

CIRCULAR DATED 12 DECEMBER 2016

THIS CIRCULAR TO SHAREHOLDERS (“CIRCULAR”) IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Circular is issued by Pharmesis International Ltd. (the “Company”, together with its subsidiaries, the “Group”). If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

If you have sold or transferred all your ordinary shares in the capital of the Company (the “Shares”), you should immediately forward this Circular together with the Notice of Extraordinary General Meeting and the enclosed Proxy Form to the purchaser or transferee, or to the bank, stockbroker or agent through whom the sale or transfer was effected, for onward transmission to the purchaser or the transferee.

Capitalised terms appearing on the cover of this Circular have the same meanings as defined herein.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Circular.



CIRCULAR TO SHAREHOLDERS

in relation to

- (1) THE PROPOSED ADOPTION OF THE NEW IPT GENERAL MANDATE**
- (2) THE PROPOSED ACQUISITIONS OF THE YING BIN PROPERTY AND THE JIANGYOU NEAUTUS SHARES AS INTERESTED PERSON TRANSACTIONS**

Independent Financial Adviser to the Independent Directors of the Company in relation to the Proposed Adoption of the New IPT General Mandate and the Proposed Acquisitions

ASIAN CORPORATE ADVISORS PTE. LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200310232R)

IMPORTANT DATES AND TIMES

- | | | |
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| Last date and time for lodgement of Proxy Form | : | 25 December 2016 at 10.30 a.m. |
| Date and time of Extraordinary General Meeting | : | 27 December 2016 at 10.30 a.m. |
| Place of Extraordinary General Meeting | : | 5 Kallang Sector, #03-02, Singapore 349279 |

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DEFINITIONS

For the purpose of this Circular, the following definitions apply throughout unless the context otherwise requires or otherwise stated:

“2015 IPT General Mandate”	:	The general mandate of the Company approved by Shareholders at the EGM held on 20 August 2015 to enable the Group to enter into certain interested person transactions with the classes of interested persons as set out in the Circular to Shareholders dated 5 August 2015
“AGM”	:	Annual general meeting of the Company
“Assets”	:	The Jiangyou Neautus Shares and the Ying Bin Property, collectively
“Audit Committee”	:	The audit committee of the Company as at the Latest Practicable Date, comprising the audit committee chairman Mr Chew Heng Ching, Mr Chew Thiam Keng and Mr Jiang Ercheng
“Board” or “Directors”	:	The directors of the Company as at the Latest Practicable Date, and “Director” shall be construed accordingly
“CDP”	:	The Central Depository (Pte) Limited
“CPF”	:	The Central Provident Fund
“Chengdu Kinna Investment”	:	成都国嘉投资股份有限公司 (Chengdu Kinna Investment Co., Ltd.)
“Chengdu Kinna Pharma”	:	成都国嘉联合制药有限公司 (Chengdu Kinna Pharmaceutical Co., Ltd)
“Circular”	:	This circular to Shareholders dated 12 December 2016
“Companies Act”	:	The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Company”	:	Pharmesis International Ltd.
“EGM”	:	The extraordinary general meeting of Shareholders to be held on 27 December 2016, notice of which is set out on page 137 of this Circular
“Entities at Risk”	:	The Company and its subsidiaries
“EPS”	:	Earnings per Share
“Financial Controller”	:	The Financial Controller of the Company
“FY”	:	Financial year ended, or ending, as the case may be, on 31 December
“Group”	:	The Company and its subsidiaries
“IFA”	:	Asian Corporate Advisors Pte. Ltd., the independent financial adviser to the Independent Directors in relation to the Proposed Adoption of the New IPT General Mandate and the Proposed Acquisitions

“IFA Letter”	:	The letter from the IFA to the Independent Directors, as set out in Appendix B of this Circular
“Independent Directors”	:	Directors who are regarded as independent for the purposes of the Listing Manual, the New IPT General Mandate and the Proposed Acquisitions, namely, any of Mr Chew Heng Ching and Mr Chew Thiam Keng
“Industrial Complex”	:	The industrial complex under construction that is situated on the Land
“Interested Persons”	:	The classes of the Company’s interested persons which fall within the New IPT General Mandate, being Sichuan Neautus and Ning Xia, and their subsidiaries and associated companies
“Interested Person Transactions”	:	<p>The categories of transactions with the Interested Persons which fall within the New IPT General Mandate, namely:</p> <p>(a) the purchase of raw materials, such as <i>herba violae</i> (紫花地丁), <i>dandelion</i> (蒲公英), <i>indigowoad root</i> (板蓝根) and <i>herba lobeliae chinensis</i> (半边莲) and other herbs and/or raw materials, from the Sichuan Neautus Group and Ning Xia for the manufacturing of medicines of the Group; and</p> <p>(b) the provision of bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia</p>
“IPT Mandate”	:	The general mandate for the purposes of Chapter 9 of the Listing Manual, for the companies within the Group, to enter into the Interested Person Transactions
“Jiangyou Neautus”	:	江油新荷花中药科技有限公司 (Jiangyou Neautus Traditional Chinese Medicine Technology Co. Ltd.)
“Jiangyou Neautus Shares”	:	The entire issued and paid-up share capital of Jiangyou Neautus
“Jiangyou Neautus Shares SPA”	:	The conditional sale and purchase agreement to acquire the Jiangyou Neautus Shares entered into between Chengdu Kinna Pharma and Sichuan Neautus
“Jiangyou Neautus Shares Valuation Report”	:	The valuation report dated 6 May 2016, issued by the Valuer in relation to the Jiangyou Neautus Shares, as set out in Appendix C of this Circular
“Land”	:	Industrial Park of Jiangyou Municipality (江油工业园区) with the plot number 81-3-31-61 in Jiangyou, Mianyang, Sichuan Province, PRC
“Latest Practicable Date”	:	6 December 2016, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	:	The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
“Market Day”	:	A day on which the SGX-ST is open for trading in securities

“Minority Shareholders”	:	The minority Shareholders of the Company
“Mr Jiang”	:	Mr Jiang Yun (江云), the Chief Executive Officer and an Executive Director of the Company
“Mr Wu”	:	Mr Wu Xuedan (吴学丹), an Executive Director of the Company
“New IPT General Mandate”	:	The proposed general mandate pursuant to Rule 920 of the Listing Manual to authorise the Company and its subsidiaries which are considered to be “entities at risk” under Chapter 9 of the Listing Manual or any of them, in their ordinary course of businesses, to enter into categories of transactions with specific classes of the Company’s interested persons, provided that such transactions are entered into on an arm’s length basis and on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders
“Ning Xia”	:	宁夏采杞生物科技有限公司 (Ning Xia Cai Qi Sheng Wu Ke Ji You Xian Gong Si)
“Notice of EGM”	:	The notice of the EGM as set out on page 137 of this Circular
“NTA”	:	Net tangible assets
“Ordinary Resolutions”	:	The ordinary resolutions set out in the Notice of EGM
“PRC”	:	The People’s Republic of China
“Proposed Acquisitions”	:	The proposed acquisition of the Assets pursuant to the respective SPAs, as interested person transactions and major transactions under Chapters 9 and 10 of the Listing Manual respectively
“Proxy Form”	:	The proxy form in respect of the EGM as set out in this Circular
“Purchaser”	:	Chengdu Kinna Pharma, a wholly-owned subsidiary of the Company
“Securities Account”	:	Securities account maintained by a Depositor with CDP (but does not include a sub-securities account maintained with a Depository Agent)
“SFA”	:	Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shareholders”	:	Registered holders of Shares in the Register of Members of the Company, except that where the registered holder is CDP, the term “Shareholders” shall, where the context admits, mean the persons named as Depositors in the Depository Register maintained by CDP and into whose Securities Accounts those Shares are credited
“Shares”	:	Ordinary shares in the share capital of the Company
“Sichuan Neautus”	:	四川新荷花中药饮片股份有限公司 (Sichuan Neautus Traditional Chinese Medicine Co., Ltd)

“Sichuan Neautus Group”	:	Sichuan Neautus, its subsidiaries and associated companies
“SPAs”	:	The Jiangyou Neautus Shares SPA and the Ying Bin Property SPAs, collectively
“SRS”	:	Supplementary Retirement Scheme
“Substantial Shareholder”	:	A person who holds directly and/or indirectly five per cent. (5.0%) or more of the total issued share capital of the Company
“Updated Jiangyou Neautus Shares Valuation Report”	:	The valuation report dated 1 December 2016, issued by the Valuer in relation to the Jiangyou Neautus Shares, as set out in Appendix C of this Circular
“Updated Valuation Reports”	:	The Updated Jiangyou Neautus Shares Valuation Report and the Updated Ying Bin Property Valuation Report, collectively
“Updated Ying Bin Property Valuation Report”	:	The valuation report dated 1 December 2016, issued by the Valuer in relation to the Ying Bin Property, as set out in Appendix C of this Circular
“Valuation Reports”	:	The Jiangyou Neautus Shares Valuation Report and the Ying Bin Property Valuation Report, collectively
“Valuer”	:	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent valuer engaged by the Company to assess and determine the market values of the Assets in relation to the Proposed Acquisitions
“Vendors”	:	Chengdu Kinna Investment and Sichuan Neautus, collectively
“Ying Bin Property”	:	The two (2) units in a development located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu Province, Sichuan (四川省成都市金牛区迎宾大道8号), PRC
“Ying Bin Property SPAs”	:	The two (2) conditional sale and purchase agreements to acquire the Ying Bin Property entered into between Chengdu Kinna Pharma and Chengdu Kinna Investment
“Ying Bin Property Valuation Report”	:	The valuation report dated 6 May 2016, issued by the Valuer in relation to the Ying Bin Property, as set out in Appendix C of this Circular

Currencies, Units and others

“%” or “per cent.”	:	Percentage or per centum
“RMB”	:	Renminbi, the official currency of the PRC
“S\$” and “cents”	:	Singapore dollars and cents, respectively

The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the same meanings ascribed to them respectively in Section 81SF of the SFA.

The term “**subsidiary**” shall have the meaning ascribed to it in Section 5 of the Companies Act.

The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter gender and *vice versa*. References to persons shall, where applicable, include corporations.

The words “**written**” and “**in writing**” include any means of visible reproduction.

Any reference in this Circular to any enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any term defined under the Companies Act, the Listing Manual, the SFA or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the Listing Manual or any statutory modification thereof, as the case may be, unless otherwise provided.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

PHARMESIS INTERNATIONAL LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number 200309641E)

LETTER TO SHAREHOLDERS

Directors:

Mr Jiang Yun (*Chief Executive Officer and Executive Director*)
Mr Wu Xuedan (*Executive Director*)
Mr Chew Heng Ching (*Independent Non-Executive Chairman*)
Mr Chew Thiam Keng (*Independent Non-Executive Director*)
Mr Jiang Ercheng (*Non-Independent Non-Executive Director*)

Registered Office:

5 Kallang Sector, #03-02,
Singapore 349279

12 December 2016

To: **The Shareholders of Pharmesis International Ltd.**

Dear Sir/Madam

- (1) **THE PROPOSED ADOPTION OF THE NEW IPT GENERAL MANDATE**
- (2) **THE PROPOSED ACQUISITIONS**

1 INTRODUCTION

1.1 The Proposed Adoption of the New IPT General Mandate

The Directors intend to seek Shareholders' approval for, *inter alia*, the adoption of the New IPT General Mandate pursuant to Chapter 9 of the Listing Manual permitting companies within the Group, or any of them, to enter into the categories of transactions as set out in Section 2.3 of this Circular, with the persons set out in Section 2.2 of this Circular who are considered "interested persons" under Chapter 9 of the Listing Manual.

At the EGM of the Company held on 20 August 2015, the Shareholders approved the 2015 IPT General Mandate. Subsequently, the 2015 IPT General Mandate was not renewed by the Company at its last AGM held on 29 April 2016 as the Company proposed to amend the scope of the IPT Mandate (as compared to the 2015 IPT General Mandate) as follows:

- (a) in respect of the Interested Person Transactions involving purchase of raw materials, to include Ning Xia as a new Interested Person; and
- (b) in respect of the Interested Person Transactions involving provision of bottling services, to include Ning Xia as a new Interested Person.

As the 2015 IPT General Mandate has lapsed, the Company is convening an EGM to be held on 27 December 2016 to seek Shareholders' approval for the proposed adoption of the New IPT General Mandate. Further details on the New IPT General Mandate is set out in Section 2.1 of this Circular.

1.2 The Proposed Acquisitions

On 6 May 2016, the Company announced that Chengdu Kinna Pharma, a wholly-owned subsidiary of the Company, had on 6 May 2016 entered into the SPAs to respectively acquire:

- (a) the Ying Bin Property for cash consideration of RMB 6,973,280 in one (1) lump sum payment; and

- (b) the Industrial Complex, through the acquisition of the Jiangyou Neautus Shares, representing 100% of the issued and paid-up share capital of Jiangyou Neautus, for cash consideration of RMB 8,631,000 in four (4) instalments.

Ying Bin Property

The Ying Bin Property is located in Sichuan, Chengdu Province, PRC and comprises two (2) units on the sixth storey of a building (Units 4-6-1 and 4-6-2), and a total area of approximately 918.02 square metres. The Company intends to utilise the Ying Bin Property for its own use as a non-manufacturing industrial and auxiliary facility for its expanding operations.

The vendor of the Ying Bin Property is Chengdu Kinna Investment, a company limited by shares incorporated in the PRC on 3 April 1996. As at the Latest Practicable Date, Mr Jiang, the Chief Executive Officer of the Company, has a 47.00% equity interest in the capital of Chengdu Kinna Investment. Mr Jiang is also the legal representative of Chengdu Kinna Investment. Hence, for the purposes of Chapter 9 of the Listing Manual, Chengdu Kinna Investment is regarded as an interested person of the Company. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares. Mr Jiang's son, Mr Jiang Ercheng, is a non-independent non-executive director of the Company and is deemed to be interested in approximately 22.76% of the total number of issued Shares held by Emperor Wealth Holdings Limited, a controlling shareholder of the Company, through his ownership of 100% of the equity interests in Emperor Wealth Holdings Limited.

Please refer to paragraph 3 of this Circular for further details on the acquisition of the Ying Bin Property.

Jiangyou Neautus

The Company is acquiring the Industrial Complex through the acquisition of the Jiangyou Neautus Shares, representing 100% of the issued and paid-up share capital of Jiangyou Neautus. Jiangyou Neautus holds the lawful right to use the Land pursuant to the 国有土地使用权证, 江国用(2015)第0300765号 (Stated-owned Land Use Right Certificate) issued by the People's Government of Jiangyou dated 26 March 2015, on which the Industrial Complex is located. The acquisition of the Industrial Complex is made through the acquisition of the Jiangyou Neautus Shares instead of an asset acquisition as the acquisition of the shares of Jiangyou Neautus, which owns the Industrial Complex, is a simpler procedure as compared to the acquisition of the Industrial Complex. An asset acquisition requires the approval from different government authorities whereas the acquisition of shares only requires the approval of State Administration for Industry and Commerce. This will enable the Group to acquire the Industrial Complex within a shorter time.

The Industrial Complex is currently under construction and part of the Industrial Complex is estimated to be completed by April 2017, and there will be additional costs of an aggregate amount of approximately RMB 20.0 million to be incurred by the Company in respect of the four (4) completed buildings of the Industrial Complex for the air purification system, construction of common facilities, purchase of production equipment and ancillary costs to complete the construction (please refer to paragraph 3.5.2(b) of this Circular for a breakdown of such costs). The Industrial Complex can be developed into seven (7) industrial buildings with various ancillary structures erected thereon, with a total gross floor area of approximately 28,644.69 square metres. Currently, the Company does not have any intention to construct the remaining three (3) buildings. The Company intends to utilise the Industrial Complex for its own use for the Group to expand its current production capacity and also to accommodate any potential new business operations.

Jiangyou Neautus is a limited liability company incorporated in the PRC on 26 October 2010 and is engaged in the business of research, development and sale of Chinese herbal medicine. The vendor of the Jiangyou Neautus Shares is Sichuan Neautus, a limited liability company incorporated in the PRC on 30 December 2001. As at the Latest Practicable Date, Mr Jiang has an aggregate interest in approximately 29.81% of the total equity interest in Sichuan Neautus, arising from (a) his direct interest in 9.36% of equity interest in the capital of Sichuan Neautus; and (b) his indirect interest in approximately 20.45% of equity interest in Sichuan Neautus, through

his 47.00% equity interest in the capital of Chengdu Kinna Investment, which in turn holds a direct interest in 43.51% equity interest in the capital of Sichuan Neautus. Mr Jiang is also the legal representative and chairman of the board of Sichuan Neautus. Hence, for the purposes of Chapter 9 of the Listing Manual, Sichuan Neautus is regarded as an interested person of the Company. For completeness, and as stated above, Mr Jiang is also the legal representative of Chengdu Kinna Investment.

On 31 October 2016, the Company further announced that Chengdu Kinna Pharma and each of the vendors of the Ying Bin Property and the Jiangyou Neautus Shares had mutually agreed in writing to:

- (a) in respect of the Ying Bin Property SPAs, extend (i) the deadline for fulfilment or waiver of the conditions precedent and (ii) the deadline for the payment of the Tentative Purchase Consideration from 31 October 2016 to 30 April 2017; and
- (b) in respect of the Jiangyou Neautus Shares SPA, extend the deadline for obtaining the requisite approval(s) from the Company's Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, *inter alia*, the proposed acquisition of the Jiangyou Neautus Shares from 31 October 2016 to 30 April 2017.

Please refer to paragraph 3 of this Circular for further details on the acquisition of Jiangyou Neautus.

The Proposed Acquisitions are interested person transactions under Chapter 9 of the Listing Manual which require the approval of the independent shareholders of the Company under Rule 906(1)(b) of the Listing Manual. The Proposed Acquisitions, in aggregate, also constitute major transactions under Chapter 10 of the Listing Manual which require approval of the Shareholders under Rule 1014(2) of the Listing Manual.

- 1.3 The Directors are convening an EGM to be held on 27 December 2016 at 10.30 a.m. at 5 Kallang Sector, #03-02, Singapore 349279, as set out in the Notice of EGM, to seek Shareholders' approval for the New IPT General Mandate and the Proposed Acquisitions. The purpose of this Circular is to explain the rationale for, and to provide Shareholders with information relating to the resolutions to be proposed at the EGM.

For the avoidance of doubt, Shareholders should note that the passing of each Ordinary Resolution is not inter-conditional on the passing of the other Ordinary Resolutions.

Shareholders should also note and carefully review the risks relating to the Proposed Acquisitions set out under paragraph 10.2 of this Circular on page 39, and all of the other information set out in this Circular in relation to (a) the proposed adoption of the New IPT General Mandate and (b) the Proposed Acquisitions.

- 1.4 The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Circular.

2 THE PROPOSED ADOPTION OF THE NEW IPT GENERAL MANDATE

2.1 The New IPT General Mandate

Background

The Group, under its two (2) subsidiaries, Chengdu Kinna Pharma and 四川古藜肝苏药业有限公司 (Sichuan Longlife Pharmaceutical Co., Ltd), specialises in the manufacturing of pharmaceutical products in the form of tablets, granules, pills, etc., including traditional Chinese medicine formulated products for the treatment of illnesses relating to the liver and gall bladder. Additionally, the Group's business also includes the research and development, production, sale and marketing of pharmaceutical products.

From time to time, there are transactions between the Group and both the Sichuan Neautus Group and Ning Xia in respect of recurrent transactions which would be entered into by the Group in its ordinary course of business with a high degree of frequency. Such transactions currently comprise the purchase of raw materials (such as herbs) for the manufacturing of medicines from the Sichuan Neautus Group and Ning Xia, and providing bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia.

As at the Latest Practicable Date, Mr Jiang, the Chief Executive Officer of the Company, has an aggregate interest in approximately 29.81% of the total equity interest in Sichuan Neautus, arising from (a) his direct interest in 9.36% of equity interest in the capital of Sichuan Neautus; and (b) his indirect interest in approximately 20.45% of equity interest in Sichuan Neautus, through his 47.00% equity interest in the capital of Chengdu Kinna Investment, which in turn holds a direct interest in 43.51% equity interest in the capital of Sichuan Neautus. Mr Jiang is also the chairman of the board of Sichuan Neautus and the legal representative of both Sichuan Neautus and Chengdu Kinna Investment. Hence, for the purposes of Chapter 9 of the Listing Manual, the Sichuan Neautus Group is regarded as an Interested Person of the Company and the Company accordingly proposes to include the Sichuan Neautus Group as an Interested Person in the New IPT General Mandate. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares. Mr Jiang's son, Mr Jiang Ercheng, is a non-independent non-executive director of the Company and is deemed to be interested in approximately 22.76% of the total number of issued Shares held by Emperor Wealth Holdings Limited, a controlling shareholder of the Company, through his ownership of 100% of the equity interests in Emperor Wealth Holdings Limited.

As at the Latest Practicable Date, Mr Jiang Ercheng, who was appointed as a non-independent non-executive director of the Company on 1 July 2016, is the son of Mr Jiang and holds 100% of the equity interest in Emperor Wealth Holdings Limited, a controlling shareholder of the Company, and has a direct 85.0% equity interest in the capital of Ning Xia. Hence, for the purposes of Chapter 9 of the Listing Manual, Ning Xia is regarded as an Interested Person of the Company and the Company accordingly proposes to include Ning Xia as an Interested Person in the New IPT General Mandate.

Mr Wu, an Executive Director of the Company, also has a deemed interest of 43.51% in Sichuan Neautus. Hence, for the purposes of Chapter 9 of the Listing Manual, the Sichuan Neautus Group is regarded as an Interested Person of the Company. As at the Latest Practicable Date, Mr Wu does not have any direct or indirect interest in the Shares.

For completeness of disclosure, Mr Wu also has a direct 5.0% equity interest in the capital of Ning Xia. However, Ning Xia is not considered an "associate" of Mr Wu under Chapter 9 of the Listing Manual as Mr Wu's interests in Ning Xia is below the shareholding threshold of 30% or more applicable to an "associate" for the purposes of Chapter 9 of the Listing Manual.

The Company would like to seek the approval from the Shareholders for the adoption of the New IPT General Mandate in respect of certain recurrent transactions as set out in Section 2.3 of this Circular which the Group may enter into with the Sichuan Neautus Group and Ning Xia.

For the avoidance of doubt, there will be no sale or purchase of any assets, undertakings or businesses within the scope of the New IPT General Mandate. Further, the New IPT General Mandate will not cover any transactions entered into by a member of the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Rules 905 and 906 of Chapter 9 of the Listing Manual would not apply to such transactions.

Transactions with Interested Persons that do not fall within the scope of the New IPT General Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

General information relating to Chapter 9 of the Listing Manual, including terms such as "interested person", "associate" and "controlling shareholder", are set out in **Appendix A** of this Circular.

2.2 The classes of Interested Persons under the New IPT General Mandate

Sichuan Neautus is incorporated in the PRC. Its principal business activities are research and development, cultivating of Chinese herbs, production, wholesale and retailing of herbs and related products and food.

Ning Xia is incorporated in the PRC. Its principal business activities are in research and development and sale of Chinese herbal medicine.

The Interested Persons falling under the New IPT General Mandate, for the purpose of Chapter 9 of the Listing Manual are Sichuan Neautus and Ning Xia, and their subsidiaries and associated companies.

2.3 The nature of Interested Person Transactions

The proposed transactions under the New IPT General Mandate are:

- (a) the purchase of raw materials, such as herba violae (紫花地丁), dandelion (蒲公英), indigowoad root (板蓝根) and herba lobeliae chinensis (半边莲) and other herbs and/or raw materials, from the Sichuan Neautus Group and Ning Xia for the manufacturing of medicines of the Group; and
- (b) the provision of bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia.

The Company has been sourcing for other third party customers to provide such bottling services which is in the ordinary course of the Company's business. However, despite the Company's efforts, the Company has been unable to secure any third party customers for such bottling services.

2.4 Rationale for and benefit of the New IPT General Mandate

It is anticipated that in the ordinary course of business, transactions of a revenue or trading nature between companies in the Group and the Interested Persons are likely to occur from time to time. Such transactions may include, but are not limited to, the Interested Person Transactions as described in Section 2.3 of this Circular.

The New IPT General Mandate will give the Group the flexibility to enter into transactions with the Sichuan Neautus Group and Ning Xia in the ordinary course of the Group's business without the need to seek Shareholders' approval each time. The New IPT General Mandate will also enhance the Group's ability to pursue business opportunities of a revenue or trading nature which are time-sensitive, and will eliminate the need for the Company to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the Group into such transactions. This will substantially reduce the expenses associated with the convening of such general meetings from time to time, improve administrative efficacy, and allow resources and time to be focused towards other corporate and business opportunities.

The New IPT General Mandate is intended to facilitate transactions in the ordinary course of business of the Group which are transacted from time to time with the Sichuan Neautus Group and Ning Xia, provided that they are transacted on normal commercial terms and will not be on terms or conditions that would be prejudicial to the interests of the Company and/or its Minority Shareholders.

2.5 Guidelines and review procedures under the New IPT General Mandate

2.5.1 Review procedures

The following review procedures will be implemented after having regard to the nature of Interested Person Transactions and the criteria for establishing review procedures, which is to ensure that such review procedures are adequate and/or commercially practicable in ensuring that the Interested Person Transactions are conducted on normal commercial terms, are in the interest of the Company and are not prejudicial to the interests of the Company and Minority Shareholders:

(a) Category A Transactions

The purchase of raw materials, such as *herba violae* (紫花地丁), *dandelion* (蒲公英), *indigowoad root* (板蓝根) and *herba lobeliae chinensis* (半边莲) and other herbs and/or raw materials (the “**Raw Materials**”), from the Sichuan Neautus Group and Ning Xia for manufacturing of medicine or products of the Group (“**Category A Transactions**”).

