## APPLICATION FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCK BROKER OR LICENSED PROFESSIONAL ADVISOR.

**All Correspondence to:**  
 Security Transfer Australia Pty Ltd  
**PO Box 52**  
**Collins Street West VIC 8007**  
 T: 1300 992 916 F: +61 8 9315 2233  
 E: registrar@securitytransfer.com.au  
 W: www.securitytransfer.com.au

# RONG YU PHARMACEUTICALS LIMITED

ACN: 617 647 293

**BROKER STAMP**

Broker Code

Advisor Code

**PLEASE READ CAREFULLY ALL INSTRUCTIONS ON THE REVERSE OF THIS FORM**

This application relates to the offer of Fully Paid Ordinary Shares at the price of \$0.20 per Share.  
 No share will be issued pursuant to the Prospectus later than 13 months after the date of the Prospectus.  
 Before completing this Application Form you should read the accompanying Prospectus and the instructions overleaf. Please print in BLOCK LETTERS.

<p><b>I / We apply for:</b></p> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/>,             <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/>,             <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/>             shares at AUD \$0.20 per share         </div> <p>or such lesser number of shares which may be allocated to me/us by the Directors.</p> <div style="display: flex; align-items: center; margin-top: 10px;"> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">www.securitytransfer.com.au</div> </div>	<p><b>I/We lodge full application of monies of:</b></p> <p>A \$ <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/>, <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/>, <input style="width: 40px; height: 20px; margin-right: 5px;" type="text"/> . <input style="width: 40px; height: 20px;" type="text"/></p> <p><b>BPAY® this payment via internet or phone banking.</b>  <b>Please visit our share registry's website: <a href="http://www.securitytransfer.com.au">www.securitytransfer.com.au</a> and complete the online application form.</b></p> <p>If electronic payment cannot be made then cheque(s) or bank draft(s) can be used.              See reverse for further payment instructions.</p>
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<b>Full Name of Applicant / Company</b>			
Title (e.g.: Dr, Mrs) Given Name(s) or Company Name			
<input style="width: 100%; height: 100%;" type="text"/>			
<b>Joint Applicant #2</b>			
Title (e.g.: Dr, Mrs) Given Name(s) or Company Name			
<input style="width: 100%; height: 100%;" type="text"/>			
<b>Joint Applicant #3</b>			
Title (e.g.: Dr, Mrs) Given Name(s) or Company Name			
<input style="width: 100%; height: 100%;" type="text"/>			
<b>Account Designation</b> (for example: THE SMITH SUPERFUND A/C)			
<input style="width: 90%; height: 20px;" type="text"/>			
<b>Postal Address</b>			
Unit	Street Number	Street Name or PO BOX	
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	
Suburb / Town / City			State
<input style="width: 100%; height: 100%;" type="text"/>			<input style="width: 100%; height: 100%;" type="text"/>
Postcode			
<input style="width: 100%; height: 100%;" type="text"/>			
<b>Country Name</b> (if not Australia)			
<input style="width: 100%; height: 100%;" type="text"/>			
<b>CHESS HIN</b> (where applicable)			
<input style="width: 100%; height: 100%;" type="text"/>	If an incorrect CHESS HIN has been provided (for example, an incorrect number as registration details do not match those registered) any securities issued will be held on the Issuer Sponsored sub-register.		
<b>Tax File Number / Australian Business Number</b>		<b>Tax File Number of Security Holder #2 (Joint Holdings Only)</b>	
<input style="width: 100%; height: 100%;" type="text"/>		<input style="width: 100%; height: 100%;" type="text"/>	
<b>Contact Name</b>		<b>Contact Number</b>	
<input style="width: 100%; height: 100%;" type="text"/>		( <input style="width: 30px; height: 20px;" type="text"/> ) <input style="width: 100%; height: 20px;" type="text"/>	
<b>Email Address</b>			
<input style="width: 100%; height: 100%;" type="text"/>			
@ <input style="width: 100%; height: 100%;" type="text"/>			

**Declaration and Statements:**

- (1) I/We declare that all details and statements made by me/us are complete and accurate.
- (2) I/We agree to be bound by the terms and conditions of the Offer, as set out in the Prospectus and by the Constitution of the Company.
- (3) I/We authorise the Company to complete and execute any documentation necessary to effect the issue of Securities to me/us.
- (4) I/We have received personally a copy of the Prospectus accompanied by or attached to this Application form, or a copy of the Application Form or a direct derivative of the Application Form before applying for the Securities.
- (5) I/We acknowledge that the Company will send me/us a paper copy of the Prospectus and any Supplementary Prospectus (if applicable) free of charge if I/we request so during the currency of the Prospectus.
- (6) I/We acknowledge that returning the Application Form with the application monies will constitute my/our offer to subscribe for Securities in the Company and that no notice of acceptance of the application will be provided.

**This Application Form relates to the Offer of Fully Paid Shares in Rong Yu Pharmaceuticals Limited pursuant to the Prospectus dated 31 October 2017**

**APPLICATION FORMS**

Please complete all parts of the Application Form using BLOCK LETTERS. Use correct forms of registrable name (see below). Applications using the wrong form of name may be rejected. Current CHES participants should complete their name and address in the same format as they are presently registered in the CHES system.