The transactions under Category A Transactions will include: purchase of raw materials including *herba violae* (紫花地丁), *dandelion* (蒲公英), *indigowoad root* (板蓝根), *herba lobeliae chinensis* (半边莲) and other herbs and/or raw materials between the Entities at Risk and the Interested Persons.

Essentially Category A Transactions comprises purchases of Raw Materials by Entities at Risk, from the Interested Persons.

In evaluating the purchase prices for the Raw Materials from the Interested Persons, comparison(s) will be made with at least two (2) quotations from unrelated/independent third party suppliers, from independently verifiable and reliable sources as approved by the Audit Committee from time to time, with advice from a committee comprising personnel(s) from the production, quality assurance, and finance department (the “**Committee**”) (“**Approved Independent Sources**”). The Approved Independent Sources are selected based on place of origin, quality, texture of products, reliability of supply, payment terms, and may not simply be the cheapest comparable source, as such cheaper source may not be satisfactory or suitable in terms of quality, texture and reliability of supply and payment terms. The list of Approved Independent Sources will be maintained by the Committee and reviewed by Audit Committee periodically.

The purchase prices for Raw Materials from Interested Persons should be comparable or more favourable than the simple average for at least two (2) price quotes from the Approved Independent Sources. Credit terms of the purchases will be comparable to those offered by unrelated third parties.

In comparing the price quotes and the credit terms, the following factors will be considered: quality, reliability in supply, payment terms as well as the availability of bulk discounts, ability to meet delivery schedules, specialised nature, medicinal qualities, texture of the products, etc. as compared to those offered by unrelated and independent third parties or extended by the Entities at Risk or within the norms of the pharmaceutical manufacturing and distribution industry in the PRC known to the Audit Committee and the management of the Company.

Thus in respect of purchases of Raw Materials from the Interested Persons, the purchase prices and terms will be compared against quotations from Approved Independent Sources for each purchase order or for purchase orders for such intervals or periods for similar products and/or quantities, from similar geographical locations or regions as determined by the Audit Committee with at least two (2) other comparable quotations from unrelated and independent third parties with terms similar or comparable to those provided by the Interested Persons taking into account all pertinent factors such as but not limited to the fact that, quality, reliability in supply, payment terms, track record of counter-parties, and where applicable, preferential rates, rebates or discount accorded for bulk purchases or long-term suppliers with minimum volumes or known patterns for purchases and cost for freight, ability to meet delivery schedules, specialised nature, medicinal qualities, texture of the products etc., freight and shipping terms (*inter alia*, storage, shipment, transportation and insurance costs or expenses where applicable) to be borne by each party.

In the event that two (2) comparable quotations from unrelated and independent third parties are not available, the Company will, subject to the approval of the Audit Committee, determine the reasonableness of the purchase prices to ensure that the purchase prices of the Raw Materials from Interested Person(s) are in accordance with industry norms and usual business practices, the strategic direction of the Group and the pricing policies of the relevant companies in the Group and taking into consideration other factors such as

but not limited to, potential gross profit margins or earnings as compared to the average profit margins for the Group, as the case may be, and the historical purchase price paid by the Company, product quality, discount accorded for bulk purchase, reliability, relationship established, known pattern of purchases, overall services provided and costs or expenses borne by each parties.

(b) Category B Transactions

The Group has a production facility for bottling oral liquid medicines. The bottling production facility was built to manufacture a type of oral liquid medicine, namely 黄刻 (“Huangke”). Due to increases in raw material costs, the manufacture for sale of Huangke became unprofitable and is no longer commercially viable since FY2014.

As a result, the Group has since FY2014 discontinued production of Huangke in FY2014. Arising from possibilities of offering its bottling facilities for contract manufacturing to Sichuan Neautus Group and Ning Xia, the Group had made minor modifications to its bottling production equipment at the end of 2014, to cater for production of bottled food supplement. It currently has a production capacity of approximately 10,000 bottles per day.

The Group had modified instead of disposing its bottling production facilities as such facilities are still useful to the Group’s business in future. The Group intends to manufacture new types of oral liquid medicine in future which are profitable and use the bottling production facilities for the bottling of such oral liquid medicines. As at the Latest Practicable Date, the bottling business of the Group has a positive gross profit margin (which takes into account direct costs such as direct labour and materials, etc.).

Since January 2016, the Group had on an ad-hoc basis provided bottling services for wolfberries juice (枸杞液), a food supplement beverage sold by Ning Xia. As at the Latest Practicable Date, the Group has bottled approximately 22,000 bottles of food supplement since 1 January 2016. As at the Latest Practicable Date, the estimated gross profit margins (after accounting for direct costs such as direct labour and materials, etc.) for provision of such bottling services to the Interested Person(s) is comparable if not higher than those generated from other products of the Group. Given the indicated increase in demands for such services from Interested Person(s) and the possibility of term contracts, the Directors have envisaged the requirements for an interested person transactions general mandate for compliance with the Listing Manual.

On an ad hoc basis or long-term basis, the Interested Person(s), subject to terms and conditions, intends to engage the Group for the provision of bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia. The Board understands that the Interested Person(s) do not currently have their own bottling production facilities. There is no minimum quantity for the bottling services as the production of the food supplement beverage by the Interested Person(s) is based on market demand. The Board is of the view that it makes commercial sense for the Group to continue to provide such bottling services because it is a profitable service, instead of leaving such bottling production equipment idle, without generating any revenue or profits to the Group. In addition and as mentioned, the Group intends to manufacture oral liquid medicine in future and the bottling production facilities can be used for bottling such oral liquid medicines.

In determining the prices for the provision of bottling services for the Interested Person, the following will be considerations for determination of each contract or contracts:

- (i) the returns for services to be provided must be more favourable than those generated from the comparable contract bottling services to be offered to unrelated and independent third parties;
- (ii) to determine the aforementioned, two (2) independent quotes from unrelated and independent third parties will be sourced to determine the competitiveness and comparability of the price and terms offered to or by the Interested Person(s) for the provision of such services. This will take into account all pertinent factors, *inter alia*,

the costs for provision of the service (including direct and indirect) to be incurred by Entities at Risk, available/idle production capacity on a short or long-term basis, historical prices offered to the Interested Person(s) or third parties, payment terms, warehousing terms, freight and insurance terms, responsiveness and comparisons based on relevant costing (if applicable), etc. For avoidance of doubt, the costs for provision of such services will be determined by the finance department.

The Group does not currently provide its bottling service to independent third parties.

In the event that two (2) comparable quotations from unrelated and independent third parties are not available, the Audit Committee will determine the reasonableness of the price, after taking into account factors such as, but not limited to, the costs for provision of the service (including direct and indirect) to be incurred by Entities at Risk, available/idle production capacity, historical prices offered to the Interested Person(s), payment terms, warehousing terms, freight and insurance terms, responsiveness and comparisons based on relevant costing (if applicable), etc. This is consistent with the review procedure for purchase of Raw Materials in Section 2.5.1(a) of this Circular and Section 3.5.1(a) of the IFA Letter. Furthermore, each transaction will be evaluated based on its profitability (as compared to existing profit margins for other products or services provided by the Group) to ensure that transactions are on an arms-length basis and not prejudicial to the interest of the Company and its minority shareholders.

2.5.2 Approval and review thresholds:

In addition to the review procedures, the following approval procedures will be implemented to supplement existing internal control procedures for the Interested Person Transactions to ensure that such transactions are undertaken on an arm's length basis and on normal commercial terms:

(a) Aggregate transactions review and approval thresholds for Raw Materials

- (i) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than five per cent. (5.0%) but less than 10% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall require the prior approval of both the Group's production manager and such other manager or officer of the Group (who shall not be interested in any of the Interested Person Transactions) as approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

The Group's production manager in-charge of Category A Transactions will be delegated with the authority to act as the first level of approval, in view of familiarity and responsibility for the Group's production and manufacturing processes. The other manager referred to will be the finance manager for the Group, who is independent from the production and procurement departments, and familiar with the costing and budgeting processes for the Group. Currently, the Group's production manager in charge of Category A Transaction is Mr Wang Bo and the finance manager for the Group is Mr Zhang Lin.

Shareholders shall note that as stated under Section 2.5.1(a) of this Circular, for Raw Materials, Category A transactions, and for approvals under this threshold there must be two (2) comparable quotations, else the approval is subject to the Audit Committee. The comparable quotes are from independently verifiable and reliable sources as approved by the Audit Committee from time to time, with advice from a committee comprising personnel(s) from the production, quality assurance, and finance department. The two persons designated as approving authority for this threshold are the managers for the production and finance department. The managers and their functions are independent of each other and are not interested in any of the Interested Person Transactions).

Whilst the Group's production manager in charge of Category A Transactions, Mr Wang Bo, and the finance manager for the Group, Mr Zhang Lin are key management staff at the Group's subsidiaries, they are not considered key executives of the Group. Notwithstanding, the Audit Committee is of the view that both production manager and finance manager for the Group have the necessary skills and experience, to be delegated with authority to carry out their responsibilities for the approval in their respective functions, namely managing the full production facilities and finance (including cost accounting and budgeting for the Group) respectively and ensuring that such interested persons transactions are undertaken on an arm's length basis and on normal commercial terms. Delegation of authority comes with responsibility and accountability. Furthermore the Audit Committee has the overall responsibility and is accountable to the shareholders.

In addition, where the aggregate value of all Interested Person Transactions is equal to or less than 10% of the Group's latest audited NTA, the Financial Controller, who is a key executive of the Company as disclosed in the Company's annual reports will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee. Currently, taking into account the nature of the Interested Person Transactions (including, *inter alia*, the size, frequency and volume of such transactions) and the review procedures for the Interested Person Transactions (including the additional controls as set out in paragraph 2.5.3 of this Circular), the Audit Committee is satisfied with the frequency of reviews done by the Financial Controller on a quarterly basis.

- (ii) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 10% but less than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall be subject to the prior approval of both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) unless the transaction has been specifically approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

In addition, the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee.

For this threshold, transactions require the approval, from both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). The person to be designated will be one of the following: a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction).

The review and quarterly (or such periods) approval of transactions, will be conducted by the Financial Controller and one of the persons named above being a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction) provided that such person shall not have approved the transaction to be reviewed. For the avoidance of doubt, where the transaction was previously reviewed by a member of the Audit Committee, "such person" shall mean another member of the Audit Committee. As the person reviewing the transactions (other than the Financial Controller) will not be the same as the person approving the transactions, this procedure provides a sufficient check and balance.

Furthermore, all approvals must strictly follow review procedures as stipulated in Sections 2.5.1(a) and 2.5.3 of this Circular. All such approvals must be documented. The documentation, including the reasons for approval where necessary, must be accompanied with supporting documents to serve as audit trails, which will be subject to internal audit or external audit.

- (iii) Where the aggregate Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions will be subject to the prior approval of a simple majority of the members of the Audit Committee (if a member of the Audit Committee is interested in any Interested Person Transactions, he shall abstain from participating in the review of that particular transaction). The Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval. For the avoidance of doubt, the Audit Committee shall be responsible for such approvals.
- (b) Aggregate transactions review and approval thresholds for provision of bottling services
- (i) Where the aggregate value of the Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than five per cent. (5.0%) but less than 10% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall require the prior approval of both the Group's production manager and such other manager or officer of the Group (who shall not be interested in any of the Interested Person Transactions) as approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

The Group's production manager for bottling services in-charge of the Group's Category B Transactions will be delegated with the authority to act as the first level of approval, in view of familiarity with the Group's production and manufacturing processes. The other manager or officer will be the finance manager for the Group, who is independent from the productions and sales departments, and familiar with the production costing and budgeting processes. Currently, the Group's production manager for bottling services is Ms Xu Hui Li and the finance manager for the Group is Mr Zhang Lin.

Shareholders shall note that as stated under Section 2.5.1(b) of this Circular, for bottling services, Category B transactions, and for approvals under this threshold there must be two (2) comparable quotations, else the approval is subject to the Audit Committee.

Whilst the Group's production manager for bottling services, Ms Xu Hui Li, and the finance manager for the Group Mr Zhang Lin are key management staff at the Group's subsidiaries, they are not considered key executives of the Group. Notwithstanding, the Audit Committee is of the view that both Group's production manager and finance manager for the Group have the necessary skills and experience, to be delegated with authority to carry out their responsibilities for the approval in their respective functions, namely managing the full production facilities and finance (including cost accounting and budgeting for the Group) respectively and ensuring that such interested persons transactions are undertaken on an arm's length basis and on normal commercial terms. Delegation of authority comes with responsibility and accountability. Furthermore the Audit Committee has the overall responsibility and is accountable to the shareholders.

In addition, where the aggregate value of all Interested Person Transactions is equal to or less than 10% of the Group's latest audited NTA, the Financial Controller, who is a key executive of the Company as disclosed in the Company's annual reports will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee. Currently, taking into account the nature of the Interested Person Transactions (including, *inter*

alia, the size, frequency and volume of such transactions) and the review procedures for the Interested Person Transactions (including the additional controls as set out in paragraph 2.5.3 of this Circular), the Audit Committee is satisfied with the frequency of reviews done by the Financial Controller on a quarterly basis.

- (ii) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 10% but less than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall be subject to the prior approval of both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) unless the transaction has been specifically approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

For this threshold, transactions require the approval, from both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). The person to be designated will be one of the following: a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction).

Furthermore, all approvals must strictly follow review procedures stipulated in Sections 2.5.1(b) and 2.5.3 of this Circular. All such approvals must be documented. The documentation, including the reasons for approval where necessary, must be accompanied with supporting documents to serve as audit trails, which will be subject to internal audit or external audit.

In addition, the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee.

The review and quarterly (or such other periods) approval of transactions, will be conducted by the Financial Controller and one of the persons named above being a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction) provided that such person shall not have approved the transaction to be reviewed. For the avoidance of doubt, where the transaction was previously reviewed by a member of the Audit Committee, "such person" shall mean another member of the Audit Committee. As the person reviewing the transactions (other than the Financial Controller) will not be the same as the person approving the transactions, this procedure provides a sufficient check and balance.

- (iii) Where the aggregate Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions will be subject to the prior approval of a simple majority of the members of the Audit Committee (if a member of the Audit Committee is interested in any Interested Person Transactions, he shall abstain from participating in the review of that particular transaction). The Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval. For the avoidance of doubt, the Audit Committee shall be responsible for such approvals.

- (c) Individual transactions review and approval thresholds
 - (i) Where an individual transaction is below S\$250,000 (including individual transactions below S\$100,000), such transactions will be subject to prior approval by relevant factory manager or relevant purchase manager or relevant person-in-charge for the production department or such other persons as approved by the Audit Committee.
 - (ii) Where an individual transaction is above S\$250,000, but less than five per cent. (5.0%) of the Group's latest audited NTA, such transactions will be subject to prior approval of Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). Such person shall be one of those named in either Section 2.5.2.(a)(ii) or 2.5.2(b)(ii) of this Circular.
 - (iii) Where an individual transaction is above five per cent. (5.0%) of the Group's latest audited NTA, such transactions will be subject to prior approval of a simple majority of the members of the Audit Committee.

The threshold limits set out above are adopted by the Company taking into account, *inter alia*, the nature, volume, recurrent frequency and size of the transactions as well as the Group's day-to-day operations, administration and businesses. The threshold limits are arrived at after considering the operational efficiency for the day-to-day business operations of the Group and the internal control for Interested Person Transactions. The threshold limits act as an additional safeguard to supplement the review procedures which will be implemented by the Company for Interested Person Transactions.

2.5.3 Additional controls

- (a) The Finance Department of the Group will maintain a register of transactions (including transactions below S\$100,000) carried out with Interested Persons pursuant to the New IPT General Mandate (recording the basis, including the quotations and supporting evidence or records or details obtained to support such basis, on which they were entered into as well as the approving authority). In accordance with Rules 905(3) and 906(3) of the Listing Manual, transactions which are below S\$100,000 will not be aggregated. The Interested Person Transactions register shall be prepared, maintained, monitored and reviewed on a monthly basis, by both the Finance Manager and Financial Controller who are not Interested Persons. This is to ensure that they are carried out on normal commercial terms and in accordance with the guidelines and review procedures in the New IPT General Mandate. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the transaction(s) and its supporting documents or such other data deemed necessary by the Audit Committee. In addition, any exceptions or departures from the procedures shall be reported and highlighted to the Audit Committee immediately.
- (b) The Financial Controller will obtain signed letters of confirmation from key management personnel, controlling shareholders and the Directors on a periodic basis (of not more than half year) with respect to their interest in any transactions with the Group.
- (c) The Financial Controller will maintain a list of the Directors and Controlling Shareholders and associates of the Company (which is to be updated immediately if there are any changes) to enable identification of Interested Persons. The master list of Interested Persons which is maintained shall be reviewed by the Audit Committee at least on a semi-annual basis.
- (d) The Group's annual or periodic (such periods as may be decided by the Audit Committee) internal audit plan shall incorporate a review of all Interested Person Transactions, including the established review procedures for monitoring of such Interested Person Transactions, entered into during the current financial year pursuant to the New IPT General Mandate. The approving authority in the approval thresholds as stipulated in this Section 2.5 of this Circular may be delegated with the approval of the Audit Committee in writing as well as the bases for such approval.

- (e) The Audit Committee shall periodically review all Interested Person Transactions, at least on a semi-annual basis, to ensure that they are carried out on normal commercial terms and in accordance with the guidelines and review procedures in the New IPT General Mandate. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the transaction(s) and its supporting documents or such other data deemed necessary by the Audit Committee. The Audit Committee shall, when it deems fit, have the right to require the appointment of independent sources, advisers and/or valuers to provide additional information or review of controls and its implementation pertaining to the transactions under review.
- (f) In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he shall abstain from participating in the review of that particular transaction.
- (g) The Group's internal auditor shall, on at least a semi-annual basis, subject to adjustment in frequency, depending on factors such as, *inter alia*, substantial increment of aggregate transactional value, report to the Audit Committee on all Interested Person Transactions, and the basis of such transactions, entered into with Interested Persons during the preceding period. The Audit Committee shall review such interested person transactions at its periodic meetings except where Interested Person Transactions are required under the review procedures to be approved by the Audit Committee prior to the entry thereof.
- (h) The Audit Committee will conduct periodic reviews (of not less than half-yearly) of the review procedures for the Interested Person Transactions. If, during these periodic reviews, the Audit Committee is of the view that these review procedures are no longer sufficient or appropriate to ensure that the Interested Person Transactions are transacted on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders, the Company will seek a fresh general mandate from the Shareholders based on new review procedures for Interested Person Transactions. All Interested Person Transactions will be reviewed and approved by the Audit Committee prior to entry while a fresh general mandate is being sought from the Shareholders.
- (i) The Audit Committee will review the letters of confirmation from key management personnel, controlling shareholders and the Directors of the Company and all Interested Person Transactions on a periodic basis (of not more than half year) and the outcome of such review shall be minuted.
- (j) For purposes of the above review and approval process, any Director who is not considered independent for purposes of the New IPT General Mandate and/or any Interested Person Transactions will abstain from voting in relation to any respective resolution, and/or abstain from participating in the Audit Committee's decision during its review of the established review procedures for the Interested Person Transactions or during its review or approval of any Interested Person Transaction.

2.5.4 Further compliance

The Directors will ensure that all disclosure, approval and other requirements on Interested Person Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

2.6 Validity period of the New IPT General Mandate

If approved at the forthcoming EGM, the New IPT General Mandate will take effect from the date of the passing of the ordinary resolution to be proposed at the EGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM.

The Company intends to seek the approval of Shareholders for the renewal of the New IPT General Mandate annually. The renewal of the New IPT General Mandate shall be subject to the satisfactory review by the Audit Committee of the continued need for the New IPT General Mandate and the adequacy of the review procedures for the transactions.

2.7 Disclosure of IPT to Shareholders in the Annual Report and Financial Statements

In accordance with the requirements of Chapter 9 of the Listing Manual:

- (a) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all Interested Person Transactions conducted with Interested Persons pursuant to the New IPT General Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the New IPT General Mandate is in force;
- (b) announcements will be made with regard to the aggregate value of transactions conducted pursuant to the New IPT General Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report; and
- (c) disclosures of the Interested Person Transactions will be presented in the form set out in Rule 907 of the Listing Manual as follows:

Name of Interested Person(s)	Aggregate value of all Interested Person Transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under the New IPT General Mandate)	Aggregate value of all Interested Person Transactions conducted under the New IPT General Mandate (excluding transactions less than S\$100,000)

3 **INFORMATION ON THE PROPOSED ACQUISITIONS**

3.1 Introduction

As announced by the Company on 6 May 2016, Chengdu Kinna Pharma, a wholly-owned subsidiary of the Company, had on 6 May 2016 entered into the SPAs to respectively acquire:

- (a) the Ying Bin Property from Chengdu Kinna Investment ; and
- (b) the Industrial Complex, through the acquisition of the Jiangyou Neautus Shares, from Sichuan Neautus.

3.2 Background information on the Purchaser and the Vendors

(a) *The Purchaser*

The Purchaser, Chengdu Kinna Pharma, is a wholly-owned subsidiary of the Company and is a limited liability company incorporated in the PRC on 3 November 2003. The Purchaser is engaged in the business of development, manufacture and sale of western medicines and health tonic products.

(b) *Chengdu Kinna Investment*

The vendor of the Ying Bin Property is Chengdu Kinna Investment. Chengdu Kinna Investment is a company limited by shares incorporated in the PRC on 3 April 1996 and is engaged in the business of project investment (which includes investment holding and real estate development) (excluding finance, securities, futures), domestic wholesale and retail of commodity products, other than those products which require special separate approval.

As at the Latest Practicable Date, Mr Jiang, the Chief Executive Officer of the Company, has a 47.00% equity interest in the capital of Chengdu Kinna Investment. Mr Jiang is also the legal representative of Chengdu Kinna Investment. Hence, for the purposes of Chapter 9 of the Listing Manual, Chengdu Kinna Investment is regarded as an interested person of the Company. As at the Latest Practicable Date, Mr Jiang does not have

any direct or indirect interest in the Shares. Mr Jiang's son, Mr Jiang Ercheng, is a non-independent non-executive director of the Company and is deemed to be interested in approximately 22.76% of the total number of issued Shares held by Emperor Wealth Holdings Limited, a controlling shareholder of the Company, through his ownership of 100% of the equity interests in Emperor Wealth Holdings Limited.

For completeness of disclosure, Mr Wu, an Executive Director of the Company, also has a 20.00% equity interest in the capital of Chengdu Kinna Investment. However, Chengdu Kinna Investment is not considered an "associate" of Mr Wu under Chapter 9 of the Listing Manual.

(c) *Sichuan Neautus*

The vendor of the Jiangyou Neautus Shares is Sichuan Neautus. Sichuan Neautus is a limited liability company incorporated in the PRC on 30 December 2001 and its principal business activities are research and development, cultivating of Chinese herbs, production, wholesale and retailing of herbs and related products and food.

As at the Latest Practicable Date, Mr Jiang has an aggregate interest in approximately 29.81% of the total equity interest in Sichuan Neautus, arising from (a) his direct interest in 9.36% of equity interest in the capital of Sichuan Neautus; and (b) his indirect interest in approximately 20.45% of equity interest in Sichuan Neautus, through his 47.00% equity interest in the capital of Chengdu Kinna Investment, which in turn holds a direct interest in 43.51% equity interest in the capital of Sichuan Neautus. Mr Jiang is also the legal representative and chairman of the board of Sichuan Neautus. Mr Wu also has a deemed interest in 43.51% of equity interest in the capital of Sichuan Neautus. Hence, for the purposes of Chapter 9 of the Listing Manual, Sichuan Neautus is regarded as an interested person of the Company.

Hence, for the purposes of aggregation under Chapter 9 of the Listing Manual, Chengdu Kinna Investment and Sichuan Neautus, who are members of the same group, are regarded as the same interested person.

3.3 Information and Valuation of the Assets

(a) *The Ying Bin Property*

The Ying Bin Property is located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu, Sichuan Province, PRC and will be delivered to the Purchaser if the Company obtains Shareholder's approval at the EGM for the proposed acquisition of the Ying Bin Property. The Ying Bin Property comprises two (2) units on the sixth storey of a building (Units 4-6-1 and 4-6-2), and comprises a total area of approximately 918.02 square metres. The land usage rights for the Ying Bin Property expire on 6 October 2052. The Ying Bin Property is part of the development project for an industrial park comprising of 73 units developed by the vendor, Chengdu Kinna Investment as part of its business of project investment (which includes investment holding and real estate development). The Company intends to utilise the Ying Bin Property for its own use as a non-manufacturing industrial and auxiliary facility for its expanding operations, as well as to accommodate its expanding staff force and centralise its back office support staff who are currently located in different offices for better management and control.

(b) *Jiangyou Neautus Shares and the Industrial Complex*

Jiangyou Neautus is a limited liability company incorporated in the PRC on 26 October 2010 and is engaged in the business of research, development and sale of Chinese herbal medicine. Jiangyou Neautus is a wholly-owned subsidiary of Sichuan Neautus, and has the lawful right to use the Land pursuant to the 国有土地使用权证, 江国用(2015)第0300765号 (Stated-owned Land Use Right Certificate) issued by the People's Government of Jiangyou dated 26 March 2015, on which the Industrial Complex is located. The Land has a site area of approximately 34,153.6 square metres. The land usage rights for the Land expire on 22 June 2061. Following the completion of the acquisition of the Jiangyou Neautus Shares, Jiangyou Neautus will become a subsidiary of the Group and will continue to hold the Stated-owned Land Use Right Certificate.