Insert the number of Shares you wish to apply for. The application must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. The applicant(s) agree(s) upon and subject to the terms of the Prospectus to take any number of Shares equal to or less than the number of Shares indicated on the Application Form that may be allotted to the applicants pursuant to the Prospectus and declare(s) that all details of statements made are complete and accurate.

No notice of acceptance of the application will be provided by the Company prior to the allotment of Shares. Applicants agree to be bound upon acceptance by the Company of the application.

Please provide us with a telephone contact number (including the person responsible in the case of an application by a company) so that we can contact you promptly if there is a query in your Application Form. If your Application Form is not completed correctly, it may still be treated as valid. There is no requirement to sign the Application Form. The Company's decision as to whether to treat your application as valid, and how to construe, amend or complete it shall be final.

**PAYMENT**



**BPAY** your payment via internet or phone banking. Please visit our share registry's website: [www.securitytransfer.com.au](http://www.securitytransfer.com.au) and complete the online application form. All online applicants can BPAY their payments via internet or phone banking. A unique reference number will be quoted upon completion of the application.

© Registered to BPAY Pty Ltd ABN 69 079 137 518

Applicants should be aware of their financial institution's cut-off time (the time payment must be made to be processed overnight) and ensure payment is processed by their financial institution on or before the day prior to the closing date of the offer.

BPAY applications will only be regarded as accepted if payment is received by the registry from your financial institution on or prior to the closing date. It is the applicant's responsibility to ensure funds are submitted correctly by the closing date and time.

**You do not need to return any documents if you have made payment via BPAY.**

Your BPAY reference number will process your payment to your application electronically and you will be deemed to have applied for such securities for which you have paid.

All cheques should be made payable to **Rong Yu Pharmaceuticals Limited** and drawn on an Australian bank and expressed in Australian currency and crossed "Not Negotiable". Cheques or bank drafts drawn on overseas banks in Australian or any foreign currency will NOT be accepted. Any such cheques will be returned and the acceptance deemed to be invalid. Sufficient cleared funds should be held in your account as your acceptance may be rejected if your cheque is dishonoured. Do not forward cash as receipts will not be issued.

**LODGING OF APPLICATIONS**

Completed Application Forms and cheques must be:

**Posted to:**  
**RONG YU PHARMACEUTICALS LIMITED**  
C/- Security Transfer Australia Pty Ltd  
PO Box 52  
Collins Street West VIC 8007

**OR**

**Delivered to:**  
**RONG YU PHARMACEUTICALS LIMITED**  
C/- Security Transfer Australia Pty Ltd  
Suite 913, 530 Little Collins Street  
Melbourne, VIC, 3000

**Applications must be received by no later than 5.00pm (AEST) on 11 December 2017 which may be changed immediately after the Opening Date at any time and at the discretion of the Company.**

**CHES HIN/BROKER SPONSORED APPLICANTS**

The Company intends to become an Issuer Sponsored participant in the ASX CHES System. This enables a holder to receive a statement of holding rather than a certificate. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold shares allotted to you under this Application on the CHES sub-register, enter your CHES HIN. Otherwise, leave this box blank and your Shares will automatically be Issuer Sponsored on allotment.

**CORRECT FORM OF REGISTRABLE TITLE**

Note that only legal entities are allowed to hold securities. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to **Rong Yu Pharmaceuticals Limited**. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the example of the correct forms of registrable names below:

**TYPE OF INVESTOR**

**Individual**

Use given names in full, not initials.

**CORRECT**

Mr John Alfred Smith

**INCORRECT**

J A Smith

**Company**

Use the company's full title, not abbreviations.

ABC Pty Ltd

ABC P/L or ABC Co

**Joint Holdings**

Use full and complete names.

Mr Peter Robert Williams &  
Ms Louise Susan Williams

Peter Robert &  
Louise S Williams

**Trusts**

Use trustee(s) personal name(s). Do not use the name of the trust.

Mrs Susan Jane Smith  
<Sue Smith Family A/C>

Sue Smith Family Trust

**Deceased Estates**

Use the executor(s) personal name(s).

Ms Jane Mary Smith &  
Mr Frank William Smith  
<Estate John Smith A/C>

Estate of Late John Smith  
or  
John Smith Deceased

**Minor (a person under the age of 18)**

Use the name of a responsible adult with an appropriate designation.

Mr John Alfred Smith  
<Peter Smith A/C>

Master Peter Smith

**Partnerships**

Use the partners' personal names. Do not use the name of the partnership.

Mr John Robert Smith &  
Mr Michael John Smith  
<John Smith and Son A/C>

John Smith and Son

**Superannuation Funds**

Use the name of the trustee(s) of the super fund.

Jane Smith Pty Ltd  
<JSuper Fund A/C>

Jane Smith Pty Ltd  
Superannuation Fund

**PRIVACY STATEMENT**

Personal information is collected on this form by Security Transfer Australia Pty Ltd as the registrar for securities issuers for the purpose of maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Your personal details may be disclosed to related bodies corporate, to external service providers such as mail and print providers, or as otherwise required or permitted by law. If you would like details of your personal information held by Security Transfer Australia Pty Ltd or you would like to correct information that is inaccurate please contact them on the address on this form.





**RONG YU**  
PHARMACEUTICALS