The Industrial Complex which occupies the Land is currently under construction and part of the Industrial Complex (comprising a factory and a composite building) is estimated to be completed by April 2017. The Industrial Complex can be developed into seven (7) industrial buildings with various ancillary structures erected thereon, including a factory, a composite building, two (2) quality control buildings, a raw material warehouse and two (2) guardhouses, with a total gross floor area of approximately 28,644.69 square metres. The Company intends to utilise the Industrial Complex for its own use for the Group to expand its current production capacity of granules and also to accommodate any potential new business operations. The Industrial Complex will enable the Group to expand its current production capacity of granules as part of the Company's expansion plan, as the Group's existing factory for the manufacturing of granules, located in Guilin is currently running at almost maximum capacity. Currently, the Group has two (2) production facilities in Sichuan Province, the PRC, comprising one (1) facility in Chengdu for the manufacturing of tablets and the other facility in Guilin for the manufacturing of granules. The addition of this new production facility in Sichuan will enable the Group to expand its production capacity to meet the market's demand and grow its revenue. The Group's revenue from its ErDing granules increased by more than 70% in the first nine months of FY2016, compared to the first nine months of FY2015.

In connection with the Proposed Acquisitions, the Company engaged the Valuer, to assess and determine the market value of the Assets.

Based on the Valuation Reports issued by the Valuer, the market values of the Ying Bin Property and the Jiangyou Neautus Shares as at 31 March 2016 and 31 December 2015, respectively, were as follows:

- (a) the Ying Bin Property: RMB 7,340,000; and
- (b) the Jiangyou Neautus Shares: RMB 9,086,000.

The Ying Bin Property Valuation Report was prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards published by the RICS, the Hong Kong Institute of Surveyors ("HKIS") Valuation Standards published by the HKIS and the International Valuation Standards published by the International Valuation Standards Council.

The Jiangyou Neautus Shares Valuation Report was prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and with International Valuation Standards issued by the International Valuation Standards Council.

The Valuer adopted the market value basis in arriving at the valuation of both the Ying Bin Property and Jiangyou Neautus Shares. Market value is defined as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

For the avoidance of doubt, Shareholders should note that the Jiangyou Neautus Shares Valuation Report also contains the market valuation for the Industrial Complex of RMB 25,550,000 in its existing state as at 31 December 2015, which is taken into account in determining the market value for 100% equity interest in Jiangyou Neautus, being RMB 9,086,000. Based on the Jiangyou Neautus Shares Valuation Report, given that the Industrial Complex is still under construction, the Valuers had relied solely on the cost approach in their valuation, and in arriving at their opinion of the value of the buildings and structures and the land portion of the property as a whole, they had taken into account the land value, construction cost and professional fees relevant to the stage of construction as at the valuation date. Please refer to page 4 of the Jiangyou Neautus Shares Valuation Report, as set out in **Appendix C** of this Circular, for further information on the valuation approach and methodology used.

Subsequently, in connection with the Proposed Acquisitions, the Company engaged the Valuer to conduct an updated assessment of the Assets to obtain a more up-to-date valuation of the Assets as the market values of the Ying Bin Property and the Jiangyou Neautus Shares under the original Valuation Reports were determined as at 31 March 2016 and 31 December 2015 respectively.

Based on the Updated Ying Bin Property Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report, respectively, the market values of the Ying Bin Property and the Jiangyou Neautus Shares as at 30 September 2016 were as follows:

- (a) the Ying Bin Property: RMB 7,340,000; and
- (b) the Jiangyou Neautus Shares: RMB 9,223,000.

Copies of the Valuation Reports and the Updated Valuation Reports are set out in **Appendix C** of this Circular.

3.4 Rationale for the Proposed Acquisitions

The Directors are of the view that the Proposed Acquisitions are in the best interests of the Company and its shareholders as:

- (a) The acquisition of the Ying Bin Property will allow the Group to secure a location to utilise as a non-manufacturing and auxiliary facility which the Group requires for its expanding operations, as well as to accommodate its expanding staff force and centralise its back office support staff who are currently located in different offices for better management and control. The Group also considers that the acquisition of the Ying Bin Property will ensure continuity of the Group's operations as the Ying Bin Property will further be able to accommodate any future expansion plans of the Group.

Further, the Directors believe that (i) it is the intention of the Group to acquire the Ying Bin Property given that it could enable the Group to save estimated future rental costs of approximately RMB 1.5 million per annum, to minimise the impact of rising rental expenses and to avoid the adverse effect to its operation in the event of termination; (ii) by acquiring the Ying Bin Property, it could broaden the fixed asset base of the Group and the Directors believe that the Group may enjoy future capital appreciation of the Ying Bin Property; and (iii) the Ying Bin Property is located at the same location as the Group's previous headquarters in the PRC (which was dispersed as the landlord repossessed the units for re-development) and is located in the third ring road and near its operating factories, which is considered by the Board to be a convenient location in facilitating the co-operation and communication between the Group (including its factories) while moving in another nearby business place is unlikely to achieve further advancement in facilitating current business operations of the Group as compared to the Ying Bin Property.

The Group has considered identifying a suitable office unit(s) at the surrounding area including online searching and enquiries to several property agencies, however, the Directors believe that the acquisition of the Ying Bin Property is deemed as the best option and is in the interests of the Company and its Shareholders taking into account, amongst other things, the strategic location requirements and specifications by the Group and size.

- (b) In-line with the business strategies of the Company, the acquisition of the Industrial Complex will allow the Group to expand its current production capacity and also to accommodate any potential new business operations, as the Group is currently unable to increase the production capacity of its present factory in the Guilin county, Sichuan Province, PRC due to regulatory restrictions relating to restrictions on land use and zoning restrictions. The Group's existing factory, located in Guilin county, Sichuan Province, the PRC, is currently operating at almost maximum capacity of 5 million boxes for the production of granular extracts. The size and location of the Industrial Complex is suitable for the Group's operations and will ensure that the Group is able to continually serve its customers' requirements efficiently. The Industrial Complex is suitable to be used by the

Group to expand its production capacity as the completed structures will allow the Group to expand its production capacity within a shorter time. The Industrial Complex is also conveniently located and accessible. The proposed acquisition will increase the Group's production capacity by an additional 15 million boxes per year upon completion of the construction of the four (4) completed buildings of the Industrial Complex, which is expected to be completed in the second quarter of 2017. For avoidance of doubt, this increase does not include the existing production capacity based on the existing factory in Guilin. Hence, on completion of construction of the Industrial Complex, production capacity will be increased to 20 million boxes per year.

The Group has considered leasing factory space or constructing their own factory. Leasing factory space will not be practicable given the manufacturing equipment and facilities that the Group uses are highly specialised. Such equipment includes, but is not limited to, clean room facilities for medicine manufacturing. At the end of the lease term, it will be impracticable to move the facilities which will put the Group in a less favourable position to negotiate lease renewal. Jiangyou Neautus's original plan was to construct the Industrial Complex to undertake a new business of production of granular extracts for its own use. However, due to commercial considerations, Jiangyou Neautus subsequently decided to postpone such expansion plan. The Group came to know that Jiangyou Neautus owned the Industrial Complex, which was constructed for the production of granular extracts, and the Groups considered that the acquisition of the Industrial Complex will save considerable time as it is nearly completed and will reduce the risks that the Group might face in the event the Group embarks on constructing a new factory. Such risks include, but are not limited to, availability of suitable sites, clearing regulatory hurdles for bidding of land, construction risks related to construction phases, and/or financing risks.

The acquisition of the Industrial Complex is made through the acquisition of the Jiangyou Neautus Shares instead of an asset acquisition as the acquisition of the shares of Jiangyou Neautus, which owns the Industrial Complex, is a simpler procedure as compared to the acquisition of the Industrial Complex. An asset acquisition requires the approval from different government authorities whereas the acquisition of shares only requires the approval of State Administration for Industry and Commerce. This will enable the Group to acquire the Industrial Complex and carry out its expansion plan within a shorter time.

3.5 Salient terms of the SPAs

3.5.1 Salient terms of the Ying Bin Property SPAs

(a) Conditions precedent

The proposed acquisition of the Ying Bin Property is conditional on, *inter alia*, the following:

- (i) the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at an extraordinary general meeting to be convened by the Company for, *inter alia*, the proposed acquisition of the Ying Bin Property; and
- (ii) completion of a satisfactory due diligence exercise by the Group on the Ying Bin Property in PRC from the technical, legal and financial perspectives, and the vendor of the Ying Bin Property having completed rectification from the technical, legal and financial perspectives, if any and where applicable.

If all the conditions stated above shall not have been fulfilled or waived before 30 April 2017 or such other extended date as the Group may agree in writing, whichever is later, the Group shall have the right to terminate the Ying Bin Property SPA(s) in accordance with the Ying Bin Property SPA(s).

(b) Purchase consideration

The aggregate tentative purchase consideration payable by the Group for the Ying Bin Property (“**Tentative Purchase Consideration**”) shall be the sum of RMB 6,973,280, to be paid in one lump sum to the vendor of the Ying Bin Property before 30 April 2017. The Tentative Purchase Consideration represents a discount of approximately 5.0% from the market value of the Ying Bin Property (as if completed as at 31 March 2016) of RMB 7,340,000 as ascribed by the Valuer. Further information on the valuation of the Ying Bin Property is set out in the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report under **Appendix C** of this Circular.

The purchase consideration shall be calculated based on the per unit sale price of RMB 7,596 per square metre multiplied by the total construction area.

The Tentative Purchase Consideration amount is based on the aggregate estimated construction area of the Ying Bin Property of 918.02 square metres, calculated based on the floor plan of the Ying Bin Property, and is subject to adjustments as follows:

- (i) in order to confirm the construction area used for calculating the purchase consideration, both parties will jointly appoint a qualified independent survey institution to appraise the total construction area of the Ying Bin Property and issue a survey report. Such survey report shall be issued and available for the parties’ review by no later than 30 June 2017;
 - (A) if the final construction area figure provided in the survey report issued by the aforesaid survey institution ranges between 95% of the estimated construction area and 105% of the estimated construction area, the parties agree that the amount of the final purchase consideration (“**Final Purchase Consideration**”) shall be calculated based on the final construction area provided in the survey report; and
 - (B) if the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties may re-negotiate the relevant terms of the Ying Bin Property SPA(s), however either party shall then have the right to terminate the Ying Bin Property SPA(s) by serving a written notice to the other party and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms hereof; the vendor of the Ying Bin Property shall then refund to the Group the full amount that has been paid by the Group hereunder within the period as required by the Group (such period to be determined by the management of the Group);
- (ii) once the survey report issued by the survey institution appointed by the parties is available (in no event shall be later than 30 June 2017), the parties shall re-calculate and confirm the amount of the Final Purchase Consideration based on the construction area figure provided in the survey report;
 - (A) if the final construction area provided in the survey report ranges between 95% of the estimated construction area and 105% of the estimated construction area, the Group shall pay for the shortfall or the vendor of the Ying Bin Property shall refund the difference between the Final Purchase Consideration and the Tentative Purchase Consideration, as the case may be; the parties agree that the shortfall or difference mentioned in this paragraph shall be paid or refunded by the relevant party within 15 days after the survey report is issued; and
 - (B) if the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties may re-negotiate the relevant terms of the Ying Bin Property SPA(s) or either party shall have the right to terminate the Ying Bin Property SPA(s) in accordance with paragraph 3.5.1(b)(i)(B) above;

- (iii) the vendor of the Ying Bin Property shall issue to the Purchaser the valid and legitimate tax invoice bearing the full amount of the corresponding payment made by the Purchaser within 7 days after receiving the payment from the Purchaser.

The Company will make an announcement of the Final Purchase Consideration after it has been determined.

The Group intends to use internal sources of funds to finance the proposed acquisition of the Ying Bin Property.

As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Acquisitions and the Additional Cost (as defined below), the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

(c) Transaction steps

- (i) The vendor of the Ying Bin Property shall obtain the construction completion and acceptance certificate (竣工验收备案证明) for, *inter alia*, the Ying Bin Property and provide a certified true copy of the same in respect to the Group by no later than 30 June 2017.
- (ii) Subject to the vendor of the Ying Bin Property having obtained the construction completion and acceptance certificate (竣工验收备案证明) of the Ying Bin Property, the vendor of the Ying Bin Property shall deliver the Ying Bin Property, together with all the items and materials relating to the Ying Bin Property, to the Group on 30 June 2017 (the “**Delivery Date**”).

If the quality of the base and/or the main structure of the Ying Bin Property do(es) not satisfy the statutory standards according to any testing report, the Purchaser shall have the right to return the Ying Bin Property to the vendor of the Ying Bin Property and terminate the Ying Bin Property SPAs by serving a written notice to the vendor of the Ying Bin Property. Under such circumstances, the vendor of the Ying Bin Property shall, within 30 days after receiving the written notice, refund to the Purchaser the purchase consideration and pay to the Purchaser the interest calculated at the benchmark interest rate for current account published by People’s Bank of China. The cost incurred for the testing report shall also be borne by the vendor of the Ying Bin Property.

Notwithstanding the other provisions of the Ying Bin Property SPAs,

- (A) in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for no more than 30 days (inclusive), for each day of delay from the date immediately following the Delivery Date to the date the Ying Bin Property is duly delivered to the Purchaser, the vendor of the Ying Bin Property shall pay to the Purchaser a default charge based on 0.12% of the total sum of the purchase consideration, which is payable by the vendor of the Ying Bin Property within 15 days after the Ying Bin Property are duly delivered to the Purchaser;
- (B) in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for more than 30 days, the Purchaser shall have the right (not obligation) to terminate the Ying Bin Property SPAs. The vendor of the Ying Bin Property shall return the full amount of the purchase consideration and pay liquidated damages equivalent to 20% of the purchase consideration to the Purchaser within 15 days after receiving the termination notice from the Purchaser, in addition to the abovementioned default charge; and

(C) in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for more than 30 days, and the Purchaser agrees to continue performing its obligations under the Ying Bin Property SPAs, for each day of delay in delivery from the date immediately following the Delivery Date to the date the Ying Bin Property is duly delivered to the Purchaser, the vendor of the Ying Bin Property shall pay to the Purchaser a default charge based on 0.2% of the total sum of the purchase consideration, which is payable by the vendor of the Ying Bin Property within 15 days after the Ying Bin Property is duly delivered to the Purchaser.

- (iii) The vendor of the Ying Bin Property shall complete the initial title registration of, *inter alia*, the Ying Bin Property with the Real Estate Trade Centres within 365 days after the Delivery Date and shall provide a certified true copy of the initial title registration certificate of, *inter alia*, the Ying Bin Property to the Group within three (3) working days after the initial title registration is completed. The period of 365 days is required as sufficient buffer for the vendor to complete the initial title registration in accordance with local practice, and was commercially agreed between the parties.
- (iv) The vendor of the Ying Bin Property shall submit the title transfer application documents to the Real Estate Trade Centres and ensure that the Group's title certificates be issued within 730 days after the initial title registration certificate of, *inter alia*, the Ying Bin Property is obtained (by no later than 30 June 2020). The period of 730 days is required as sufficient buffer for the PRC regulatory authorities to issue the title certificates in accordance with local practice, and was commercially agreed between the parties.

Notwithstanding the other provisions of the Ying Bin Property SPAs, in the event that the Purchaser cannot obtain the Purchaser's title certificates of the Ying Bin Property before 30 June 2020, for each day of delay, the vendor of the Ying Bin Property shall pay to the Purchaser the deferred compensation based on 0.02% of the total sum of the purchase consideration. If the aforesaid delay continues for more than 3 months (inclusive), the Purchaser shall have the right to terminate the Ying Bin Property SPAs and all other relevant documents signed pursuant to the Ying Bin Property SPAs. If the Purchaser terminates the Ying Bin Property SPAs in accordance with this paragraph, in addition to the deferred compensation, the vendor of the Ying Bin Property shall further refund to the Purchaser all the amount paid by the Purchaser under the Ying Bin Property SPAs, and fully compensate any other loss and expenses suffered or incurred therefrom by the Purchaser (including without limitation relocation, and renovation costs), without prejudice to the other rights of the Purchaser under the Ying Bin Property SPAs and the laws.

(d) Other material terms

The vendor of the Ying Bin Property warrants that it has or will obtain the written consent on the transaction from the mortgagee of the Ying Bin Property (i.e. Shanghai Pudong Development Bank, Chengdu Branch (上海浦东发展银行股份有限公司成都分行)), and further discharge the existing mortgage on the Ying Bin Property before the title transfer is completed.

(e) Letter of confirmation, undertaking and indemnity from the vendor of the Ying Bin Property (the "**Letter**")

Pursuant to the acquisition of the Ying Bin Property, the vendor of the Ying Bin Property also issued the Letter to the Group, in which the vendor of the Ying Bin Property unconditionally and irrevocably undertakes, *inter alia*, as follows:

- (i) the terms of the Ying Bin Property SPAs (including but not limited to payment terms, transaction steps, duration of obtaining title certificates, liquidated damages, liabilities for breach, default charges, etc.) are referenced from the standard sale and purchase agreement which the vendor of the Ying Bin Property adopts for their sales in the Ying

Bin development. The general terms in the Ying Bin Property SPAs are comparable to, or not less favourable than the terms of the sale and purchase agreements signed by the vendor of the Ying Bin Property with third parties in respect of the sale of other real properties at No. 8 Ying Bin Avenue. The payment terms, in particular, are not uncommon practice in the PRC;

- (ii) the Ying Bin Property falls into the scope of industrial property. Therefore, the timeline for registration of title certificate differs from residential and commercial properties. The vendor of the Ying Bin Property has sought the advice of the management commission (管委会) on the titles application processes and procedures and the vendor of the Ying Bin Property confirms that the payment terms, transaction steps and the timeline for registration of initial title certificates or the Purchaser's title certificates stipulated in the Ying Bin Property SPAs are in accordance with the practice in the PRC;
- (iii) the Ying Bin Property is currently subject to mortgage and the vendor of the Ying Bin Property undertakes to complete or procure completion of the discharge of such mortgage as soon as may be practicable before the title transfer of the Ying Bin Property;
- (iv) the vendor of the Ying Bin Property undertakes to do all such acts necessary to ensure or to procure that the title of the Ying Bin Property as defined under the Ying Bin Property SPAs be legally transferred to the Purchaser or any of its affiliates in accordance with the terms of the Ying Bin Property SPAs; and
- (v) in the event that the vendor of the Ying Bin Property fails to discharge the existing mortgage over the Ying Bin Property, or the Purchaser or any of its affiliates is not issued the Purchaser's title certificates as defined under the Ying Bin Property SPAs for the Ying Bin Property, the vendor of the Ying Bin Property shall indemnify the Group in respect of all fees, compensation, default charges, liquidated damages, losses and results arising thereof and further refund to the Group all the sums that the vendor of the Ying Bin Property has received from the Group for the sale of the Ying Bin Property.

The Directors have confirmed that they are aware of the credit risk arising from the proposed acquisition of the Ying Bin Property and based on the information provided by the management of the Company including inter alia assessment of credit worthiness of Chengdu Kinna Investment, the vendor of the Ying Bin Property, the Directors are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.

3.5.2 Salient terms of the Jiangyou Neautus Shares SPA

(a) Conditions precedent

The proposed acquisition of the Jiangyou Neautus Shares is conditional on, *inter alia*, the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, *inter alia*, the proposed acquisition of the Jiangyou Neautus Shares. If such Company's Shareholders' approval shall not have been obtained on or before 30 April 2017 or such other date as the parties shall mutually agree in writing, the Jiangyou Neautus SPA shall cease and be terminated and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms in the Jiangyou Neautus SPA.

(b) Purchase consideration

The purchase consideration payable by the Group for the Jiangyou Neautus Shares shall be the sum of RMB 8,631,000 (the “**Consideration**”) and is conditional on, *inter alia*, the following:

- (i) the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, *inter alia*, the proposed acquisition of the Jiangyou Neautus Shares;
- (ii) the Group having received a letter from the vendor of the Jiangyou Neautus Shares according to which the loans or liabilities (if any) owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares in connection with an aborted construction project that Jiangyou Neautus had previously undertaken has been duly discharged, with the form and content of such letter to the satisfaction of the Group;
- (iii) the State Administration for Industry and Commerce and its local counterpart (“**SAIC**”) having issued the notice of de-registration (注销登记通知书) for the discharge of the pledge created by the vendor of the Jiangyou Neautus Shares in favour of Shanghai Pudong Development Bank, Chengdu Branch (上海浦东发展银行股份有限公司成都分行) over the Jiangyou Neautus Shares (“**Share Pledge**”), and the Share Pledge has in fact been duly de-registered in accordance with PRC laws; and
- (iv) the issuance of the approval notice to Jiangyou Neautus by the SAIC according to which the Group has in fact been registered as the shareholder of Jiangyou Neautus holding all the Jiangyou Neautus Shares in accordance with PRC laws.

The Consideration set out above was determined based on the market value of the Jiangyou Neautus Shares as at 31 December 2015 ascribed by the Valuer and as set out in the Jiangyou Neautus Shares Valuation Report, which is based on the unaudited management accounts of Jiangyou Neautus as at 31 December 2015, taking the total assets of RMB 28,803,615 minus total liabilities of RMB 19,717,921 based on the balance sheet of the Company. In addition, the Consideration is further reduced by, *inter alia*, the amount undertaken by the vendor of the Jiangyou Neautus Shares in relation to all default charges, penalties, compensation, liquidated damages or other liabilities arising from a breach of Jiangyou Neautus of any contract regarding the construction of the Industrial Complex occurring before the completion of the Jiangyou Neautus Shares SPA (the “**Consideration Formula**”) (the “**Initial Consideration**”).

Notwithstanding that the updated market value of the Jiangyou Neautus Shares of RMB 9,223,000 as at 30 September 2016 (as set out in the Updated Jiangyou Neautus Shares Valuation Report) is slightly higher than the market value of RMB 9,086,000 as at 31 December 2015 (as set out in the original Jiangyou Neautus Shares Valuation Report), there is no change to the Initial Consideration which has been agreed and set out in the Jiangyou Neautus Shares SPA.

The Initial Consideration represents a discount of approximately 5.0% from the market value of the Jiangyou Neautus Shares as ascribed by the Valuer. Further information on the valuation of the Jiangyou Neautus Shares is set out in the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report under **Appendix C** of this Circular.

After the signing of the Jiangyou Neautus Shares SPA, the vendor of the Jiangyou Neautus Shares shall, within the reasonable period required by the Group, provide to the Group or its financial consultants all the financial documents of Jiangyou Neautus (including without limitation the accounting books) for the purpose of the financial due diligence or auditing to be conducted by the financial consultants of the Group.

In the event that the figure re-calculated with the same Consideration Formula based on the audited management accounts of Jiangyou Neautus as at 31 December 2015 (the “**Final Consideration**”), as determined by the financial due diligence report or audit report issued by such financial consultants of the Group, is less than or more than the Initial Consideration, the Consideration shall be adjusted downward or upwards (as the case may be) to be equivalent to the Final Consideration. Such adjustment (the “**Adjustment**”), if any, shall be satisfied under the third instalment of the purchase consideration as set out below.

The purchase consideration is to be satisfied in four (4) instalments in the following manner:

- (i) the first instalment equivalent to 50% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 15 days after the Completion Date (as defined below);
- (ii) the second instalment equivalent to 30% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 45 days after the Completion Date (as defined below);
- (iii) the third instalment equivalent to the amount of the Adjustment shall be paid by the Group to the vendor of the Jiangyou Neautus Shares, or returned by the vendor of the Jiangyou Neautus Shares to the Group, as the case may be, within 15 days after the issuance of the financial due diligence report or audit report by the financial consultants of the Group; and
- (iv) the fourth instalment equivalent to 20% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 15 days after Jiangyou Neautus is issued the construction completion and acceptance certificate (竣工验收备案证明) in respect of the Industrial Complex.

The Company will make an announcement of the Final Consideration after it has been determined.

The Group intends to use internal sources of funds to finance the proposed acquisition of the Jiangyou Neautus Shares.

As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Acquisitions and the Additional Cost (as defined below), the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

The Industrial Complex has yet to be completed as at the Latest Practicable Date and there will be an additional cost to be incurred by the Company in respect of the four (4) completed buildings of the Industrial Complex of approximately RMB 20.0 million (“**Additional Cost**”) for the air purification system (approximately RMB 5.0 million), construction of common facilities (approximately RMB 4.0 million), purchase of production equipment (approximately RMB 9.0 million) and ancillary costs to complete the construction (approximately RMB 2.0 million). These Additional Cost shall be incurred progressively up to the completion of the construction of the Industrial Complex, which is expected to be by April 2017 and financed via the Group’s internal resources. In addition, any construction costs for the remaining three (3) buildings will be incurred by the Company after the acquisition of the Jiangyou Neautus Shares.

For the avoidance of doubt, the Additional Cost does not include the costs to be incurred by the Company in respect of the remaining three (3) buildings that will be incurred by the Company after the acquisition of the Jiangyou Neautus Shares. Currently, the Company does not have any intention to construct the remaining three (3) buildings.

(c) Registration and completion

- (i) Within five (5) business days after the satisfaction of the condition in paragraph 3.5.2(a) above:
 - (A) the vendor of the Jiangyou Neautus Shares shall de-register the Share Pledge at the SAIC and obtain the notice of de-registration (注销登记通知书) for the discharge of the Share Pledge indicating that the Share Pledge has been duly de-registered in accordance with PRC laws; and
 - (B) the parties shall prepare the necessary documents respectively to complete the legal transfer of the Jiangyou Neautus Shares and resignation of the officers appointed by the vendor of the Jiangyou Neautus Shares.
- (ii) Within 10 business days after the satisfaction of the condition in paragraph 3.5.2(a) above, the vendor of the Jiangyou Neautus Shares (or its nominee) shall:
 - (A) proceed to the SAIC with respect to the transfer of the Jiangyou Neautus Shares and the change of officers from those appointed by vendor of the Jiangyou Neautus Shares to those appointed by the Group; and
 - (B) obtain the new business licence of Jiangyou Neautus and the approval notice issued by the SAIC to Jiangyou Neautus according to which the Group has in fact been registered as the shareholder of Jiangyou Neautus holding all the Jiangyou Neautus Shares in accordance with PRC laws (the date when the SAIC issues such approval notice being the “**Registration Date**”).
- (iii) On the fifth business day following the Registration Date (the “**Completion Date**”), the parties shall proceed with completion of the sale and purchase of the Jiangyou Neautus Shares (“**Completion**”). For the purpose of effecting Completion, the vendor of the Jiangyou Neautus Shares shall deliver all the seals, certificates, documents, and materials of Jiangyou Neautus and the Industrial Complex to the Group.

(d) Representations, warranties and undertakings

The vendor of the Jiangyou Neautus Shares represents, warrants and undertakes to the Purchaser, *inter alia*, that:

- (i) it has discharged, or will discharge as soon as practicable the Share Pledge to the extent permitted under the applicable laws and regulations, and it is or will prior to the Registration Date be entitled to sell and transfer the Jiangyou Neautus Shares to the Purchaser, free from all and any encumbrances together with all rights and benefits;
- (ii) the business scope as described in the business license of Jiangyou Neautus shall under no circumstances include any business activity which is restricted or prohibited for foreign investment under the applicable PRC laws and regulations;
- (iii) notwithstanding any agreement in oral or written form between the vendor of the Jiangyou Neautus Shares and Jiangyou Neautus, the vendor of the Jiangyou Neautus Shares will not demand any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares before the Completion Date, and Jiangyou Neautus shall in no event be subject to any interest, penalty, damages, compensation or other liabilities that may arise from the aforesaid withholding or delay of the repayment of any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares. Jiangyou Neautus shall have the sole and absolute discretion to determine when to repay the outstanding amount of RMB 19.7 million owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares depending on its cash flow and subject to the obtaining of the approval from the board of the Company;

- (iv) up to the Completion Date, the Land and the Industrial Complex are free from any title defect, and are not subject to (1) first right of refusal of purchase; (2) priority right to claim the construction and engineering payments; (3) mortgage, easement, lease or any other security interest or encumbrance; (4) preservations, seizure, administrative restrictions and any other restriction of rights taken by any judicial or administrative authority; and (5) any claim filed by any third party including construction and engineering contractor(s);
- (v) all licences and documents in connection with the development and construction of the Industrial Complex (including but not limited to all approvals, permits, agreements, reports relating to planning, land grant, construction, civil defense engineering and property completion, inspection and acceptance) are and/or will be legally obtained without breach;
- (vi) the development and construction of the Industrial Complex, including without limitations the land grant, construction and property completion inspection and acceptance of the Industrial Complex, are in compliance with PRC laws and regulations, Jiangyou Neautus' articles of association and any contract or agreement entered between/among the vendor of the Jiangyou Neautus Shares and/or Jiangyou Neautus with any third party;
- (vii) it shall endeavor to assist and cooperate with the Purchaser to complete the construction completion inspection and acceptance (竣工验收) of the Industrial Complex and shall procure that the title certificates of the Industrial Complex will be legally obtained by Jiangyou Neautus without breach; and
- (viii) in the event that Jiangyou Neautus is subject to any economic loss, unsettled payment, default charges, fine, penalty or other liabilities, administrative compulsory measure or any restriction to the lawful exercise of its rights arising from or in connection with the Land or the Industrial Complex, the vendor of the Jiangyou Neautus Shares shall assume all responsibilities and liabilities and shall keep the Purchaser indemnified from any impact that may arise therefrom and shall undertake the liabilities for breach to the Purchaser in accordance with the Jiangyou Neautus Shares SPA.

4 THE PROPOSED ACQUISITIONS AS INTERESTED PERSON TRANSACTIONS

4.1 Chapter 9 of the Listing Manual

Under Chapter 9 of the Listing Manual, an immediate announcement and shareholders' approval is required in respect of an interested person transaction, namely, a transaction between an entity at risk and its interested persons, if the value of that transaction exceeds five per cent. (5%) of the latest audited NTA.

The following terms are defined under Chapter 9 of the Listing Manual:

- (i) an “**approved exchange**” means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9 of the Listing Manual;
- (ii) an “**entity at risk**” means:
 - (a) the listed company;
 - (b) a subsidiary company of the listed company that is not listed on the SGX-ST or an approved exchange; or
 - (c) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has control over the associated company;

- (iii) an “**interested person**” means:
 - (a) a director, chief executive officer or Controlling Shareholder of the listed Company; or
 - (b) an associate of such director, chief executive officer or Controlling Shareholder; and
- (iv) an “**interested person transaction**” means a transaction between an entity at risk and an interested person.

4.2 Details of Interested Persons

As stated in Section 3.2 of this Circular, the Vendors are regarded as the same interested person of the Company for the purposes of Chapter 9 of the Listing Manual and the Proposed Acquisitions. Therefore, the Proposed Acquisitions constitute interested party transactions under Chapter 9 of the Listing Manual.

4.3 Shareholders’ approval of the Proposed Acquisitions pursuant to Chapter 9 of the Listing Manual

Based on the latest audited consolidated financial statements of the Group as at 31 December 2015, the NTA of the Group is RMB 94,843,000. Pursuant to Rule 906 of the Listing Manual, Shareholders’ approval is required in the event that the aggregate transaction value exceeds RMB 4,742,150, which is five per cent. (5.0%) of the NTA of the Group as at 31 December 2015.

As the aggregate purchase consideration for the Proposed Acquisitions is RMB 15,604,280, which represents approximately 16.45% of the NTA of the Group as at 31 December 2015, the Company is seeking approval from Shareholders for the Proposed Acquisitions as specific interested party transactions at the EGM.

5 **OTHER INTERESTED PERSON TRANSACTIONS FOR CURRENT FINANCIAL YEAR**

The total value of all interested person transactions entered into by the Group with the Vendors (excluding all transactions which are less than S\$100,000) for the current financial year up to the Latest Practicable Date is approximately RMB 5.2 million.

The total value of all interested person transactions entered into by the Group including transactions with the Vendors (excluding all transactions which are less than S\$100,000) for the current financial year up to the Latest Practicable Date is approximately RMB 20.8 million, which for the avoidance of doubt, includes the aggregate purchase consideration for the Proposed Acquisitions.

Save as disclosed above, there are no other interested person transactions since the beginning of the current financial year up to the Latest Practicable Date.

6 **RELATIVE FIGURES UNDER CHAPTER 10 OF THE LISTING MANUAL IN RELATION TO THE PROPOSED ACQUISITIONS**

6.1 General

Under Chapter 10 of the Listing Manual, a transaction will be classified as a “major transaction” if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual exceeds 20% and if so, shareholders’ approval must be obtained for the “major transaction”. Pursuant to Rule 1005 of the Listing Manual, the SGX-ST may aggregate separate transactions completed within the last 12 months and treat them as if they were one transaction.

6.2 Relative figures under Rule 1006 of the Listing Manual

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Acquisition and based on the Group's nine (9) months unaudited financial statements for FY2016 are set out below.

	Ying Bin Property Acquisition	Jiangyou Neatus Shares acquisition	Aggregate
Rule 1006(a) – the net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable as this transaction is not a disposal of assets.	Not applicable as this transaction is not a disposal of assets.	Not applicable as this transaction is not a disposal of assets.
Rule 1006(b) – the net profits attributable to the assets acquired or disposed, compared with the Group's net profits	Not applicable as the Ying Bin Property will be used by the Group for its operations and no profits are attributable to the Ying Bin Property.	10.9% ⁽¹⁾	10.9%
Rule 1006(c) – the aggregate value of the consideration given or received, compared with the Company's market capitalization based on the total number of issued shares excluding treasury shares	13.4%	16.6%	30%
Rule 1006(d) – the number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no equity securities will be issued as consideration for the Proposed Acquisitions.	Not applicable as no equity securities will be issued as consideration for the Proposed Acquisitions.	Not applicable as no equity securities will be issued as consideration for the Proposed Acquisitions.
Rule 1006(e) – the aggregate volume or amount of proved and probable reserves to be disposed of, compared with the Group's proved and probable reserves	Not applicable as the Company is not a mineral, oil and gas company.	Not applicable as the Company is not a mineral, oil and gas company.	Not applicable as the Company is not a mineral, oil and gas company.

Note:

1. This figure was based on Jiangyou Neatus' FY2015 audited loss before tax of RMB 257,000, compared with the Group's nine (9) months FY2016 ("**9M YTD FY2016**") loss before tax of RMB 1,761,000 multiplied by 4/3 (being the Group's 9M YTD FY2016 loss annualised).

6.3 Major transaction

As the relative figures computed on the bases set out in Rule 1006(c) exceeds 20%, the Proposed Acquisitions constitute a "major transaction" as defined in Chapter 10 of the Listing Manual. Accordingly, the Proposed Acquisitions are subject to the approval by Shareholders in a general meeting.

7 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

7.1 The interests of the Directors and Substantial Shareholders, based on information recorded in the Register of Directors' and Substantial Shareholders' Shareholdings, respectively, maintained by the Company pursuant to Section 164 and Section 88 of the Companies Act, respectively, as at the Latest Practicable Date are as follows:

	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Substantial Shareholders (other than Directors)				
Emperor Wealth Holdings Limited	5,233,800	22.76	–	–
Suntar Investment Pte. Ltd.	4,770,000	20.74	–	–
Top Entrepreneur Limited	2,281,200	9.92	–	–
深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd)	3,000,000	13.04	–	–
Yang Yan ¹	–	–	2,281,200	9.92
Jiang Ercheng ²	–	–	5,233,800	22.76
Sinomem Technology Pte. Ltd. ³	–	–	4,770,000	20.74
Clean Water Investment Limited ⁴	–	–	4,770,000	20.74
Lan Weiguang ⁵	–	–	4,770,000	20.74
CDH Water Limited ⁶	–	–	4,770,000	20.74
CDH IV Holdings Company Limited ⁷	–	–	4,770,000	20.74
China Diamond Holdings Company Limited ⁸	–	–	4,770,000	20.74
Wu Shangzhi ⁹	–	–	4,770,000	20.74
Jiao Shuge ¹⁰	–	–	4,770,000	20.74
Wang Shu ¹¹	–	–	3,000,000	13.04
Liu Bing ¹²	–	–	3,000,000	13.04

Notes:

1. Mr Yang Yan is deemed to be interested in the shares held by Top Entrepreneur Limited through his direct interest in Top Entrepreneur Limited.
2. Mr Jiang Ercheng is deemed to be interested in the shares held by Emperor Wealth Holdings Limited through his controlling interest in Emperor Wealth Holdings Limited.
3. Sinomem Technology Pte. Ltd., which holds not less than 20% of the issued share capital of Suntar Investment Pte. Ltd., is deemed to be interested in the shares held by Suntar Investment Pte. Ltd..
4. Clean Water Investment Limited, which holds the entire issued share capital of Sinomem Technology Pte. Ltd., which is the majority shareholder of Suntar Investment Pte. Ltd., is deemed to be interested in shares held by Suntar Investment Pte. Ltd.
5. Dr Lan Weiguang, who holds not less than 20% interests in Clean Water Investment Limited, which in turns holds 100% of the issued share capital of Sinomem Technology Pte. Ltd., is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.

6. CDH Water Limited, which holds not less than 20% of the entire issued share capital of Suntar Investment Pte. Ltd., is deemed to be interested in shares held by Suntar Investment Pte. Ltd.
7. CDH IV Holdings Company Limited acting as the general partner of CDH Fund IV, L.P. holds the entire issued share capital of CDH Water Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.
8. China Diamond Holdings Company Limited acting as the general partner of China Diamond Holdings IV L.P. holds 80% of the issued share capital of CDH IV Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.
9. Dr Wu Shangzhi holds the entire issued share capital of West Oak Company Limited and Forrest Circle Limited, and is therefore indirectly interested in the shares held by West Oak Company Limited and Forrest Circle Limited in China Diamond Holdings Company Limited. Collectively, West Oak Company Limited and Forrest Circle Limited, and in turn Dr Wu Shangzhi, hold 33.20% of the issued share capital of China Diamond Holdings Company Limited. Dr Wu Shangzhi holds more than 20% of the issued share capital of China Diamond Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.
10. Mr Jiao Shuge holds the entire issued share capital of Active Star Capital Limited and is therefore indirectly interested in the shares held by Active Star Capital Limited in China Diamond Holdings Company Limited. The trustee of Orange Bloom Limited, DBS Bank, acts in accordance with the directions of Mr Jiao Shuge in relation to Orange Bloom Limited, therefore, Mr Jiao Shuge is regarded as an associate of Orange Bloom Limited. Collectively, Active Star Capital Limited and Orange Bloom Limited, and in turn Mr Jiao Shuge, holds 28.78% of the issued share capital of China Diamond Holdings Company Limited. Mr Jiao Shuge holds more than 20% of the issued share capital of China Diamond Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.
11. Mr Wang Shu is deemed to be interested in the shares held by 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd) through his controlling interest in 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd).
12. Mr Liu Bing is deemed to be interested in the shares held by 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd) through his controlling interest in 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd).

7.2 Details of the Share Options granted to Directors of the Company pursuant to the Share Option Scheme as at the Latest Practicable Date are as follows:

Name of Director	Aggregate Share Options outstanding as at beginning of FY2015	Aggregate Share Options granted since commencement of plan to end of FY2015	Aggregate Share Options exercised since commencement of plan to end of FY2015	Aggregate Share Options outstanding as at end of FY2015	Expiry date	Exercise price (S\$)
Chew Heng Ching	100,000	100,000	–	100,000	11 March 2018	1.25
Chew Thiam Keng	100,000	100,000	–	100,000	11 March 2018	1.25
	<u>200,000</u>	<u>200,000</u>	<u>–</u>	<u>200,000</u>		

7.3 Save as disclosed in this Circular, none of the Directors or Substantial Shareholders of the Company has any direct or indirect interest in the New IPT General Mandate or the Proposed Acquisitions other than through their respective shareholdings in the Company as disclosed above.

8 FINANCIAL EFFECTS

The financial effects of the Proposed Acquisitions on the Group set out below are purely for illustrative purposes only and do not reflect the future financial position of the Group after the completion of the Proposed Acquisitions.

The *pro forma* financial effects have been prepared based on the audited consolidated financial statements of the Group for FY2015, being the end of the most recently completed financial year.

(a) NTA per Share

Had the Proposed Acquisitions been effected on 31 December 2015, the Proposed Acquisitions would have had the following financial effects on the Group's NTA per share as at 31 December 2015:

For FY2015	Before Proposed Acquisitions	After the Ying Bin Property acquisition	After the Jiangyou Neautus Shares acquisition	After Proposed Acquisitions (in aggregate)
Net tangible assets (RMB'000)	94,843	94,843	95,298	95,298
Number of Shares ('000)	23,000	23,000	23,000	23,000
Net tangible assets per Share (RMB)	4.12	4.12	4.14	4.14

(b) EPS

Had the Proposed Acquisitions been effected on 1 January 2015, the Proposed Acquisitions would have had the following financial effects on the Group's EPS for FY2015:

For FY2015	Before Proposed Acquisitions	After the Ying Bin Property acquisition	After the Jiangyou Neautus Shares acquisition	After Proposed Acquisitions (in aggregate)
Group profit after tax (RMB'000)	2,449	2,449	2,192	2,192
Weighted average number of Shares ('000)	20,748	20,748	20,748	20,748
Earnings per share (RMB cents)	11.8	11.8	10.6	10.6

9 OPINION OF THE IFA

9.1 The Proposed Adoption of the New IPT General Mandate

Asian Corporate Advisors Pte. Ltd., in accordance with Chapter 9 of the Listing Manual, has been appointed as the IFA to advise the Independent Directors on whether the methods or procedures for determining the transaction prices of the Interested Person Transactions under the New IPT General Mandate are sufficient to ensure that the Group's transactions with the Sichuan Neautus Group and Ning Xia will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

Having regard to, *inter alia*, the rationale for and benefit of the New IPT General Mandate, as set out in Section 2.4 of this Circular, and the review procedures and additional controls of the Company in relation to the New IPT General Mandate, including the role of the Audit Committee in ensuring that the Company adheres to the review procedures, as set out in Section 2.5 of this Circular, and in particular that the Audit Committee will review all Interested Person Transactions on at least on semi-annual basis, the IFA is of the opinion that the adoption of the New IPT General Mandate and the procedures as set out in the Circular, is in the interest of the Company and that the review procedures (including the additional controls) for determining the transaction prices pursuant to the New IPT General Mandate, as set out in Section 2.5 of this Circular, if adhered to fully, are sufficient to ensure that the Interested Person Transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

9.2 The Proposed Acquisitions

Proposed acquisition of the Ying Bin Property

Asian Corporate Advisors Pte. Ltd., in accordance with Chapter 9 of the Listing Manual, has also been appointed as the IFA to advise the Independent Directors on whether the terms of the the proposed acquisition of the Ying Bin Property is on normal commercial terms and is not prejudicial to the interests of the Company and its Minority Shareholders.

Based on their considerations and subject to the limitations, qualifications and assumptions set out in the IFA Letter, and after having considered carefully the information available to the IFA and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to the IFA's terms of reference, from a financial point of view, the IFA is of the opinion that, on balance, in the absence of alternative acquisition opportunities, the proposed acquisition of the Ying Bin Property is on normal commercial terms and is not prejudicial to the interests of the Company and its Minority Shareholders.

Proposed acquisition of Jiangyou Neautus Shares

Asian Corporate Advisors Pte. Ltd., in accordance with Chapter 9 of the Listing Manual, has also been appointed as the IFA to advise the Independent Directors on whether the terms of the proposed acquisition of the Jiangyou Neautus Shares is on normal commercial terms and is not prejudicial to the interests of the Company and its Minority Shareholders.

Based on their considerations and subject to the limitations, qualifications and assumptions set out in the IFA Letter, and after having considered carefully the information available to the IFA and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to the IFA's terms of reference, from a financial point of view, the IFA is of the opinion that, on balance, in the absence of alternative acquisition opportunities, the proposed acquisition of the Jiangyou Neautus Shares is on normal commercial terms and is not prejudicial to the interests of the Company and its Minority Shareholders.

A copy of the IFA Letter, setting out the IFA's advice in full, is set out in **Appendix B** of this Circular. Shareholders are advised to read the IFA Letter in full and consider it carefully in the context of this Circular.

10 **AUDIT COMMITTEE STATEMENT**

10.1 The Proposed Adoption of the New IPT General Mandate

The Audit Committee (comprising Mr Chew Heng Ching and Mr Chew Thiam Keng, and excluding Mr Jiang Ercheng), having reviewed, *inter alia*, the rationale for and the terms of the New IPT General Mandate and the benefits to the Group that may be obtained therefrom, and taking into consideration the opinion of the IFA, confirms that the methods and procedures set up by the Company for determining the transaction prices of Interested Person Transactions, if always adhered to, are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

Mr Jiang Ercheng, who is a Director and an Interested Person in relation to the New IPT General Mandate, shall abstain from making any recommendations in respect of the New IPT General Mandate.

10.2 The Proposed Acquisitions

Mr Jiang Ercheng, who is a Director and the son of Mr Jiang, and is thus an Interested Person in relation to the Proposed Acquisitions, shall abstain from making any recommendations in respect of the Proposed Acquisitions.

Proposed acquisition of the Ying Bin Property

The Audit Committee (comprising Mr Chew Heng Ching and Mr Chew Thiam Keng, and excluding Mr Jiang Ercheng), having reviewed, *inter alia*, the rationale for and the terms of the proposed acquisition of the Ying Bin Property and the benefits to the Group that may be obtained therefrom, and taking into consideration the opinion of the IFA, confirms that the proposed acquisition of the Ying Bin Property is on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

The Directors and the Audit Committee have confirmed that they are aware of the credit risk arising from the proposed acquisition of the Ying Bin Property and based on the information provided by the management of the Company including *inter alia* assessment of credit worthiness of Chengdu Kinna Investment, the vendor of the Ying Bin Property, the Directors and the Audit Committee are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges/liquidated damages/penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.

For the proposed Ying Bin Property acquisition, the PRC legal advisor engaged by the Company has conducted the due diligence and assisted the Company to draft and prepare the Ying Bin Property SPAs to ensure that they are in accordance and in compliance with the relevant PRC laws and regulations. Based on the guidance, discussion and advice obtained from the PRC legal advisor, the Directors and the Audit Committee have confirmed that the Ying Bin Property SPAs have been prepared in accordance and in compliance with the relevant PRC laws and regulations.

Proposed acquisition of the Jiangyou Neautus Shares

The Audit Committee (comprising Mr Chew Heng Ching and Mr Chew Thiam Keng, and excluding Mr Jiang Ercheng), having reviewed, *inter alia*, the rationale for and the terms of the proposed acquisition of the Jiangyou Neautus Shares and the benefits to the Group that may be obtained therefrom, and taking into consideration the opinion of the IFA, confirms that the proposed acquisition of the Jiangyou Neautus Shares is on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

Independent Shareholders should note that there is no assurance that the construction completion inspection and acceptance as well as the title certificates of the Industrial Complex will be obtained. The Audit Committee and the Directors have confirmed that they are aware of such risk, and they are satisfied on the ability of Chengdu Kinna Pharma with assistance of Sichuan Neautus to obtain the construction completion inspection and acceptance as well as the title certificates of the Industrial Complex.

For the proposed Jiangyou Neautus Shares acquisition, the PRC legal advisor engaged by the Company has conducted the due diligence and assisted the Company to draft and prepare the Jiangyou Neautus Shares SPA to ensure that it is in accordance and in compliance with the relevant PRC laws and regulations. Based on the guidance, discussion and advice obtained from the PRC legal advisor, the Directors and the Audit Committee have confirmed that the Jiangyou Neautus Shares SPA has been prepared in accordance and in compliance with the relevant PRC laws and regulations.

10.3 The Audit Committee refers to the following statements by the IFA in the IFA Letter:

- (a) Paragraph 7.3(1) of the IFA Letter, “We have not made any independent evaluation or appraisal of the Ying Bin Property, the Industrial Complex and Jiangyou Neatus (including without limitation, market value or economic potential) and we have not been furnished with any such evaluation and appraisal save for the Valuation Reports from the Valuer in respect of the market value of the Ying Bin Property, the Industrial Complex and 100% equity interest in Jiangyou Neatus. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment) including, *inter alia* the Ying Bin Property, the Industrial Complex and Jiangyou Neatus and have relied on the opinion of the Directors and the financial statements (audited and unaudited) of the Group and Jiangyou Neatus, where applicable for the assessment.”

The Company had engaged Jones Lang LaSalle, an established valuer, to conduct the valuation on the Ying Bin Property, the Jiangyou Neatus Shares and the Industrial Complex, and the Audit Committee is of the opinion that it is reasonable for the IFA to rely on the Valuation Reports and the Updated Valuation Reports prepared by the Valuer.

The Audit Committee notes that the IFA had also relied on the financial statements of the Group and Jiangyou Neatus and is of opinion that it would be reasonable to do so, in particular as such financial statements have been audited (in addition to unaudited financial statements).

- (b) Paragraph 7.3(2) of the IFA Letter, “It is not within our scope to opine on the future financial performance or position of the Company or the Group subsequent to the Proposed Acquisitions or the proposed adoption of the New IPT General Mandate or the possibility or probability that the Group can improve their profitability or that the anticipated benefits from the Proposed Acquisitions and the proposed adoption of the New IPT General Mandate can be realised (as the case may be) or the prices at which the Shares would trade after the completion of the Proposed Transactions or the viability, profitability and risks of the Proposed Acquisitions.”

The Audit Committee concurs with the IFA’s position and is of the opinion that the IFA’s qualification is not unreasonable, as the future financial performance or position of the Group subsequent to the Proposed Acquisitions or the proposed adoptions of the New IPT General Mandate would depend on various factors which cannot be fully ascertained by the IFA, including market conditions and other economic, business, financial, political and social factors and developments.

Accordingly, the Audit Committee is of the opinion that the foregoing assumptions and valuation methodology of the IFA are reasonable.

11 ABSTENTION FROM VOTING

In accordance with the requirements of the Listing Manual, the Interested Persons (as described in Section 2.2 of this Circular and Section 3.2 of this Circular), which for the avoidance of doubt shall include Mr Jiang, Mr Wu and Mr Jiang Ercheng, shall abstain, and have undertaken to ensure that their associates will abstain, from voting on resolutions approving the New IPT General Mandate and the Proposed Acquisitions. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares.

The Interested Persons and their associates (which shall include: (a) Mr Jiang; (b) the Sichuan Neatus Group; (c) Chengdu Kinna Investment, the majority shareholder of Sichuan Neatus; (d) Mr Jiang Ercheng, who is the son of Mr Jiang and who has a controlling interest in Emperor Wealth Holdings Limited, a controlling shareholder of the Company; (e) Emperor Wealth Holdings Limited; and (f) Mr Wu) will also refrain from accepting nomination as proxy or otherwise vote at the EGM in respect of the resolution to be proposed unless Shareholders appointing them as proxies give specific instructions in the relevant proxy forms on the manner in which they wish their votes to be cast for the said resolution.

12 DIRECTORS' RECOMMENDATIONS

12.1 The Proposed Adoption of the New IPT General Mandate

Mr Jiang, who is a Director and an Interested Person in relation to the New IPT General Mandate, shall abstain from making any recommendations in respect of the New IPT General Mandate.

Mr Jiang Ercheng, who is a Director and an Interested Person in relation to the New IPT General Mandate, shall abstain from making any recommendations in respect of the New IPT General Mandate.

Mr Wu, who is a Director and an Interested Person in relation to the New IPT General Mandate, shall also abstain from making any recommendations in respect of the New IPT General Mandate.

After having considered, *inter alia*, the terms, rationale for and benefits of the New IPT General Mandate the IFA Letter and the statement of the Audit Committee, the Directors (except for Mr Jiang, Mr Wu and Mr Jiang Ercheng) are of the opinion that the adoption of the New IPT General Mandate is in the interests of the Company and is not prejudicial to the interests of its Minority Shareholders. Accordingly, they recommend that Shareholders vote in favour of Ordinary Resolution 1 relating thereto to be proposed at the EGM as set out in the Notice of EGM.

12.2 The Proposed Acquisitions

Mr Jiang, who is a Director and an Interested Person in relation to the Proposed Acquisitions, shall abstain from making any recommendations in respect of the Proposed Acquisitions.

Mr Jiang Ercheng, who is a Director and the son of Mr Jiang, and is thus an Interested Person in relation to the Proposed Acquisitions shall abstain from making any recommendations in respect of the Proposed Acquisitions.

Mr Wu, who is a Director and an Interested Person in relation to the Proposed Acquisitions, shall also abstain from making any recommendations in respect of the Proposed Acquisitions.

As recommended by the IFA in the IFA Letter, the Independent Directors advise Shareholders to note and review carefully Section 3.3 of the Circular and the contents of the Valuation Reports and the Updated Valuation Reports (set out in **Appendix C** of this Circular) in its entirety including the methodology, assumptions made and the basis for the assumptions relating to the valuations of the Ying Bin Property and the Jiangyou Neautus Shares.

Proposed acquisition of the Ying Bin Property

After having considered, *inter alia*, the terms, rationale for and benefits of the proposed acquisition of the Ying Bin Property, the IFA Letter and the statement of the Audit Committee, the Directors (except for Mr Jiang, Mr Wu and Mr Jiang Ercheng) are of the opinion that the proposed acquisition of the Ying Bin Property is in the best interests of the Company and is not prejudicial to the interests of its Minority Shareholders. Accordingly, they recommend that Shareholders vote in favour of Ordinary Resolution 2 relating thereto to be proposed at the EGM as set out in the Notice of EGM.

Proposed acquisitions of the Jiangyou Neautus Shares

After having considered, *inter alia*, the terms, rationale for and benefits of the proposed acquisition of the Jiangyou Neautus Shares, the IFA Letter and the statement of the Audit Committee, the Directors (except for Mr Jiang, Mr Wu and Mr Jiang Ercheng) are of the opinion that the proposed acquisition of the Jiangyou Neautus Shares is in the best interests of the Company and is not prejudicial to the interests of its Minority Shareholders. Accordingly, they recommend that Shareholders vote in favour of Ordinary Resolution 3 relating thereto to be proposed at the EGM as set out in the Notice of EGM.

- 12.3 As recommended by the IFA in the IFA Letter, the Independent Directors wish to highlight to the Independent Shareholders the matters as stated in the IFA Letter, including, *inter alia*, the IFA's limitation in analysis, evaluation, comments and opinion in the IFA Letter is limited. Also, that the Independent Shareholders should exercise caution in their decision in voting in favour of or against the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions.

13 EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 137 of this Circular, will be held on 27 December 2016 at 10.30 a.m. at 5 Kallang Sector, #03-02, Singapore 349279, for the purpose of considering and, if thought fit, passing with or without any modifications, the ordinary resolutions as set out in the Notice of EGM.

14 ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy or proxies to attend and vote on their behalf, will find enclosed with this Circular, a Proxy Form which they are requested to complete, sign and return, in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to arrive at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the holding of the EGM. The completion and return of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM in place of his proxy or proxies if he finds that he is able to do so.

15 DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the New IPT General Mandate and the Proposed Acquisitions, and the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

16 CONSENTS

16.1 The IFA

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the IFA Letter reproduced in **Appendix B** and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

16.2 The Valuer

The Valuer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the Valuation Reports and the Updated Valuation Reports reproduced in **Appendix C** and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

17 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 5 Kallang Sector, #03-02, Singapore 349279, during normal business hours from the date hereof up to and including the date of the EGM:

- (a) the constitution of the Company;
- (b) the annual report of the Company for FY2015;
- (c) the SPAs;
- (d) the IFA Letter;
- (e) the Valuation Reports and the Updated Valuation Reports;
- (f) the IFA consent letter referred to under Section 16.1 of this Circular; and
- (g) the Valuer consent letter referred to under Section 16.2 of this Circular.

Yours faithfully

For and on behalf of the Board of Directors of
Pharmesis International Ltd.

Jiang Yun
Chief Executive Officer

APPENDIX A

GENERAL INFORMATION RELATING TO CHAPTER 9 OF THE LISTING MANUAL

1. Chapter 9 of the Listing Manual governs transactions in which a listed company or any of its subsidiaries or associated companies (known as an “entity at risk”) enters into or proposes to enter into with a party who is an interested person of the listed company. The purpose is to guard against the risk that interested persons could influence the listed company, its subsidiaries or associated companies to enter into transactions with it that may adversely affect the interests of the listed company or its shareholders.
2. Under Chapter 9 of the Listing Manual, where there is a transaction between an interested person and an entity at risk, and the value of the transaction alone or in aggregation with other transactions conducted with the same interested person during the financial year reaches or exceeds certain materiality thresholds (which are based on the listed company’s latest audited NTA, unless the transaction is excluded as described below, the listed company is required under Rule 905 of the Listing Manual to make an immediate announcement for an interested person transaction of a value equal to, or exceeding:
 - (a) three per cent. (3.0%) of the listed company’s latest audited consolidated NTA; or
 - (b) three per cent. (3.0%) of the listed company’s latest audited consolidated NTA, when aggregated with the values of all other transactions entered into with the same interested person (as construed under Chapter 9 of the Listing Manual) during the same financial year.

The listed company is also required under Rule 906 of the Listing Manual to make an immediate announcement and seek its shareholder’s approval for an interested person transaction of a value equal to, or exceeding:

- (i) five per cent. (5.0%) of the listed company’s latest audited consolidated NTA; or
- (ii) five per cent. (5.0%) of the listed company’s latest audited consolidated NTA, when aggregated with the values of all other transactions entered into with the same interested person (as construed under Chapter 9 of the Listing Manual) during the same financial year.

These requirements do not apply to transactions that are below S\$100,000 in value or certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and hence are excluded from the ambit of Chapter 9.

3. Based on the latest audited accounts of the Group for FY2015, the NTA of the Group was RMB 94,843,000. Accordingly, in relation to the Company, for the purposes of Chapter 9 of the Listing Manual, in the current financial year ending FY2016 and until such time as the audited accounts of the Group for the financial year ending FY2016 are published, five per cent. (5.0%) of the latest audited NTA of the Group would be RMB 4,742,150.
4. Rule 920 of the Listing Manual, however, allows a listed company to seek a general mandate from its shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials (but not for the purchase or sale of assets, undertakings or businesses) which may be carried out with the listed company’s interested persons. A general mandate is subject to annual renewal.
5. Under the Listing Manual:
 - (a) an “**approved exchange**” means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9 of the Listing Manual;

- (b) an “**associate**” in relation to an interested person who is a director, chief executive officer or controlling shareholder, includes an immediate family member (that is, the spouse, child, adopted child, step-child, sibling or parent) of such director, chief executive officer or controlling shareholder, the trustees of any trust of which the director/ his immediate family, the chief executive officer/his immediate family or the controlling shareholder/his immediate family is a beneficiary, or in the case of a discretionary trust, is a discretionary object, and any company in which the director/his immediate family, the chief executive officer/his immediate family or the controlling shareholder/his immediate family has or have an aggregate interest (directly or indirectly) of 30% or more, and, where a controlling shareholder is a corporation, its subsidiary or holding company or fellow subsidiary or a company in which it and/or they have (directly or indirectly) an interest of 30% or more;
- (c) a “**controlling shareholder**” means:
a person who:
- (i) holds directly or indirectly 15% or more of the total number of issued shares excluding treasury shares in the Company. The Exchange may determine that a person who satisfies this paragraph is not a controlling shareholder; or
 - (ii) in fact exercises control over the company;
- (d) an “**entity at risk**” means:
- (i) the listed company;
 - (ii) a subsidiary company of the listed company that is not listed on the SGX-ST or an approved exchange; or
 - (iii) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has control over the associated company;
- (e) an “**interested person**” means:
- (i) a director, chief executive officer or Controlling Shareholder of the listed Company; or
 - (ii) an associate of such director, chief executive officer or Controlling Shareholder; and
- (f) an “**interested person transaction**” means a transaction between an entity at risk and an interested person.

APPENDIX B

IFA LETTER

LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT DIRECTORS OF PHARMESIS INTERNATIONAL LTD.

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)

(Company Registration No: 200310232R)

160 Robinson Road #21-05

SBF Center

Singapore 068914

12 December 2016

The Independent Directors
Pharmesis International Ltd.
5 Kallang Sector, #03-02,
Singapore 349279

- (1) THE PROPOSED ADOPTION OF THE NEW IPT GENERAL MANDATE
- (2) THE PROPOSED ACQUISITIONS OF THE YING BIN PROPERTY AND THE JIANGYOU NEAUTUS SHARES AS INTERESTED PERSON TRANSACTIONS

Unless otherwise defined or the context otherwise requires, all terms defined in the circular dated 12 December 2016 (“Circular”) issued by Pharmesis International Ltd. (“Pharmesis” or the “Company”) shall apply throughout this Letter (as defined herein).

1. INTRODUCTION

The Proposed Adoption of the New IPT General Mandate

The directors of the Company (“**Directors**” or “**Board**”) intend to seek approval from its shareholders (“**Shareholders**”) for, *inter alia*, the adoption of the New IPT General Mandate (as defined in the Circular) pursuant to Chapter 9 of the listing manual of the Singapore Exchange Securities Trading Limited (“**Listing Manual**”) authorising the Company and its subsidiaries which are considered to be “entities at risk” under Chapter 9 of the Listing Manual or any of them, in their ordinary course of business, to enter into categories of transactions as set out in Section 2.3 of the Circular, with specific classes of the Company’s interested persons set out in Section 2.2 of the Circular who are considered “interested persons” under Chapter 9 of the Listing Manual, provided that such transactions are entered into on arm’s length basis and on normal commercial terms and will not be prejudicial to the interest of the Company and its minority Shareholders (“**Minority Shareholders**”).

At the extraordinary general meeting (“**EGM**”) of the Company held on 20 August 2015, the Shareholders approved the 2015 IPT General Mandate (as defined in the Circular). Subsequently, the 2015 IPT General Mandate was not renewed by the Company at its last annual general meeting held on 29 April 2016 as the Company proposed to amend the scope of the IPT Mandate (as compared to the 2015 IPT General Mandate) as follows:

- (a) in respect of the Interested Person Transactions involving purchase of raw materials, to include 宁夏采杞生物科技有限公司 (Ning Xia Cai Qi Sheng Wu Ke Ji You Xian Gong Si) (“**Ning Xia**”) as a new Interested Person; and

- (b) in respect of the Interested Person Transactions involving provision of bottling services, to include Ning Xia as a new Interested Person.

As the 2015 IPT General Mandate has lapsed, the Company is convening an EGM to be held on 27 December 2016 to seek Shareholders' approval for the proposed adoption of the New IPT General Mandate. Further details on the New IPT General Mandate is set out in Section 2.1 of the Circular.

The Proposed Acquisitions

On 6 May 2016, the Company announced that:-

- (i) 成都国嘉联合制药有限公司 (Chengdu Kinna Pharmaceutical Co., Ltd) ("**Chengdu Kinna Pharma**" or the "**Purchaser**"), a wholly-owned subsidiary of the Company, had on 6 May 2016 entered into two (2) conditional sales and purchase agreements ("**Ying Bin Property SPAs**") with 成都国嘉投资股份有限公司 (Chengdu Kinna Investment Co., Ltd.) ("**Chengdu Kinna Investment**") to acquire two (2) units in a development located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu Province, Sichuan (四川省成都市金牛区迎宾大道8号), PRC (the "**Ying Bin Property**") for its own use as a non-manufacturing industrial and auxiliary facility for its expanding operations (the "**Proposed Ying Bin Property Acquisition**"); and
- (ii) Chengdu Kinna Pharma had on 6 May 2016 entered into a conditional sales and purchase agreement ("**Jiangyou Neautus Shares SPA**") with 四川新荷花中药饮片股份有限公司 (Sichuan Neautus Traditional Chinese Medicine Co., Ltd) ("**Sichuan Neautus**") to acquire an industrial complex under construction located at Industrial Park of Jiangyou Municipality (江油工业园区) with the plot number 81-3-31-61 in Jiangyou, Mianyang, Sichuan Province, PRC (the "**Industrial Complex**") via the acquisition of the entire issued and paid-up share capital of 江油新荷花中药科技有限公司 (Jiangyou Neautus Traditional Chinese Medicine Technology Co. Ltd.) ("**Jiangyou Neautus**"), for its own use for the Company and its subsidiaries ("**Group**") to expand its current production capacity and also to accommodate any potential new business operations (the "**Proposed Jiangyou Acquisition**");

(collectively, the "**Proposed Acquisitions**").

The Company had further announced on 29 July 2016 and 31 October 2016 that Chengdu Kinna Pharma and each of the vendors of the Ying Bin Property and the Jiangyou Neautus had mutually agreed in writing to:

- (a) in respect of the Ying Bin Property SPAs, extend (i) the deadline for fulfilment or waiver of the conditions precedent and (ii) the deadline for the payment of the Tentative Purchase Consideration from 31 July 2016 to 31 October 2016 and thereafter to 30 April 2017; and
- (b) in respect of the Jiangyou Neautus Shares SPA, extend the deadline for obtaining the requisite approval(s) from the Company's Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, *inter alia*, the proposed acquisition of the Jiangyou Neautus from 31 July 2016 to 31 October 2016 and thereafter to 30 April 2017.

The Proposed Acquisitions are interested person transactions ("**IPTs**" or "**Interested Person Transactions**") under Chapter 9 of the Listing Manual which require the approval of the independent shareholders of the Company under Rule 906(1)(b) of the Listing Manual. The Proposed Acquisitions, in aggregate, also constitute major transactions under Chapter 10 of the Listing Manual which require approval of the Shareholders under Rule 1014(2) of the Listing Manual.

Appointment of ACA

To comply with the requirements of Chapter 9 of the Listing Manual, Asian Corporate Advisors Pte. Ltd. ("**ACA**") has been appointed as the independent financial adviser to provide an opinion on whether: (1) the methods or procedures set out in the New IPT General Mandate as described in the Section 2 of the Circular, for determining the transaction prices and/or terms

of the Interested Person Transactions are sufficient to ensure that the said transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and the Minority Shareholders, and (2) the Proposed Acquisitions as IPTs are made on normal commercial terms and are not prejudicial to the interest the interests of the Company and the Minority Shareholders.

This letter (the “**Letter**” or “**IFA Letter**”) has been prepared for the use by the directors of the Company who are deemed independent (the “**Independent Directors**”), for the purposes of making a recommendation to shareholders of the Company (“**Shareholders**”) in respect of the New IPT General Mandate and the Proposed Acquisitions. We note from the Circular that the Independent Directors as at 6 December 2016 (the “**Latest Practicable Date**”) are Mr Chew Heng Ching and Mr Chew Thiam Keng.

This Letter sets out, *inter alia*, our views and evaluation of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as an IPT which have been proposed as ordinary resolutions in the notice of the EGM of the Company as set out in the Circular to the Shareholders. Likewise, it contains our recommendations to the Independent Directors in relation to whether (1) the methods or procedures set out in the New IPT General Mandate as described in the Section 2 of the Circular, for determining the transaction prices and/or terms of the Interested Person Transactions are sufficient to ensure that the said transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and the Minority Shareholders; and (2) the Proposed Acquisitions as IPTs are made on normal commercial terms and are not prejudicial to the interest the interests of the Company and the Minority Shareholders.

This Letter is prepared for inclusion in the Circular in connection with, *inter alia*, the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs. For the purposes of this Letter, references to independent Shareholders (“**Independent Shareholders**”) shall in the context of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs, mean Shareholders other than the interested persons and/or their associates as defined by the Listing Manual.

Unless otherwise defined or where the context otherwise requires, the definitions used in the Circular shall apply throughout this Letter. Certain figures and computations as enumerated or set out in this letter are based on approximations and its accuracy is subject to rounding.

2. TERMS OF REFERENCE

ACA has been appointed by the Company, pursuant to Chapter 9 of the Listing Manual, to advise the Independent Directors who do not have an interest in the outcome of the resolutions (the “**Resolutions**”) for the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs. We were neither a party to the negotiations entered into by the Group in relation to the transactions contemplated under the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs (collectively, the “**Proposed Transactions**”) nor were we involved in any of the deliberations leading up to the decision on the part of the Directors to enter into the Proposed Transactions. We do not, by this Letter or otherwise, advise or form any judgment on the merits of the Proposed Transactions contemplated in the Circular or the possibilities or feasibilities of the completion of the Proposed Transactions or the timing on when the Proposed Transactions can be completed or whether there are alternatives transactions available to the Group other than to form an opinion, strictly and solely on the bases set out herein on whether (i) the review procedures, as set out in Section 2 of the Circular, for determining transaction prices and/or the terms, are sufficient to ensure that the transactions under the New IPT General Mandate will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders; and (ii) the financial terms of the Proposed Acquisitions as IPTs (pursuant to Chapter 9 of the Listing Manual) are on normal commercial terms and are not prejudicial to the interests of the Company and its Minority Shareholders.

We have confined our evaluation strictly and solely on the financial terms for the Proposed Acquisitions as IPTs, and have not taken into account the commercial/financial/operational/compliance risks and/or merits (if any) of or the timing for the Proposed Transactions contemplated in the Circular including the structuring or inter-conditionality of the Proposed Transactions (where applicable) or the validity of any resolution or its feasibility. It is not within our scope to opine on the future financial performance or position of the Company or the Group subsequent to the Proposed Acquisitions or the proposed adoption of the New IPT General Mandate or the possibility or probability that the Group can improve their profitability or that the anticipated benefits from the Proposed Acquisitions and the proposed adoption of the New IPT General Mandate can be realised (as the case may be) or the prices at which the Shares would trade after the completion of the Proposed Transactions or the viability, profitability and risks of the Proposed Acquisitions. In addition, our scope does not require us to opine on the ability of the Group to service its borrowings (both principal and interest payment) or to pay its liabilities (existing and future, including the liabilities which may arise in connection with the Proposed Acquisitions or completion of the construction of the Industrial Complex) when they fall due or the adequacy of the working capital of the Group after completion of the Proposed Acquisitions, or the ability of Chengdu Kinna Investment (being the vendor for the Proposed Ying Bin Property Acquisition) to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration (as defined herein) or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs. Further, our scope does not require us to opine on the ability of Jiangyou Neautus to obtain the construction completion inspection and certificates as well as title certificates for the Industrial Complex. Such evaluation or comment remains the responsibility of the Directors and the management of the Company ("**Management**") although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our view as set out in this Letter.

Our terms of reference do not require us to evaluate or comment on the strategic or commercial/financial/legal/operational/compliance merits of the Proposed Acquisitions as IPTs and the New IPT General Mandate (including the reliability of the sources for the transactions as well as the pricing as compared to third party sources or the possible margins that Interested Persons (as defined herein) may obtain from the transactions) or on the future prospects or value of the Company or the Group after the Proposed Transactions. In addition, we are not required to comment and have not commented on the reliability or quality as well as the implementation of the system for interested person transactions reporting and the monitoring of such system. In addition, we do not and are not required to confirm the nature or the types of Interested Person Transactions or the disclosure of the New IPT General Mandate that the Group is involved in. We are also not required to comment on or evaluate the methods or the procedures for determining Interested Person or the manner or mode for payment as well as the adequacy of the margin for the Group pursuant to the transactions or the proportion of the margins or earnings between the Interested Person and the Group. Although, there are certain controls and procedures in determining Interested Person, we are not required to and had not commented on or evaluated the methods or the procedures for determining Interested Person. Likewise we are not required to comment on or evaluate the methods or procedures used by the Company in the context of possible changes in the nature of operations. Such evaluations or comments remain the sole responsibility of the Directors and the Management.

We have not made any independent evaluation or appraisal of the Ying Bin Property, the Industrial Complex and Jiangyou Neautus (including without limitation, market value or economic potential) and we have not been furnished with any such evaluation and appraisal save for the following independent valuation reports issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Valuer**"):-

- (i) The valuation report dated 6 May 2016 in respect of the market value of the Ying Bin Property ("**Ying Bin Property Valuation Report**");
- (ii) The updated valuation report dated 1 December 2016 in respect of the market value of the Ying Bin Property ("**Updated Ying Bin Property Valuation Report**");

- (iii) The valuation report dated 6 May 2016 in respect of the market value of 100% equity interest in Jiangyou Neautus (“**Jiangyou Neautus Shares Valuation Report**”); and
- (iv) The updated valuation report dated 1 December 2016 in respect of the market value of 100% equity interest in Jiangyou Neautus (“**Updated Jiangyou Neautus Shares Valuation Report**”).

(collectively, the “**Valuation Reports**”)

With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment) including, *inter alia* the Ying Bin Property, the Industrial Complex and Jiangyou Neautus and have relied on the opinion of the Directors and the financial statements (audited and unaudited) of the Group and Jiangyou Neautus, where applicable for the assessment.

In the course of our evaluation, we have held discussions with certain Directors and the Management, *inter alia*, regarding their assessment of the rationale for the Proposed Acquisitions as IPTs, and the proposed adoption of the New IPT General Mandate as well as the existing and future processes or procedures for the Company in connection with the IPT, and have examined publicly available information collated by us including the Circular, the Valuation Reports, the audited or unaudited financial statements as well as information including material information or developments pertaining to the Company, the Group, and Jiangyou Neautus where applicable (both written and verbal), provided to us by the Directors and Management or where applicable professional advisers of the Company, including its consultants or advisers or solicitors or auditors. Whilst care has been exercised in reviewing the information (including the Valuation Reports) on which we have relied, we have not independently verified such information but have made such reasonable enquiries and used our judgement as we deemed necessary on the reasonable use of such information and have found no reason to doubt the accuracy or reliability of the information. Accordingly, we cannot and do not expressly or impliedly represent or warrant, and do not accept any responsibility for, the accuracy or completeness or adequacy of such information or the manner it has been classified or presented or the basis of any valuations.

We have relied upon the assurance of the Directors and Management that all statements of fact, belief, opinion and intention made by the Directors and the Management in the Circular as well as their announcements and annual reports have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty, expressed and implied, is made and no responsibility is accepted by us concerning the accuracy or completeness or adequacy of such information or statements of facts or belief or opinion or intention.

Our evaluation is based solely on publicly available information and other information provided by the Company as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance and position after the financial statements for the nine (9) months period ended 30 September 2016 (“**9M2016**”) for both the Group and Jiangyou Neautus. The scope of our appointment does not require us to express, and we do not express and have not commented on or assessed the expected future performance or prospects of the Company or the Group or Jiangyou Neautus after the completion of the transactions stipulated in the Circular. Accordingly, our evaluation and opinion and recommendation do not and cannot take into account future or prospective performance of the Company or the Group or Jiangyou Neautus and neither are we responsible for it. We are therefore not expressing any view herein as to the prices at which the Shares may trade upon completion or rejection of the Proposed Transactions (in part or in full) or voting for or voting against the Proposed Acquisitions or the other transactions or resolutions stipulated in the Circular (if any) or on the future financial performance of the Company or the Group or Jiangyou Neautus or the plans (if any) for each of them. Estimates or analysis or evaluation of the merits of the Company or the Group or Jiangyou Neautus or the Proposed Acquisitions as IPTs, or the proposed adoption of the New IPT General Mandate if any, in this Letter are necessarily limited and we do not warrant or represent that it is complete or in entirety.

The Directors are of the opinion that to the best of their knowledge and based on the confirmation from the Management, the values of the assets and liabilities as well as the financial performance or condition or position of the Company and the Group as reflected in the financial statements for FY2015 and 9M2016 are true and fair in any material aspect. In addition, the Directors confirmed that to the best of their knowledge and beliefs, such information is true, complete and accurate in all respects and that there is no other information or fact *inter alia* the valuation or appraisal of assets and liabilities, the contracts that the Group has embarked upon or are about to embark upon, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading in any material aspect. Our views, opinion and recommendations are thus limited and subject to these matters as well as others mentioned in the Letter.

The Directors further confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the financial statements for the Group for FY2015 and 9M2016, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

Our opinion in this Letter is based on economic, market, industry, monetary and other conditions (if applicable) in effect on, and the information provided to us, as of the Latest Practicable Date. Accordingly, the bases or assumptions and likewise our views or opinion or recommendation may and do change in the light of these developments which, *inter alia*, include general as well as company specific or industry specific conditions or sentiments or factors. Independent Directors (as well as Independent Shareholders who would be receiving the Circular and this Letter enclosed with the Circular) should note that our evaluation is based solely on publicly available information, and other information provided by the Company, the Directors as well as those disclosed in the Circular and the Valuation Reports as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after the relevant financial year end or interim financial period for the Company or the Group or Jiangyou Neautus or developments both macro and company specific and that these factors do and will necessarily affect the evaluation of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs, and our recommendation or opinion or views. Likewise this Letter outlines some of the matters or bases or factors or assumptions which we have used in our assessment and is a summary. They are by no means exhaustive or a reproduction of all the matters or bases or factors or assumptions etc. which we have used in our assessment.

The Directors have jointly and severally accepted full responsibility, as set out in the Circular, for the truth, accuracy and completeness of the information and representations as provided by the Directors and contained therein. The Directors have confirmed to ACA that all material information including but not limited to plans or prospects or proposals or rationale involving the Proposed Acquisitions or the New IPT General Mandate or the other transactions (where applicable) stipulated in the Circular or issue or changes to its capital structure, available to them and the Management in connection with the Proposed Acquisitions or the New IPT General Mandate or such other transactions as described in the Circular (if any) or such other parties has been disclosed to ACA and included in the Circular, that such information is true, complete and accurate in all material aspects and that there is no other information or fact including the expected future performance or future growth prospects or plans of the Company or the Group, the omission of which would result in the facts stated and the opinions expressed by the Directors in the Circular to be untrue, inaccurate or incomplete in any respect or misleading in any material aspect. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by ACA concerning the truth, accuracy, completeness or adequacy of such information or facts.

We have further assumed that all statements of fact, belief, opinion and intention made by the Directors and the Management in the Circular and that all representations and undertakings from the Directors to us on the continuance of the system for Interested Person Transactions, have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty, express or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information. In addition, we are not able to and

are not required to ascertain the efficiency of the respective markets for the transactions and the impact of any efficiency on the pricing for the Interested Person Transactions. We relied on the Directors' representation and have assumed for the purposes of this Letter that there are transactions with other third parties similar to the Interested Person Transactions and that it would be possible to determine the market prices and terms. For transactions where the appropriate information for comparative purposes is not available or prevailing market rates or prices are not available due to the types of the product to be sold or service to be provided, we have relied on the Directors' representation that it is possible to determine the pricing for such products to be bought or services to be obtained from the Interested Persons in accordance with the Group's usual business practices (as modified from time to time taking into account market, business conditions and competition) and pricing policies, at margins to be paid by the Group for the same or substantially similar type of product or services with unrelated third parties. In determining the transaction price payable to the Interested Persons for such products or services, factors such as, but not limited to, delivery schedules, previous supply of services and pricing, credit terms, profit margins, pricing policies, quality, track record, experience, expertise, nature of transactions, customer requirements, specifications, contract duration, prevailing market conditions and strategic purposes of the transactions, will be taken into account. Thus, we have also relied on the Directors' representation that the prices and/or other terms are in accordance with usual business practices and pricing policies and with the usual margins and/or terms to be obtained for the same or substantially similar types of transactions to determine whether the relevant transaction is undertaken at an arm's length and on normal commercial terms and without prejudicing the interests of the Company and the minority Shareholders.

In rendering our opinion and giving our recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Independent Shareholder. As different Independent Shareholders would have different investment profiles and objectives, we would advise the Independent Directors to recommend that any individual Independent Shareholder who may require advice in the context of his specific investment portfolio, including his investment in the Company, consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Accordingly, any factor or assumption or basis as well as the relative emphasis on any matter set out in this Letter on the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs or the Company or the Group or Jiangyou Neautus or the Shares, which we used or may have used may differ from the relative emphasis accorded by any individual Independent Shareholder or Independent Director, and as such the Independent Directors are advised to highlight to Independent Shareholders as well as note for themselves that any reliance on our opinion or view or assessment, is subject to the contents of this Letter in its entirety. In addition, ACA will not be responsible or required to provide an updated assessment or opinion or views on the proposed adoption of the New IPT General Mandate or the Proposed Acquisitions as IPTs or its recommendation, following the date of the issue of this Letter.

This Letter is addressed to the Independent Directors in connection with and for the sole purposes of their evaluation of the proposed adoption of the New IPT General Mandate and the financial terms of the Proposed Acquisitions as IPTs. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor Shareholders, may reproduce, disseminate or quote from this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs. In addition, any references to our Letter or opinion or views or recommendation, should not be made except with our prior consent in writing and even if made with our prior consent in writing, shall be subject to the contents of this Letter in its entirety, *inter alia*, the matters, conditions, assumptions, limitations, factors and bases as well as our terms of reference for this Letter.

3. THE NEW IPT GENERAL MANDATE

3.1 Background

The Group, under its two (2) subsidiaries, Chengdu Kinna Pharma and 四川古蔺肝苏药业有限公司 (Sichuan Longlife Pharmaceutical Co., Ltd), specialises in the manufacturing of pharmaceutical products in the form of tablets, granules, pills, etc., including traditional Chinese medicine formulated products for the treatment of illnesses relating to the liver and gall bladder. Additionally, the Group's business also includes the research and development, production, sale and marketing of pharmaceutical products.

From time to time, there are transactions between the Group and both the Sichuan Neautus, its subsidiaries and associated companies ("**Sichuan Neautus Group**") and Ning Xia in respect of recurrent transactions which would be entered into by the Group in its ordinary course of business with a high degree of frequency. Such transactions currently comprise the purchase of raw materials (such as herbs) for the manufacturing of medicines from the Sichuan Neautus Group and Ning Xia, and providing bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia.

As at the Latest Practicable Date, Mr Jiang Yun ("**Mr Jiang**"), the Chief Executive Officer of the Company, has an aggregate interest in approximately 29.81% of the total equity interest in Sichuan Neautus, arising from (a) his direct interest in 9.36% of equity interest in the capital of Sichuan Neautus; and (b) his indirect interest in approximately 20.45% of equity interest in Sichuan Neautus, through his 47.00% equity interest in the capital of Chengdu Kinna Investment, which in turn holds a direct interest in 43.51% equity interest in the capital of Sichuan Neautus. Mr Jiang is also the chairman of the board of Sichuan Neautus and the legal representative of both Sichuan Neautus and Chengdu Kinna Investment. Hence, for the purposes of Chapter 9 of the Listing Manual, the Sichuan Neautus Group is regarded as an Interested Person of the Company and the Company accordingly proposes to include the Sichuan Neautus Group as an Interested Person in the New IPT General Mandate. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares. Mr Jiang's son, Mr Jiang Ercheng, is a non-independent non-executive director of the Company and is deemed to be interested in approximately 22.76% of the total number of issued Shares held by Emperor Wealth Holdings Limited, a controlling shareholder of the Company, through his ownership of 100% of the equity interests in Emperor Wealth Holdings Limited.

As at the Latest Practicable Date, Mr Jiang Ercheng, who was appointed as a non-independent non-executive director of the Company on 1 July 2016, is the son of Mr Jiang and holds 100% of the equity interest in Emperor Wealth Holdings Limited, a controlling shareholder of the Company, and has a direct 85.0% equity interest in the capital of Ning Xia. Hence, for the purposes of Chapter 9 of the Listing Manual, Ning Xia is regarded as an Interested Person of the Company and the Company accordingly proposes to include Ning Xia as an Interested Person in the New IPT General Mandate.

Mr Wu Xuedan ("**Mr Wu**"), an Executive Director of the Company, also has a deemed interest of 43.51% in Sichuan Neautus. Hence, for the purposes of Chapter 9 of the Listing Manual, the Sichuan Neautus Group is regarded as an Interested Person of the Company. As at the Latest Practicable Date, Mr Wu does not have any direct or indirect interest in the Shares.

For completeness of disclosure, Mr Wu also has a direct 5.0% equity interest in the capital of Ning Xia. However, Ning Xia is not considered an "associate" of Mr Wu under Chapter 9 of the Listing Manual as Mr Wu's interests in Ning Xia is below the shareholding threshold of 30% or more applicable to an "associate" for the purposes of Chapter 9 of the Listing Manual.

The Company would like to seek the approval from the Shareholders for the adoption of the New IPT General Mandate in respect of certain recurrent transactions as set out in Section 2.3 of the Circular which the Group may enter into with the Sichuan Neautus Group and Ning Xia.

For the avoidance of doubt, there will be no sale or purchase of any assets, undertakings or businesses within the scope of the New IPT General Mandate. Further, the New IPT General Mandate will not cover any transactions entered into by a member of the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Rules 905 and 906 of Chapter 9 of the Listing Manual would not apply to such transactions.

Transactions with Interested Persons that do not fall within the scope of the New IPT General Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

General information relating to Chapter 9 of the Listing Manual, including terms such as “interested person”, “associate” and “controlling shareholder”, are set out in Appendix A of the Circular.

3.2 The classes of Interested Persons under the New IPT General Mandate

We note from Section 2.2 of the Circular, Sichuan Neautus is incorporated in the PRC. Its principal business activities are research and development, cultivating of Chinese herbs, production, wholesale and retailing of herbs and related products and food.

Ning Xia is incorporated in the PRC. Its principal business activities are in research and development and sale of Chinese herbal medicine.

The Interested Persons falling under the New IPT General Mandate, for the purpose of Chapter 9 of the Listing Manual are Sichuan Neautus and Ning Xia, and their subsidiaries and associated companies.

3.3 The nature of Interested Person Transactions

As set out in Section 2.3 of the Circular, the proposed transactions under the New IPT General Mandate are:

- (a) the purchase of raw materials, such as herba violae (紫花地丁), dandelion (蒲公英), indigowoad root (板蓝根) and herba lobeliae chinensis (半边莲) and other herbs and/or raw materials, from the Sichuan Neautus Group and Ning Xia for the manufacturing of medicines of the Group; and
- (b) the provision of bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia.

The Company has been sourcing for other third parties customers to provide such bottling services which is in the ordinary course of the Company's business. However, despite the Company's efforts, the Company has been unable to secure any third party customers for such bottling services.

3.4 Rationale for and benefit of the New IPT General Mandate

The rationale and benefit for the proposed adoption of the New IPT General Mandate has been extracted from Section 2.4 of the Circular and is set out in italics below. We advise the Independent Directors to recommend Independent Shareholders to read those pages of the Circular carefully. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

“2.4 Rationale for and benefit of the New IPT General Mandate

It is anticipated that in the ordinary course of business, transactions of a revenue or trading nature between companies in the Group and the Interested Persons are likely to occur from time to time. Such transactions may include, but are not limited to, the Interested Person Transactions as described in Section 2.3 of this Circular.

The New IPT General Mandate will give the Group the flexibility to enter into transactions with the Sichuan Neautus Group and Ning Xia in the ordinary course of the Group's business without the need to seek Shareholders' approval each time. The New IPT General Mandate will also enhance the Group's ability to pursue business opportunities of a revenue or trading nature which are time-sensitive, and will eliminate the need for the Company to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the Group into such transactions. This will substantially reduce the expenses associated with the convening of such general meetings from time to time, improve administrative efficacy, and allow resources and time to be focused towards other corporate and business opportunities.

The New IPT General Mandate is intended to facilitate transactions in the ordinary course of business of the Group which are transacted from time to time with the Sichuan Neautus Group and Ning Xia, provided that they are transacted on normal commercial terms and will not be on terms or conditions that would be prejudicial to the interests of the Company and/or its Minority Shareholders."

3.5 Guidelines and review procedures under the New IPT General Mandate

3.5.1 Review procedures

The following review procedures will be implemented after having regard to the nature of Interested Person Transactions and the criteria for establishing review procedures, which is to ensure that such review procedures are adequate and/or commercially practicable in ensuring that the Interested Person Transactions are conducted on normal commercial terms, are in the interest of the Company and are not prejudicial to the interests of the Company and Minority Shareholders:

(a) Category A Transactions

The purchase of raw materials, such as herba violae (紫花地丁), dandelion (蒲公英), indigowoad root (板蓝根) and herba lobeliae chinensis (半边莲) and other herbs and/or raw materials (the "**Raw Materials**"), from the Sichuan Neautus Group and Ning Xia for manufacturing of medicine or products of the Group ("**Category A Transactions**").

The transactions under Category A Transactions will include: purchase of raw materials including herba violae (紫花地丁), dandelion (蒲公英), indigowoad root (板蓝根), herba lobeliae chinensis (半边莲) and other herbs and/or raw materials between the Entities at Risk and the Interested Persons.

Essentially Category A Transactions comprises purchases of Raw Materials by Entities at Risk, from the Interested Persons.

In evaluating the purchase prices for the Raw Materials from the Interested Persons, comparison(s) will be made with at least two (2) quotations from unrelated/independent third party suppliers, from independently verifiable and reliable sources as approved by the Audit Committee from time to time, with advice from a committee comprising personnel(s) from the production, quality assurance, and finance department (the "**Committee**") ("**Approved Independent Sources**"). The Approved Independent Sources are selected based on place of origin, quality, texture of products, reliability of supply, payment terms, and may not simply be the cheapest comparable source, as such cheaper source may not be satisfactory or suitable in terms of quality, texture and reliability of supply and payment terms. The list of Approved Independent Sources will be maintained by the Committee and reviewed by Audit Committee periodically.

The purchase prices for Raw Materials from Interested Persons should be comparable or more favourable than the simple average for at least two (2) price quotes from the Approved Independent Sources. Credit terms of the purchases will be comparable to those offered by unrelated third parties.

In comparing the price quotes and the credit terms, the following factors will be considered: quality, reliability in supply, payment terms as well as the availability of bulk discounts, ability to meet delivery schedules, specialised nature, medicinal qualities, texture of the products, etc. as compared to those offered by unrelated and independent third parties or extended by the Entities at Risk or within the norms of the pharmaceutical manufacturing and distribution industry in the PRC known to the Audit Committee and the management of the Company.

Thus in respect of purchases of Raw Materials from the Interested Persons, the purchase prices and terms will be compared against quotations from Approved Independent Sources for each purchase order or for purchase orders for such intervals or periods for similar products and/or quantities, from similar geographical locations or regions as determined by the Audit Committee with at least two (2) other comparable quotations from unrelated and independent third parties with terms similar or comparable to those provided by the Interested Persons taking into account all pertinent factors such as but not limited to the fact that, quality, reliability in supply, payment terms, track record of counter-parties, and where applicable, preferential rates, rebates or discount accorded for bulk purchases or long-term suppliers with minimum volumes or known patterns for purchases and cost for freight, ability to meet delivery schedules, specialised nature, medicinal qualities, texture of the products etc., freight and shipping terms (*inter alia*, storage, shipment, transportation and insurance costs or expenses where applicable) to be borne by each party.

In the event that two (2) comparable quotations from unrelated and independent third parties are not available, the Company will, subject to the approval of the Audit Committee, determine the reasonableness of the purchase prices to ensure that the purchase prices of the Raw Materials from Interested Person(s) are in accordance with industry norms and usual business practices, the strategic direction of the Group and the pricing policies of the relevant companies in the Group and taking into consideration other factors such as but not limited to, potential gross profit margins or earnings as compared to the average profit margins for the Group, as the case may be, and the historical purchase price paid by the Company, product quality, discount accorded for bulk purchase, reliability, relationship established, known pattern of purchases, overall services provided and costs or expenses borne by each parties.

(b) Category B Transactions

The Group has a production facility for bottling oral liquid medicines. The bottling production facility was built to manufacture a type of oral liquid medicine, namely 黄刻 (“Huangke”). Due to increases in raw material costs, the manufacture for sale of Huangke became unprofitable and is no longer commercially viable since FY2014.

As a result, the Group has since FY2014 discontinued production of Huangke in FY2014. Arising from possibilities of offering its bottling facilities for contract manufacturing to Sichuan Neautus Group and Ning Xia, the Group had made minor modifications to its bottling production equipment at the end of 2014, to cater for production of bottled food supplement. It currently has a production capacity of approximately 10,000 bottles per day.

The Group had modified instead of disposing its bottling production facilities as such facilities are still useful to the Group’s business in future. The Group intends to manufacture new types of oral liquid medicine in future which are profitable and use the bottling production facilities for the bottling of such oral liquid medicines. As at the Latest Practicable Date, the bottling business of the Group has a positive gross profit margin (which takes into account direct costs such as direct labour and materials, etc.).

Since January 2016, the Group had on an ad-hoc basis provided bottling services for wolfberries juice (枸杞液), a food supplement beverage sold by Ning Xia. As at the Latest Practicable Date, the Group has bottled approximately 22,000 bottles of food supplement since 1st January 2016. As at the Latest Practicable Date, the estimated gross profit margins (after accounting for direct costs such as direct labour and materials etc.) for provision of such bottling services to the Interested Person(s) is comparable if not higher than those generated from other products of the Group. Given the indicated increase in demands for such services from Interested Person(s) and the possibility of term contracts, the Directors have envisaged the requirements for an interested person transactions general mandate for compliance with the Listing Manual.

On an ad hoc basis or long-term basis, the Interested Person(s), subject to terms and conditions, intends to engage the Group for the provision of bottling services for food supplement beverages produced by the Sichuan Neautus Group and Ning Xia. The Board understands that the Interested Person(s) do not currently have their own bottling production facilities. There is no minimum quantity for the bottling services as the production of the food supplement beverage by the Interested Person(s) is based on market demand. The Board is of the view that it makes commercial sense for the Group to continue to provide such bottling services because it is a profitable service, instead of leaving such bottling production equipment idle, without generating any revenue or profits to the Group. In addition and as mentioned, the Group intends to manufacture oral liquid medicine in future and the bottling production facilities can be used for bottling such oral liquid medicines.

In determining the prices for the provision of bottling services for the Interested Person, the following will be considerations for determination of each contract or contracts:

- (i) the returns for services to be provided must be more favourable than those generated from the comparable contract bottling services to be offered to unrelated and independent third parties;
- (ii) to determine the aforementioned, two (2) independent quotes from unrelated and independent third parties will be sourced to determine the competitiveness and comparability of the price and terms offered to or by the Interested Person(s) for the provision of such services. This will take into account all pertinent factors, *inter alia*, the costs for provision of the service (including direct and indirect) to be incurred by Entities at Risk, available/idle production capacity on a short or long-term basis, historical prices offered to the Interested Person(s) or third parties, payment terms, warehousing terms, freight and insurance terms, responsiveness and comparisons based on relevant costing (if applicable), etc. For avoidance of doubt, the costs for provision of such services will be determined by the finance department.

The Group does not currently provide its bottling service to independent third parties.

In the event that two (2) comparable quotations from unrelated and independent third parties are not available, the Audit Committee will determine the reasonableness of the price, after taking into account factors such as, but not limited to, the costs for provision of the service (including direct and indirect) to be incurred by Entities at Risk, available/idle production capacity, historical prices offered to the Interested Person(s), payment terms, warehousing terms, freight and insurance terms, responsiveness and comparisons based on relevant costing (if applicable), etc. This is consistent with the review procedure for purchase of Raw Materials in Section 2.5.1(a) of the Circular and Section 3.5.1. (a) of this IFA Letter. Furthermore, each transaction will be evaluated based on its profitability (as compared to existing profit margins for other products or services provided by the Group) to ensure that transactions are on an arms-length basis and not prejudicial to the interest of the Company and its Minority Shareholders.

3.6 Approval and review thresholds:

In addition to the review procedures, the following approval procedures will be implemented to supplement existing internal control procedures for the Interested Person Transactions to ensure that such transactions are undertaken on an arm's length basis and on normal commercial terms:

(a) Aggregate transactions review and approval thresholds for Raw Materials

- (i) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 5.0% but less than 10% of the Group's latest audited net tangible assets ("**NTA**"), all subsequent Interested Person Transactions shall require the prior approval of both the Group's production manager and such other manager or officer of the Group (who shall not be interested in any of the Interested Person Transactions) as approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

The Group's production manager in-charge of Category A Transactions will be delegated with the authority to act as the first level of approval, in view of familiarity and responsibility for the Group's production and manufacturing processes. The other manager referred to will be the finance manager for the Group, who is independent from the production and procurement departments, and familiar with the costing and budgeting processes for the Group. Currently, the Group's production manager in charge of Category A Transaction is Mr Wang Bo and the finance manager for the Group is Mr Zhang Lin.

Shareholders shall note that as stated under Section 2.5.1(a) of the Circular, for Raw Materials, Category A transactions, and for approvals under this threshold there must be two (2) comparable quotations, else the approval is subject to the Audit Committee. The comparable quotes are from independently verifiable and reliable sources as approved by the Audit Committee from time to time, with advice from a committee comprising personnel(s) from the production, quality assurance, and finance department. The two persons designated as approving authority for this threshold are the managers for the production and finance department. The managers and their functions are independent of each other and are not interested in any of the Interested Person Transactions.

Whilst the Group's production manager in charge of Category A Transactions, Mr Wang Bo, and the finance manager for the Group, Mr Zhang Lin are key management staff at the Group's subsidiaries, they are not considered key executives of the Group. Notwithstanding, the Audit Committee is of the view that both production manager and finance manager for the Group have the necessary skills and experience, to be delegated with authority to carry out their responsibilities for the approval in their respective functions, namely managing the full production facilities and finance (including cost accounting and budgeting for the Group) respectively and ensuring that such interested persons transactions are undertaken on an arm's length basis and on normal commercial terms. Delegation of authority comes with responsibility and accountability. Furthermore the Audit Committee has the overall responsibility and is accountable to the shareholders.

In addition, where the aggregate value of all Interested Person Transactions is equal to or less than 10% of the Group's latest audited NTA, the Financial Controller of the Company ("**Financial Controller**"), who is a key executive of the Company as disclosed in the Company's annual reports will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee. Currently, taking into account the nature of the Interested Person Transactions (including, *inter alia*, the size, frequency

and volume of such transactions) and the review procedures for the Interested Person Transactions (including the additional controls as set out in paragraph 2.5.3 of the Circular), the Audit Committee is satisfied with the frequency of reviews done by the Financial Controller on a quarterly basis.

- (ii) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 10% but less than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall be subject to the prior approval of both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) unless the transaction has been specifically approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

In addition, the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee.

For this threshold, transactions require the approval, from both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). The person to be designated will be one of the following: a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction).

The review and quarterly (or such periods) approval of transactions, will be conducted by the Financial Controller and one of the persons named above being a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction) provided that such person shall not have approved the transaction to be reviewed. For the avoidance of doubt, where the transaction was previously reviewed by a member of the Audit Committee, "such person" shall mean another member of the Audit Committee. As the person reviewing the transactions (other than the Financial Controller) will not be the same as the person approving the transactions, this procedure provides a sufficient check and balance.

Furthermore, all approvals must strictly follow review procedures as stipulated in Sections 2.5.1(a) and 2.5.3 of the Circular. All such approvals must be documented. The documentation, including the reasons for approval where necessary, must be accompanied with supporting documents to serve as audit trails, which will be subject to internal audit or external audit.

- (iii) Where the aggregate Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions will be subject to the prior approval of a simple majority of the members of the Audit Committee (if a member of the Audit Committee is interested in any Interested Person Transactions, he shall abstain from participating in the review of that particular transaction). The Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval. For the avoidance of doubt, the Audit Committee shall be responsible for such approvals.

(b) Aggregate transactions review and approval thresholds for provision of bottling services

- (i) Where the aggregate value of the Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 5.0% but less than 10% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall require the prior approval of both the Group's production manager and such other manager or officer of the Group (who shall not be interested in any of the Interested Person Transactions) as approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

The Group's production manager for bottling services in-charge of the Group's Category B Transactions will be delegated with the authority to act as the first level of approval, in view of familiarity with the Group's production and manufacturing processes. The other manager or officer will be the finance manager for the Group, who is independent from the productions and sales departments, and familiar with the production costing and budgeting processes. Currently, the Group's production manager for bottling services is Ms Xu Hui Li and the finance manager for the Group is Mr Zhang Lin.

Shareholders shall note that as stated under Section 2.5.1(b) of the Circular, for bottling services, Category B transactions, and for approvals under this threshold there must be two (2) comparable quotations, else the approval is subject to the Audit Committee.

Whilst the Group's production manager for bottling services, Ms Xu Hui Li, and the finance manager for the Group Mr Zhang Lin are key management staff at the Group's subsidiaries, they are not considered key executives of the Group. Notwithstanding, the Audit Committee is of the view that both the production manager and finance manager for the Group have the necessary skills and experience, to be delegated with authority to carry out their responsibilities for the approval in their respective functions, namely managing the full production facilities and finance (including cost accounting and budgeting for the Group) respectively and ensuring that such interested persons transactions are undertaken on an arm's length basis and on normal commercial terms. Delegation of authority comes with responsibility and accountability. Furthermore the Audit Committee has the overall responsibility and is accountable to the shareholders.

In addition, where the aggregate value of all Interested Person Transactions is equal to or less than 10% of the Group's latest audited NTA, the Financial Controller, who is a key executive of the Company as disclosed in the Company's annual reports will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee. Currently, taking into account the nature of the Interested Person Transactions (including, *inter alia*, the size, frequency and volume of such transactions) and the review procedures for the Interested Person Transactions (including the additional controls as set out in paragraph 2.5.3 of the Circular), the Audit Committee is satisfied with the frequency of reviews done by the Financial Controller on a quarterly basis.

- (ii) Where the aggregate value of all Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 10% but less than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions shall be subject to the prior approval of both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) unless the transaction has been specifically approved by the Audit Committee. Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval.

For this threshold, transactions require the approval, from both the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). The person to be designated will be one of the following: a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction).

Furthermore, all approvals must strictly follow review procedures stipulated in Sections 2.5.1(b) and 2.5.3 of the Circular. All such approvals must be documented. The documentation, including the reasons for approval where necessary, must be accompanied with supporting documents to serve as audit trails, which will be subject to internal audit or external audit.

In addition, the Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions) will review and approve transactions in the Interested Person Transactions register on a quarterly basis or such other periods as approved by the Audit Committee.

The review and quarterly (or such other periods) approval of transactions, will be conducted by the Financial Controller and one of the persons named above being a) the Chief Executive Officer; or b) in the case where the Chief Executive Officer is an Interested Person, the next most senior personnel who is not interested (currently the assistant general manager, Mr Qi Jie); or c) a member of the Audit Committee (in the event that both the assistant general manager and Chief Executive Officer are interested in the transaction) provided that such person shall not have approved the transaction to be reviewed. For the avoidance of doubt, where the transaction was previously reviewed by a member of the Audit Committee, "such person" shall mean another member of the Audit Committee. As the person reviewing the transactions (other than the Financial Controller) will not be the same as the person approving the transactions, this procedure provides a sufficient check and balance.

- (iii) Where the aggregate Interested Person Transactions in the current financial year (not including transactions below S\$100,000) is equal to or more than 15% of the Group's latest audited NTA, all subsequent Interested Person Transactions will be subject to the prior approval of a simple majority of the members of the Audit Committee (if a member of the Audit Committee is interested in any Interested Person Transactions, he shall abstain from participating in the review of that particular transaction). The Interested Person Transactions which have been approved by the Audit Committee need not be aggregated for the purpose of the approval. For the avoidance of doubt, the Audit Committee shall be responsible for such approvals.

(c) Individual transactions review and approval thresholds

- (i) Where an individual transaction is below S\$250,000 (including individual transactions below S\$100,000), such transactions will be subject to prior approval by relevant factory manager or relevant purchase manager or relevant person-in-charge for the production department or such other persons as approved by the Audit Committee.
- (ii) Where an individual transaction is above S\$250,000, but less than 5.0% of the Group's latest audited NTA, such transactions will be subject to prior approval of Financial Controller and another person designated by the Audit Committee (who shall not be interested in any of the Interested Person Transactions). Such person shall be one of those named in either Section 2.5.2.(a)(ii) or 2.5.2(b)(ii) of the Circular.
- (iii) Where an individual transaction is above 5.0% of the Group's latest audited NTA, such transactions will be subject to prior approval of a simple majority of the members of the Audit Committee.

The threshold limits set out above are adopted by the Company taking into account, *inter alia*, the nature, volume, recurrent frequency and size of the transactions as well as the Group's day-to-day operations, administration and businesses. The threshold limits are arrived at after considering the operational efficiency for the day-to-day business operations of the Group and the internal control for Interested Person Transactions. The threshold limits act as an additional safeguard to supplement the review procedures which will be implemented by the Company for Interested Person Transactions.

3.7 Additional controls

- (a) The Finance Department of the Group will maintain a register of transactions (including transactions below S\$100,000) carried out with Interested Persons pursuant to the New IPT General Mandate (recording the basis, including the quotations and supporting evidence or records or details obtained to support such basis, on which they were entered into as well as the approving authority). In accordance with Rules 905(3) and 906(3) of the Listing Manual, transactions which are below S\$100,000 will not be aggregated. The Interested Person Transactions register shall be prepared, maintained, monitored and reviewed on a monthly basis, by both the Finance Manager and Financial Controller of the Company who are not Interested Persons. This is to ensure that they are carried out on normal commercial terms and in accordance with the guidelines and review procedures in the New IPT General Mandate. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the transaction(s) and its supporting documents or such other data deemed necessary by the Audit Committee. In addition, any exceptions or departures from the procedures shall be reported and highlighted to the Audit Committee immediately.
- (b) The Financial Controller will obtain signed letters of confirmation from key management personnel, controlling Shareholders and the Directors on a periodic basis (of not more than half year) with respect to their interest in any transactions with the Group.
- (c) The Financial Controller will maintain a list of the Directors and Controlling Shareholders and associates of the Company (which is to be updated immediately if there are any changes) to enable identification of Interested Persons. The master list of Interested Persons which is maintained shall be reviewed by the Audit Committee at least on a semi-annual basis.
- (d) The Group's annual or periodic (such periods as may be decided by the Audit Committee) internal audit plan shall incorporate a review of all Interested Person Transactions, including the established review procedures for monitoring of such Interested Person Transactions, entered into during the current financial year pursuant to the New IPT General Mandate. The approving authority in the approval thresholds as stipulated in Section 2.5 of the Circular may be delegated with the approval of the Audit Committee in writing as well as the bases for such approval.
- (e) The Audit Committee shall periodically review all Interested Person Transactions, at least on a semi-annual basis, to ensure that they are carried out on normal commercial terms and in accordance with the guidelines and review procedures in the New IPT General Mandate. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the transaction(s) and its supporting documents or such other data deemed necessary by the Audit Committee. The Audit Committee shall, when it deems fit, have the right to require the appointment of independent sources, advisers and/or valuers to provide additional information or review of controls and its implementation pertaining to the transactions under review.
- (f) In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he shall abstain from participating in the review of that particular transaction.

- (g) The Group's internal auditor shall, on at least a semi-annual basis, subject to adjustment in frequency, depending on factors such as, *inter alia*, substantial increment of aggregate transactional value, report to the Audit Committee on all Interested Person Transactions, and the basis of such transactions, entered into with Interested Persons during the preceding period. The Audit Committee shall review such interested person transactions at its periodic meetings except where Interested Person Transactions are required under the review procedures to be approved by the Audit Committee prior to the entry thereof.
- (h) The Audit Committee will conduct periodic reviews (of not less than half-yearly) of the review procedures for the Interested Person Transactions. If, during these periodic reviews, the Audit Committee is of the view that these review procedures are no longer sufficient or appropriate to ensure that the Interested Person Transactions are transacted on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders, the Company will seek a fresh general mandate from the Shareholders based on new review procedures for Interested Person Transactions. All Interested Person Transactions will be reviewed and approved by the Audit Committee prior to entry while a fresh general mandate is being sought from the Shareholders.
- (i) The Audit Committee will review the letters of confirmation from key management personnel, controlling Shareholders and the Directors of the Company and all Interested Person Transactions on a periodic basis (of not more than half year) and the outcome of such review shall be minuted.
- (j) For purposes of the above review and approval process, any Director who is not considered independent for purposes of the general mandate and/or any Interested Person Transactions will abstain from voting in relation to any respective resolution, and/or abstain from participating in the Audit Committee's decision during its review of the established review procedures for the Interested Person Transactions or during its review or approval of any Interested Person Transaction.

3.8. Further compliance

The Directors will ensure that all disclosure, approval and other requirements on Interested Person Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

3.9 Validity period of the New IPT General Mandate

If approved at the forthcoming EGM, the New IPT General Mandate will take effect from the date of the passing of the ordinary resolution to be proposed at the EGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM.

The Company intends to seek the approval of Shareholders for the renewal of the New IPT General Mandate annually. The renewal of the New IPT General Mandate shall be subject to the satisfactory review by the Audit Committee of the continued need for the New IPT General Mandate and the adequacy of the review procedures for the transactions.

3.10. Disclosure of IPT to Shareholders in the Annual Report and Financial Statements

In accordance with the requirements of Chapter 9 of the Listing Manual:

- (a) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all Interested Person Transactions conducted with Interested Persons pursuant to the New IPT General Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the New IPT General Mandate is in force;
- (b) announcements will be made with regard to the aggregate value of transactions conducted pursuant to the New IPT General Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report; and

- (c) disclosures of the Interested Person Transactions will be presented in the form set out in Rule 907 of the Listing Manual as follows:

Name of Interested Person(s)	Aggregate value of all Interested Person Transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under the New IPT General Mandate)	Aggregate value of all Interested Person Transactions conducted under the New IPT General Mandate (excluding transactions less than S\$100,000)

4. THE PROPOSED YING BIN PROPERTY ACQUISITION

4.1. Background information

Background information and details on the Proposed Ying Bin Property Acquisition are set out in Section 3 of the Circular and are extracted or summarised below. Independent Directors should advise Independent Shareholders to read background information and details on the Proposed Ying Bin Property Acquisition contained in the Circular carefully and in its entirety.

4.1.1. Background information on Chengdu Kinna Pharma and Chengdu Kinna Investment

(a) The Purchaser

The Purchaser, Chengdu Kinna Pharma, is a wholly-owned subsidiary of the Company and is a limited liability company incorporated in the PRC on 3 November 2003. The Purchaser is engaged in the business of development, manufacture and sale of western medicines and health tonic products.

(b) Chengdu Kinna Investment

The vendor for the Proposed Ying Bin Property Acquisition is Chengdu Kinna Investment. Chengdu Kinna Investment is a company limited by shares incorporated in the PRC on 3 April 1996 and is engaged in the business of project investment (which includes investment holding and real estate development) (excluding finance, securities, futures), domestic wholesale and retail of commodity products other than those products which require special separate approval.

As at the Latest Practicable Date, Mr Jiang has a 47.00% equity interest in the capital of Chengdu Kinna Investment. Mr Jiang is also the legal representative of Chengdu Kinna Investment. Hence, for the purposes of Chapter 9 of the Listing Manual, Chengdu Kinna Investment is regarded as an interested person of the Company. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares. Mr Jiang's son, Mr Jiang Ercheng, is a non-independent non-executive director of the Company and is deemed to be interested in approximately 22.76% of the total number of issued Shares held by Emperor Wealth Holdings Limited, a controlling shareholder of the Company, through his ownership of 100% of the equity interests in Emperor Wealth Holdings Limited.

For completeness of disclosure, Mr Wu, an Executive Director of the Company, also has a 20.00% equity interest in the capital of Chengdu Kinna Investment. However, Chengdu Kinna Investment is not considered an "associate" of Mr Wu under Chapter 9 of the Listing Manual.

4.1.2. Information on the Ying Bin Property

We note from Section 3.3 of the Circular, the Ying Bin Property is located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu, Sichuan Province, PRC and will be delivered to the Purchaser if the Company obtains Shareholder's approval at the EGM for the proposed acquisition of the Ying Bin Property. The Ying Bin Property comprises two (2) units on the sixth storey of a building (Units 4-6-1 and 4-6-2), and comprises a total area of approximately 918.02 square metres. The land usage rights for the Ying Bin Property expire on 6 October 2052. The Ying Bin Property is

part of the development project for an industrial park comprising of 73 units developed by the vendor, Chengdu Kinna Investment as part of its business of project investment (which includes investment holding and real estate development. The Company intends to utilise the Ying Bin Property for its own use as a non-manufacturing industrial and auxiliary facility for its expanding operations, as well as to accommodate its expanding staff force and centralize its back office support staff who are currently located in different offices for better management and control.

Based on the information gathered by the Management, the Ying Bin Property is part of the development project for an industrial park comprising 16 office units, 18 office-villas and 39 commercial units.

We understand that the Directors having reviewed the legal due diligence report for the Ying Bin Property and are satisfied with the outcome of the legal due diligence for the Ying Bin Property.

4.1.3. Salient terms of the Ying Bin Property SPAs

The salient terms of the Ying Bin Property SPAs have been extracted from Section 3.5.1 of the Circular and are set out in italics below. We recommend that Independent Shareholders read those pages of the Circular carefully. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

“3.5.1 Salient terms of the Ying Bin Property SPAs

(a) *Conditions precedent*

The proposed acquisition of the Ying Bin Property is conditional on, inter alia, the following:

- (i) the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at an extraordinary general meeting to be convened by the Company for, inter alia, the proposed acquisition of the Ying Bin Property; and*
- (ii) completion of a satisfactory due diligence exercise by the Group on the Ying Bin Property in PRC from the technical, legal and financial perspectives, and the vendor of the Ying Bin Property having completed rectification from the technical, legal and financial perspectives, if any and where applicable.*

If all the conditions stated above shall not have been fulfilled or waived before 30 April 2017 or such other extended date as the Group may agree in writing, whichever is later, the Group shall have the right to terminate the Ying Bin Property SPA(s) in accordance with the Ying Bin Property SPA(s).

(b) *Purchase consideration*

*The aggregate tentative purchase consideration payable by the Group for the Ying Bin Property (“**Tentative Purchase Consideration**”) shall be the sum of RMB6,973,280, to be paid in one lump sum to the vendor of the Ying Bin Property before 30 April 2017. The Tentative Purchase Consideration represents a discount of approximately 5.0% from the market value of the Ying Bin Property (as if completed as at 31 March 2016) of RMB 7,340,000 as ascribed by the Valuer. Further information on the valuation of the Ying Bin Property is set out in the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report under **Appendix C** of this Circular.*

The purchase consideration shall be calculated based on the per unit sale price of RMB7,596 per square metre multiplied by the total construction area.

The Tentative Purchase Consideration amount is based on the aggregate estimated construction area of the Ying Bin Property of 918.02 square metres, calculated based on the floor plan of the Ying Bin Property, and is subject to adjustments as follows:

- (i) in order to confirm the construction area used for calculating the purchase consideration, both parties will jointly appoint a qualified independent survey institution to appraise the total construction area of the Ying Bin Property and issue a survey report. Such survey report shall be issued and available for the parties' review by no later than 30 June 2017;
 - (A) if the final construction area figure provided in the survey report issued by the aforesaid survey institution ranges between 95% of the estimated construction area and 105% of the estimated construction area, the parties agree that the amount of the final purchase consideration ("**Final Purchase Consideration**") shall be calculated based on the final construction area provided in the survey report; and
 - (B) if the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties may re-negotiate the relevant terms of the Ying Bin Property SPA(s), however either party shall then have the right to terminate the Ying Bin Property SPA(s) by serving a written notice to the other party and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms hereof; the vendor of the Ying Bin Property shall then refund to the Group the full amount that has been paid by the Group hereunder within the period as required by the Group (such period to be determined by the management of the Group);
- (ii) once the survey report issued by the survey institution appointed by the parties is available (in no event shall be later than 30 June 2017), the parties shall re-calculate and confirm the amount of the Final Purchase Consideration based on the construction area figure provided in the survey report;
 - (A) if the final construction area provided in the survey report ranges between 95% of the estimated construction area and 105% of the estimated construction area, the Group shall pay for the shortfall or the vendor of the Ying Bin Property shall refund the difference between the Final Purchase Consideration and the Tentative Purchase Consideration, as the case may be; the parties agree that the shortfall or difference mentioned in this paragraph shall be paid or refunded by the relevant party within 15 days after the survey report is issued; and
 - (B) if the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties may re-negotiate the relevant terms of the Ying Bin Property SPA(s) or either party shall have the right to terminate the Ying Bin Property SPA(s) in accordance with paragraph 3.5.1(b)(i)(B) above;
- (iii) the vendor of the Ying Bin Property shall issue to the Purchaser the valid and legitimate tax invoice bearing the full amount of the corresponding payment made by the Purchaser within 7 days after receiving the payment from the Purchaser.

The Company will make an announcement of the Final Purchase Consideration after it has been determined.

The Group intends to use internal sources of funds to finance the proposed acquisition of the Ying Bin Property.

As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Acquisitions and the Additional Cost (as defined below), the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

(c) *Transaction steps*

- (i) *The vendor of the Ying Bin Property shall obtain the construction completion and acceptance certificate (竣工验收备案证明) for, inter alia, the Ying Bin Property and provide a certified true copy of the same in respect to the Group by no later than 30 June 2017.*
- (ii) *Subject to the vendor of the Ying Bin Property having obtained the construction completion and acceptance certificate (竣工验收备案证明) of the Ying Bin Property, the vendor of the Ying Bin Property shall deliver the Ying Bin Property, together with all the items and materials relating to the Ying Bin Property, to the Group on 30 June 2017 (the “**Delivery Date**”).*

If the quality of the base and/or the main structure of the Ying Bin Property do(es) not satisfy the statutory standards according to any testing report, the Purchaser shall have the right to return the Ying Bin Property to the vendor of the Ying Bin Property and terminate the Ying Bin Property SPAs by serving a written notice to the vendor of the Ying Bin Property. Under such circumstances, the vendor of the Ying Bin Property shall, within 30 days after receiving the written notice, refund to the Purchaser the purchase consideration and pay to the Purchaser the interest calculated at the benchmark interest rate for current account published by People’s Bank of China. The cost incurred for the testing report shall also be borne by the vendor of the Ying Bin Property.

Notwithstanding the other provisions of the Ying Bin Property SPAs,

- (A) *in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for no more than 30 days (inclusive), for each day of delay from the date immediately following the Delivery Date to the date the Ying Bin Property is duly delivered to the Purchaser, the vendor of the Ying Bin Property shall pay to the Purchaser a default charge based on 0.12% of the total sum of the purchase consideration, which is payable by the vendor of the Ying Bin Property within 15 days after the Ying Bin Property are duly delivered to the Purchaser;*
- (B) *in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for more than 30 days, the Purchaser shall have the right (not obligation) to terminate the Ying Bin Property SPAs. The vendor of the Ying Bin Property shall return the full amount of the purchase consideration and pay liquidated damages equivalent to 20% of the purchase consideration to the Purchaser within 15 days after receiving the termination notice from the Purchaser, in addition to the abovementioned default charge; and*
- (C) *in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for more than 30 days, and the Purchaser agrees to continue performing its obligations under the Ying Bin Property SPAs, for each day of delay in delivery from the date immediately following the Delivery Date to the date the*

Ying Bin Property is duly delivered to the Purchaser, the vendor of the Ying Bin Property shall pay to the Purchaser a default charge based on 0.2% of the total sum of the purchase consideration, which is payable by the vendor of the Ying Bin Property within 15 days after the Ying Bin Property is duly delivered to the Purchaser.

- (iii) The vendor of the Ying Bin Property shall complete the initial title registration of, inter alia, the Ying Bin Property with the Real Estate Trade Centres within 365 days after the Delivery Date and shall provide a certified true copy of the initial title registration certificate of, inter alia, the Ying Bin Property to the Group within three (3) working days after the initial title registration is completed. The period of 365 days is required as sufficient buffer for the vendor to complete the initial title registration in accordance with local practice, and was commercially agreed between the parties.*
- (iv) The vendor of the Ying Bin Property shall submit the title transfer application documents to the Real Estate Trade Centres and ensure that the Group's title certificates be issued within 730 days after the initial title registration certificate of, inter alia, the Ying Bin Property is obtained (by no later than 30 June 2020). The period of 730 days is required as sufficient buffer for the PRC regulatory authorities to issue the title certificates in accordance with local practice, and was commercially agreed between the parties.*

Notwithstanding the other provisions of the Ying Bin Property SPAs, in the event that the Purchaser cannot obtain the Purchaser's title certificates of the Ying Bin Property before 30 June 2020, for each day of delay, the vendor of the Ying Bin Property shall pay to the Purchaser the deferred compensation based on 0.02% of the total sum of the purchase consideration. If the aforesaid delay continues for more than 3 months (inclusive), the Purchaser shall have the right to terminate the Ying Bin Property SPAs and all other relevant documents signed pursuant to the Ying Bin Property SPAs. If the Purchaser terminates the Ying Bin Property SPAs in accordance with this paragraph, in addition to the deferred compensation, the vendor of the Ying Bin Property shall further refund to the Purchaser all the amount paid by the Purchaser under the Ying Bin Property SPAs, and fully compensate any other loss and expenses suffered or incurred therefrom by the Purchaser (including without limitation relocation, and renovation costs), without prejudice to the other rights of the Purchaser under the Ying Bin Property SPAs and the laws.

(d) Other material terms

The vendor of the Ying Bin Property warrants that it has or will obtain the written consent on the transaction from the mortgagee of the Ying Bin Property (i.e. Shanghai Pudong Development Bank, Chengdu Branch (上海浦东发展银行股份有限公司成都分行)), and further discharge the existing mortgage on the Ying Bin Property before the title transfer is completed.

(e) Letter of confirmation, undertaking and indemnity from the vendor of the Ying Bin Property (the "Letter")

Pursuant to the acquisition of the Ying Bin Property, the vendor of the Ying Bin Property also issued the Letter to the Group, in which the vendor of the Ying Bin Property unconditionally and irrevocably undertakes, inter alia, as follows:

- (i) the terms of the Ying Bin Property SPAs (including but not limited to payment terms, transaction steps, duration of obtaining title certificates, liquidated damages, liabilities for breach, default charges, etc.) are referenced from the standard sale and purchase agreement which the vendor of the Ying Bin Property adopts for their sales in the Ying Bin development. The general*

terms in the Ying Bin Property SPAs are comparable to, or not less favourable than the terms of the sale and purchase agreements signed by the vendor of the Ying Bin Property with third parties in respect of the sale of other real properties at No. 8 Ying Bin Avenue. The payment terms, in particular, are not uncommon practice in the PRC;

- (ii) the Ying Bin Property falls into the scope of industrial property. Therefore, the timeline for registration of title certificate differs from residential and commercial properties. The vendor of the Ying Bin Property has sought the advice of the management commission (管委会) on the titles application processes and procedures and the vendor of the Ying Bin Property confirms that the payment terms, transaction steps and the timeline for registration of initial title certificates or the Purchaser's title certificates stipulated in the Ying Bin Property SPAs are in accordance with the practice in the PRC;
- (iii) the Ying Bin Property is currently subject to mortgage and the vendor of the Ying Bin Property undertakes to complete or procure completion of the discharge of such mortgage as soon as may be practicable before the title transfer of the Ying Bin Property;
- (iv) the vendor of the Ying Bin Property undertakes to do all such acts necessary to ensure or to procure that the title of the Ying Bin Property as defined under the Ying Bin Property SPAs be legally transferred to the Purchaser or any of its affiliates in accordance with the terms of the Ying Bin Property SPAs; and
- (v) in the event that the vendor of the Ying Bin Property fails to discharge the existing mortgage over the Ying Bin Property, or the Purchaser or any of its affiliates is not issued the Purchaser's title certificates as defined under the Ying Bin Property SPAs for the Ying Bin Property, the vendor of the Ying Bin Property shall indemnify the Group in respect of all fees, compensation, default charges, liquidated damages, losses and results arising thereof and further refund to the Group all the sums that the vendor of the Ying Bin Property has received from the Group for the sale of the Ying Bin Property.

The Directors have confirmed that they are aware of the credit risk arising from the proposed acquisition of the Ying Bin Property and based on the information provided by the management of the Company including inter alia assessment of credit worthiness of Chengdu Kinna Investment, the vendor of the Ying Bin Property, the Directors are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.”

4.2. Evaluation of the Proposed Ying Bin Property Acquisition as an IPT

4.2.1. Rationale for the Proposed Ying Bin Property Acquisition

We note from Section 3.4 of the Circular that the Directors are of the view that the Proposed Ying Bin Property Acquisition is in the best interests of the Company and its Shareholders as the acquisition of the Ying Bin Property will allow the Group to secure a location to utilise as a non-manufacturing and auxiliary facility which the Group requires for its expanding operations, as well as to accommodate its expanding staff force and centralise its back office support staff who are currently located in different offices for better management and control. The Group also considers that the acquisition of the Ying Bin Property will ensure continuity of the Group's operations as the Ying Bin Property will further be able to accommodate any future expansions plans of the Group.

The Directors and the Management represented and confirmed that (i) it is the intention of the Group to acquire the Ying Bin Property given that it could enable the Group to save estimated future rental costs of approximately RMB1.5 million per annum, to minimise the impact of rising rental expenses and to avoid the adverse effect to its operation in the event of termination; (ii) by acquiring the Ying Bin Property, it could broaden the fixed asset base of the Group and the Directors believe that the Group may enjoy future capital appreciation of the Ying Bin Property; and (iii) the Ying Bin Property is located at the same location as the Group's previous headquarter in the PRC (which was dispersed as the landlord repossessed the units for re-development) and is located in the third ring road and near its operating factories, which is considered by the Board to be a convenient location in facilitating the co-operation and communication between the Group (including its factories) while moving in another nearby business place is unlikely to achieve further advancement in facilitating current business operations of the Group as compared to the Ying Bin Property.

The Directors and the Management has further confirmed that the Group has considered identifying a suitable office unit(s) at the surrounding area including online searching and enquiries to several property agencies, however the Proposed Ying Bin Property Acquisition is deemed as the best option and is in the interests of the Company and its Shareholders taking into account, amongst other things, the strategic location, requirements and specifications by the Group, size, etc.

4.2.2. Market value of the Ying Bin Property

It is noted from Section 3.3 of the Circular that the Company has commissioned the Valuer to, *inter alia*, determine the market value of the Ying Bin Property. We recommend that the Independent Directors advise Shareholders to note and review carefully Section 3.3 of the Circular and the contents of the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report (attached as Appendix C of the Circular) in its entirety including the methodology, assumptions made and the basis for the assumptions.

We have not made any independent evaluation or appraisal of the Ying Bin Property and we have been furnished by the Company with the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report in respect of the market value of, *inter alia*, the Ying Bin Property. With respect to such valuation, we are not experts in the evaluation or appraisal of the Ying Bin Property and have relied on the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report for the market value of the Ying Bin Property.

We note from the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report that the Valuer has adopted the comparison approach in the valuation of the property interest in the Ying Bin Property which is contracted to be disposed to the Group upon building completion by making reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. In addition, the valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests. No allowance has been made in the Ying Bin Property Valuation Report and the updated Ying Bin Property Valuation Report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, the Valuer assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In addition, the following key assumptions have also been made by the Valuer in determining the market value of the Ying Bin Property:

- (i) all land premium payments and other costs such as resettlement and ancillary utilities services have been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;

- (ii) the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works;
- (iii) the land use rights of the property is legally held by Chengdu Kinna Investment and the property can be freely transferred or mortgaged without payment of further land premium or transfer fees; and
- (iv) there will be no material legal impediment for the Group to obtain the property.

We understand that the Directors having reviewed the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report (*inter alia*, the assumptions, methodology used and information relied upon by the Valuer) as a whole and are of the opinion that the assumptions and methodology of the Ying Bin Property Valuation Report and the Updated Ying Bin Property Valuation Report are reasonable.

As stated in the Updated Ying Bin Property Valuation Report, the Valuer had ascribed a market value as if completed as at 30 September 2016 of approximately RMB7.34 million or approximately RMB7,995 per square meter. We note from Section 3.5.1 of the Circular that the aggregate Tentative Purchase Consideration for the Ying Bin Property amounted to RMB6,973,280 (based on the estimated construction area of approximately 918.02 square metres and sale price of RMB7,596 per square meter), which is at a slight discount of approximately 5.0% from the market value of the Ying Bin Property as ascribed by the Valuer. Likewise, the sale price of RMB7,596 per square meter represents a discount of approximately 5.0% from the implied market value of approximately RMB7,995 per square meter.

4.2.3. Evaluation of the salient terms and conditions of the Ying Bin Property SPAs

Aggregate Tentative Purchase Consideration and its variances

- (i) Pursuant to the Ying Bin Property SPA, the Tentative Purchase Consideration shall be calculated based on the unit sale price of RMB7,596 per square meter multiplied by the construction area of the Ying Bin Property. It is noted that pursuant to the Ying Bin Property SPAs, in order to confirm the construction area used for calculating the Tentative Purchase Consideration, both parties will jointly appoint a qualified independent survey institution to appraise the total construction area of the Ying Bin Property. Such survey report shall be issued and available for the parties' review by no later than 30 June 2017. If the final construction area figure provided in the survey report issued by the aforesaid survey institution ranges between 95% of the estimated construction area and 105% of the estimated construction area, the parties agree that the amount of the Final Purchase Consideration shall be calculated based on the final construction area provided in the Survey Report. If the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties may re-negotiate the relevant terms of the Ying Bin Property SPA(s), however either party shall then have the right to terminate the Ying Bin Property SPA(s) by serving a written notice to the other party and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms hereof; the vendor of the Ying Bin Property shall then refund to the Group the full amount that has been paid by the Group hereunder within the period as required by the Group (such period to be determined by the management of the Group).

The Directors have represented and confirmed that the appointment of the qualified independent survey institution shall be subject to review and approval of the Audit Committee of the Company and the Board.

- (ii) It is noted that subject to fulfilment of the conditions precedent set out in Section 3.5.1 of the Circular, Chengdu Kinna Pharma agree to pay the Tentative Purchase Consideration in one lump sum before 30 April 2017. Once the survey report issued by the survey institution appointed jointly by the parties is available (in no event shall be later than 30 June 2017), the parties shall re-calculate and confirm the amount of the Final Purchase Consideration based on the construction area figure provided in the survey report. If the final construction area provided in the Survey Report ranges between 95% of the estimated construction area and 105% of the estimated construction area, Chengdu Kinna Pharma shall pay for the shortfall or Chengdu Kinna Investment shall refund the difference between the Final Purchase Consideration and the Tentative Purchase Consideration, as the case may be. The parties agree that the shortfall / difference mentioned in this clause shall be paid / refunded by the relevant Party within 15 days after the survey report is issued. Independent Directors should note that in the event the final construction area provided in the survey report exceeds 105% of the estimated construction area or is less than 95% of the estimated construction area, the parties have the rights to re-negotiate the relevant terms or to terminate the Ying Bin Property SPAs.

Transaction Steps

- (i) Construction Completion and Acceptance Certificate – we note that pursuant to the Ying Bin Property SPAs, Chengdu Kinna Investment shall obtain the Construction Completion and Acceptance Certificate for the Ying Bin Property and provide a certified true copy of the Construction Completion and Acceptance Certificate in respect of the Ying Bin Property to Chengdu Kinna Pharma no later than 30 June 2017. We wish to highlight that the deadline for the provision of the Construction Completion and Acceptance Certificate is on 30 June 2017, which is 2 months after the deadline for the payment of the Tentative Purchase Consideration in one lump sum (which is before 30 April 2017).
- (ii) Delivery – Subject to Chengdu Kinna Investment having obtained the Construction Completion and Acceptance Certificate of the Ying Bin Property, it shall deliver the Ying Bin Property, together with all the items and materials relating to the Ying Bin Property, to Chengdu Kinna Pharma on 30 June 2017 (the “**Delivery Date**”).

In addition, the Ying Bin Property SPAs also provide that if the quality of the base and/or the main structure of the Ying Bin Property do(es) not satisfy the statutory standards according to any testing report, Chengdu Kinna Pharma shall have the right to return the Ying Bin Property to Chengdu Kinna Investment and terminate the Ying Bin Property SPAs by serving a written notice to Chengdu Kinna Investment. Under such circumstances, Chengdu Kinna Investment shall, within 30 days after receiving the written notice, refund to Chengdu Kinna Pharma the Final Purchase Consideration and pay to Chengdu Kinna Pharma the interest calculated at the benchmark interest rate for current account published by People’s Bank of China. The cost incurred for the testing report shall also be borne by Chengdu Kinna Investment.

Independent Directors should note that the delivery of the Ying Bin Property will only occur approximately 2 months after the deadline for the payment of the Tentative Purchase Consideration. We further note that the Ying Bin Property SPAs provide for default charges in connection with delay in the delivery of the Ying Bin Property as follows:-

- (a) in the event that the delivery of the Ying Bin Property is delayed for no more than 30 days (inclusive), for each day of delay from the date immediately following the Delivery Date to the date the Ying Bin Property are duly delivered to Chengdu Kinna Pharma, Chengdu Kinna Investment shall pay to Chengdu Kinna Pharma a default charge based on 0.12% of the total sum of the Final Purchase Consideration, which is payable by Chengdu Kinna Investment within 15 days after the Ying Bin Property are duly delivered to Chengdu Kinna Pharma.

- (b) in the event that the delivery of the Ying Bin Property according to terms and conditions in the Ying Bin Property SPAs is delayed for more than 30 days, Chengdu Kinna Pharma shall have the right (not obligation) to terminate the Ying Bin Property SPAs. Chengdu Kinna Investment shall return the full amount of the Final Purchase Consideration and pay liquidated damages equivalent to 20% of the Final Purchase Consideration to Chengdu Kinna Pharma within 15 days after receiving the termination notice from Chengdu Kinna Pharma, in addition to the default charge mentioned in (a) above.
- (c) in the event that the delivery of the Ying Bin Property is delayed for more than 30 days, and Chengdu Kinna Pharma agrees to perform the Ying Bin Property SPAs continuously, for each day of delay in delivery from the date immediately following the Delivery Date to the date the Ying Bin Property are duly delivered to Chengdu Kinna Pharma, Chengdu Kinna Investment shall pay to Chengdu Kinna Pharma a default charge based on 0.2% of the total sum of the Final Purchase Consideration, which is payable by Chengdu Kinna Investment within 15 days after the Ying Bin Property are duly delivered to Chengdu Kinna Pharma.
- (iii) Initial Title Registration – Chengdu Kinna Investment shall complete the initial title registration of the industrial park developed and built by it, which is located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu, Sichuan, the PRC (the “**Project**”) with the Real Estate Trade Centers within 365 days after the Delivery Date and shall provide a certified true copy of the initial title registration certificate of the Project to Chengdu Kinna Pharma within 3 working days after the initial title registration is completed. We note from the Circular that the period of 365 days is required as sufficient buffer for the vendor to complete the initial title registration in accordance with local practice and was commercially agreed between the parties.
- (iv) Chengdu Kinna Pharma’s Title Certificates - Chengdu Kinna Investment shall submit the title transfer application documents to the Real Estate Trade Centers and ensure that the Group’s title certificates be issued within 730 days after the initial title registration certificate of the Project is obtained (by no later than 30 June 2020). We note from the Circular that the period of 730 days is required as sufficient buffer for the PRC regulatory authorities to issue the title certificates in accordance with local practice and was commercially agreed between the parties.

Notwithstanding the other provisions of the Ying Bin Property SPAs, in the event that Chengdu Kinna Pharma cannot obtain its title certificates of the Ying Bin Property before 30 June 2020, for each day of delay, Chengdu Kinna Investment shall pay to Chengdu Kinna Pharma the deferred compensation based on 0.02% of the total sum of the Final Purchase Consideration. If the aforesaid delay continues for more than 3 months (inclusive), Chengdu Kinna Pharma shall have the right to terminate the Ying Bin Property SPAs and all other relevant documents signed pursuant to the Ying Bin Property SPAs. If Chengdu Kinna Pharma terminates the Ying Bin Property SPAs in accordance with this paragraph, in addition to the deferred compensation, Chengdu Kinna Investment shall further refund to Chengdu Kinna Pharma all the amount paid by Chengdu Kinna Pharma under the Ying Bin Property SPAs, and fully compensate any other loss and expenses suffered or incurred therefrom by Chengdu Kinna Pharma (including without limitation relocation, and renovation costs), without prejudice to the other rights of Chengdu Kinna Pharma under the Ying Bin Property SPAs and the laws.

Independent Shareholders should note that as highlighted in paragraph (iii) and (iv) above, the initial title registration certificate of the Project will only be obtained within 365 days after the Delivery Date and Chengdu Kinna Pharma’s title certificates in respect of the Ying Bin Property will only be obtained within 730 days after initial title registration certificate of the Project is obtained (by no later than 30 June 2020). This has to be assessed in conjunction with the fact that the Tentative Purchase Consideration will have to be paid in one lump sum before 30 April 2017.

In connection with the payment terms and transaction steps, the Directors have represented and confirmed the following:-

- (a) The payment terms and the default charges in connection with delay in the delivery of the Ying Bin Property are based on commercial negotiations between willing buyer and willing seller.
- (b) Based on the legal advice obtained, there is no specific requirement or rules governing the payment terms and timeframe within which Chengdu Kinna Investment shall apply for the initial title certificates of the Project or the Chengdu Kinna Pharma's title certificates in respect of the Yingbin Property are to be obtained under the PRC laws and regulation.
- (c) For the Proposed Ying Bin Property Acquisition, the PRC legal advisor engaged by the Company have conducted the due diligence and assisted the Company to draft and prepare the Ying Bin Property SPAs to ensure that it is in accordance and in compliance with the relevant PRC laws and regulations. Based on the guidance, discussion and advice obtained from the PRC legal advisor, the Directors and the Audit Committee confirm that the Ying Bin Property SPAs has been prepared in accordance and in compliance with the relevant PRC laws and regulations.
- (d) Based on a letter of confirmation, undertaking and indemnity dated 6 May 2016 from Chengdu Kinna Investment ("**Letter of Confirmation, Undertaking and Indemnity**"), the Ying Bin Property falls into the scope of industrial property. Therefore, the timeline for registration of title certificates differs from residential and commercial properties. Chengdu Kinna Investment has sought the advice of the Management Commission (管委会) on the titles application processes and procedures and confirm that the transaction steps and the timeline for registration of initial title certificates and the Chengdu Kinna Pharma's title certificates stipulated in the Ying Bin Property SPAs are in accordance with the practice in the PRC.
- (e) Based on the Letter of Confirmation, Undertaking and Indemnity from Chengdu Kinna Investment, the terms of the Ying Bin Property SPAs (including but not limited to payment terms, transaction steps, duration of obtaining title certificates, liquidated damages, liabilities for breach, default charges etc) are referenced from the standard sale and purchase agreement which is adopted by Chengdu Kinna Investment for the sales in the Ying Bin Property development. The general terms in the Ying Bin Property SPAs are comparable to, or not less favourable than the terms of the sale and purchase agreement signed by Chengdu Kinna Investment with third parties in respect of the sale of other real properties at No.8 Ying Bin Avenue. The payment terms, in particular, are not uncommon practice in the PRC.

Discharge of the mortgage

- (i) We understand from the Management that the Project (including the Ying Bin Property) is currently subject to mortgage. Pursuant to the Ying Bin Property SPAs, Chengdu Kinna Investment warrants, *inter alia*, that it has or will obtain the written consent on the transaction from the mortgagee of the Ying Bin Property (i.e. Shanghai Pudong Development Bank Co., Ltd., Chengdu Branch) and further discharge the existing mortgage on the Ying Bin Property as soon as practicable before the title transfer of the Ying Bin Property.
- (ii) Based on the Letter of Confirmation, Undertaking and Indemnity, Chengdu Kinna Investment undertake, *inter alia*, (1) to complete or procure the completion of the discharge of the mortgage as soon as may be practicable before the title transfer of the Ying Bin Property; and (2) to indemnify Chengdu Kinna Pharma in respect of all fees, compensation, default charges, liquidated damages, losses and results arising thereof and further refund all the sums that it has received from Chengdu Kinna Pharma for the sale of the Ying Bin Property in the event of *inter alia* failure to discharge the existing mortgage over the Ying Bin Property.

- (iii) We also understand from the Directors that based on the legal advice obtained, the initial title registration certificate of the Project could only be obtained by Chengdu Kinna Investment upon completion of the discharge of the mortgage.

Exposure to credit risk of Chengdu Kinna Investment

We wish to highlight that in view of the payment terms, transaction steps and the timeframe for obtaining Chengdu Kinna Pharma's title certificates (whereby the full payment of the Tentative Purchase Consideration has to be made before 30 April 2017 whilst the deadline for obtaining the Chengdu Kinna Pharma's title certificates in respect of the Ying Bin Property is by no later than 30 June 2020 including the fact that the Project (including the Ying Bin Property) is currently subject to a mortgage, the Company will bear a credit risk of Chengdu Kinna Investment. There is no assurance or guarantee that Chengdu Kinna Investment (being the vendor for the Proposed Ying Bin Property Acquisition) will be able to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrences of certain events as stipulated in the Ying Bin Property SPAs.

The Directors and the Audit Committee have confirmed that they are aware of the credit risk arising from the Proposed Ying Bin Property Acquisition and based on the information provided by the Management (including *inter alia* assessment of credit worthiness of Chengdu Kinna Investment), they are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.

During the course of our evaluation, we have not been provided with the financial information of Chengdu Kinna Investment and our scope does not require us to comment or opine on the ability of Chengdu Kinna Investment (being the vendor for the Proposed Ying Bin Property Acquisition) to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs. Such evaluation or comment remains the responsibility of the Directors and the Management although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our view as set out in this Letter.

Chengdu Kinna Pharma's liabilities for breach

The Ying Bin Property SPAs provide the following for Chengdu Kinna Pharma's liabilities for breach:-

- (i) in the event that any amount due and payable by Chengdu Kinna Pharma remains outstanding for no more than 30 days (inclusive), for each day of delay from the date immediately following the due payment date to the date when the payment is actually made, Chengdu Kinna Pharma shall pay to Chengdu Kinna Investment a default charge based on 0.06% of the due and outstanding amount, which shall be paid by Chengdu Kinna Pharma together with such outstanding amount;
- (ii) in the event that any amount due and payable by Chengdu Kinna Pharma remains outstanding for more than 30 days, Chengdu Kinna Investment shall have the right to terminate the Ying Bin Property SPAs. Chengdu Kinna Pharma shall pay liquidated damages equivalent to 20% of the Final Purchase Consideration to Chengdu Kinna Investment within 15 days after receiving the termination notice from Chengdu Kinna Investment. Chengdu Kinna Investment shall have the right to deduct such liquidated damages from the payment that is received by Chengdu Kinna Investment from Chengdu Kinna Pharma; and

- (iii) in the event that any amount due and payable by Chengdu Kinna Pharma remains outstanding for more than 30 days, and the parties agree to perform the Ying Bin Property SPAs continuously, for each day of delay from the date immediately following the due payment date to the date when the payment is actually made, Chengdu Kinna Pharma shall pay to Chengdu Kinna Investment a default charge based on 0.1% of the due and outstanding amount, which shall be paid by Chengdu Kinna Pharma together with such outstanding amount.

The Directors have represented and confirmed that they are aware of Chengdu Kinna Pharma's liabilities for default charges and/or liquidated damages arising from any delay of payment, which are resulted from commercial negotiations, and that they do not foresee that Chengdu Kinna Pharma shall be liable for any default charges and/or liquidated damages as the Group has sufficient cash balances to pay for the Tentative Purchase Consideration.

4.2.4. Letter of Confirmation, Undertaking and Indemnity from Chengdu Kinna Investment

Pursuant to the Letter of Confirmation, Undertaking and Indemnity, Chengdu Kinna Investment confirms and agrees to unconditionally and irrevocably undertake as follows:

- (i) The terms of the Ying Bin Property SPAs (including but not limited to payment terms, transaction steps, duration of obtaining title certificates, liquidated damages, liabilities for breach, default charges etc) are referenced from the standard sale and purchase agreement which Chengdu Kinna Investment adopts for its sales in the Ying Bin Property development. The general terms in the Ying Bin Property SPAs are comparable to, or not less favourable than the terms of the sale and purchase agreements signed by Chengdu Kinna Investment with third parties in respect of the sale of other real properties at No.8 Ying Bin Avenue. The payment terms, in particular, are not uncommon practice in the People's Republic of China.
- (ii) The Ying Bin Property fall into the scope of industrial property. Therefore, the timeline for registration of title certificates differs from residential and commercial properties timeline/ procedure for payment terms and registration of title certificate for residential or commercial properties do not apply to the Ying Bin Property. Chengdu Kinna Investment has sought the advice of the Management Commission (管委会) on the titles application processes and procedures and confirm that the transaction steps and the timeline for registration of initial title certificates and the Chengdu Kinna Pharma's title certificates stipulated in the Ying Bin Property SPAs are in accordance with the practice in the PRC.
- (iii) The Ying Bin Property are currently subject to mortgage and Chengdu Kinna Investment undertakes to complete or procure completion of the discharge of such mortgage as soon as may be practicable before the title transfer of the Ying Bin Property.
- (iv) Chengdu Kinna Investment undertakes to do all such acts necessary to ensure or to procure that the title of the Ying Bin Property as defined under the Ying Bin Property SPAs be legally transferred to Chengdu Kinna Pharma or any of its affiliates in accordance with the terms of the Ying Bin Property SPAs.
- (v) In the event that Chengdu Kinna Investment fails to discharge the existing mortgage over the Ying Bin Property, or Chengdu Kinna Pharma or any of its affiliates is not issued the title certificates for the Ying Bin Property, it shall indemnify Chengdu Kinna Pharma in respect of all fees, compensation, default charges, liquidated damages, losses and results arising thereof and further refund to Chengdu Kinna Pharma all the sums that it has received from Chengdu Kinna Pharma for the sale of the Ying Bin Property.

5. THE PROPOSED JIANGYOU ACQUISITION

5.1. Background information

Background information on the Proposed Jiangyou Acquisition is set out in Section 3 of the Circular and are extracted or summarised below. Independent Directors should advise Independent Shareholders to read background information and details on the Proposed Jiangyou Acquisition contained in the Circular carefully and in its entirety.

5.1.1 Background information on Chengdu Kinna Pharma and Sichuan Neautus

(a) Chengdu Kinna Pharma

The Purchaser, Chengdu Kinna Pharma, is a wholly-owned subsidiary of the Company and is a limited liability company incorporated in the PRC on 3 November 2003. The Purchaser is engaged in the business of development, manufacture and sale of western medicines and health tonic products.

(b) Sichuan Neautus

The vendor of the Jiangyou Neautus Shares is Sichuan Neautus. Sichuan Neautus is a limited liability company incorporated in the PRC on 30 December 2001 and its principal business activities are research and development, cultivating of Chinese herbs, production, wholesale and retailing of herbs and related products and food.

As at the Latest Practicable Date, Mr Jiang has an aggregate interest in approximately 29.81% of the total equity interest in Sichuan Neautus, arising from (a) his direct interest in 9.36% of equity interest in the capital of Sichuan Neautus; and (b) his indirect interest in approximately 20.45% of equity interest in Sichuan Neautus, through his 47.00% equity interest in the capital of Chengdu Kinna Investment, which in turn holds a direct interest in 43.51% equity interest in the capital of Sichuan Neautus. Mr Jiang is also the legal representative and chairman of the board of Sichuan Neautus. Mr Wu also has a deemed interest in 43.51% of equity interest in the capital of Sichuan Neautus. Hence, for the purposes of Chapter 9 of the Listing Manual, Sichuan Neautus is regarded as an interested person of the Company.

Hence, for the purposes of aggregation under Chapter 9 of the Listing Manual, Chengdu Kinna Investment and Sichuan Neautus, who are members of the same group, are regarded as the same interested person.

5.1.2. Information on Jiangyou Neautus and the Industrial Complex

Jiangyou Neautus is a limited liability company incorporated in the PRC on 26 October 2010 and is engaged in the business of research, development and sale of Chinese herbal medicine. Jiangyou Neautus is a wholly-owned subsidiary of Sichuan Neautus, and has the lawful right to use the Land pursuant to the 国有土地使用权证,江国用(2015)第0300765号 (Stated-owned Land Use Right Certificate) issued by the People's Government of Jiangyou dated 26 March 2015, on which the Industrial Complex is located. The Land has a site area of approximately 34,153.6 square metres. The land usage rights for the Land expire on 22 June 2061. Following the completion of the acquisition of the Jiangyou Neautus Shares, Jiangyou Neautus will become a subsidiary of the Group and will continue to hold the Stated-owned Land Use Right Certificate.

The Industrial Complex which occupies the Land is currently under construction and part of the Industrial Complex (comprising a factory and a composite building) is estimated to be completed by April 2017, and there will be additional costs of an aggregate amount of approximately RMB 20.0 million to be incurred by the Company in respect of the four (4) completed buildings of the Industrial Complex for the air purification system, construction of common facilities, purchase of production equipment and ancillary costs to complete the construction (please refer to paragraph 3.5.2(b) of the Circular for a breakdown of such costs). The Industrial Complex can be developed into seven (7) industrial buildings with various ancillary structures erected thereon, including a factory, a composite building, two (2) quality control buildings, a raw material warehouse and two (2) guardhouses, with a total gross floor area of approximately 28,644.69 square metres.

Currently, the Company does not have any intention to construct the remaining three (3) buildings. The Company intends to utilise the Industrial Complex for its own use for the Group to expand its current production capacity of granules and also to accommodate any potential new business operations. The Industrial Complex will enable the Group to expand its current production capacity of granules as part of the Company's expansion plan, as the Group's existing factory located in Guilin is currently running at almost full maximum capacity. Currently, the Group has two (2) production facilities in Sichuan Province, the PRC, comprising one (1) facility in Chengdu for the manufacturing of tablets and the other facility in Guilin for the manufacturing of granules. The addition of this new production facility in Sichuan will enable the Group to expand its production capacity to meet the market's demand and grow its revenue. The Group's revenue from its ErDing granules increased by more than 70% in the first nine months of FY2016, compared to the first nine months of FY2015.

The Management has informed and represented that the production capacity of the Industrial Complex is approximately 15 million boxes per year.

We understand that the Directors having reviewed the legal due diligence report for Jiangyou Neautus and are satisfied with the outcome of the legal due diligence for Jiangyou Neautus.

5.1.3 Salient Terms of the Jiangyou Neautus Shares SPA

The salient terms of the Jiangyou Neautus Shares SPA have been extracted from Section 3.5.2 of the Circular and are set out in italics below. We recommend that Independent Shareholders read those pages of the Circular carefully. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

"3.5.2 Salient terms of the Jiangyou Neautus Shares SPA

(a) *Conditions precedent*

The proposed acquisition of the Jiangyou Neautus Shares is conditional on, inter alia, the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, inter alia, the proposed acquisition of the Jiangyou Neautus Shares. If such Company's Shareholders' approval shall not have been obtained on or before 30 April 2017 or such other date as the parties shall mutually agree in writing, the Jiangyou Neautus SPA shall cease and be terminated and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms in the Jiangyou Neautus SPA.

(b) *Purchase consideration*

*The purchase consideration payable by the Group for the Jiangyou Neautus Shares shall be the sum of RMB 8,631,000 (the "**Consideration**") and is conditional on, inter alia, the following:*

- (i) the Company having received the requisite approval(s) from its Shareholders under Chapters 9 and 10 of the Listing Manual at the EGM for, inter alia, the proposed acquisition of the Jiangyou Neautus Shares;*
- (ii) the Group having received a letter from the vendor of the Jiangyou Neautus Shares according to which the loans or liabilities (if any) owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares in connection with an aborted construction project that Jiangyou Neautus had previously undertaken has been duly discharged, with the form and content of such letter to the satisfaction of the Group;*

- (iii) the State Administration for Industry and Commerce and its local counterpart (“SAIC”) having issued the notice of de-registration (注销登记通知书) for the discharge of the pledge created by the vendor of the Jiangyou Neautus Shares in favour of Shanghai Pudong Development Bank, Chengdu Branch (上海浦东发展银行股份有限公司成都分行) over the Jiangyou Neautus Shares (“Share Pledge”), and the Share Pledge has in fact been duly de-registered in accordance with PRC laws; and
- (iv) the issuance of the approval notice to Jiangyou Neautus by the SAIC according to which the Group has in fact been registered as the shareholder of Jiangyou Neautus holding all the Jiangyou Neautus Shares in accordance with PRC laws.

The Consideration set out above was determined based on the market value of the Jiangyou Neautus Shares as at 31 December 2015 ascribed by the Valuer and as set out in the Jiangyou Neautus Shares Valuation Report, which is based on the unaudited management accounts of Jiangyou Neautus as at 31 December 2015, taking the total assets of RMB 28,803,615 minus total liabilities of RMB 19,717,921 based on the balance sheet of the Company. In addition, the Consideration is further reduced by, inter alia, the amount undertaken by the vendor of the Jiangyou Neautus Shares in relation to all default charges, penalties, compensation, liquidated damages or other liabilities arising from a breach of Jiangyou Neautus of any contract regarding the construction of the Industrial Complex occurring before the completion of the Jiangyou Neautus Shares SPA (the “**Consideration Formula**”) (The “**Initial Consideration**”).

Notwithstanding that the updated market value of the Jiangyou Neautus Shares of RMB 9,223,000 as at 30 September 2016 (as set out in the Updated Jiangyou Neautus Shares Valuation Report) is slightly higher than the market value of RMB 9,086,000 as at 31 December 2015 (as set out in the original Jiangyou Neautus Shares Valuation Report), there is no change to the Initial Consideration which has been agreed and set out in the Jiangyou Neautus Shares SPA.

The Initial Consideration represents a discount of approximately 5.0% from the market value of the Jiangyou Neautus Shares as ascribed by the Valuer. Further information on the valuation of the Jiangyou Neautus Shares is set out in the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report under **Appendix C** of this Circular.

After the signing of the Jiangyou Neautus Shares SPA, the vendor of the Jiangyou Neautus Shares shall, within the reasonable period required by the Group, provide to the Group or its financial consultants all the financial documents of Jiangyou Neautus (including without limitation the accounting books) for the purpose of the financial due diligence or auditing to be conducted by the financial consultants of the Group.

In the event that the figure re-calculated with the same Consideration Formula based on the audited management accounts of Jiangyou Neautus as at 31 December 2015 (the “**Final Consideration**”), as determined by the financial due diligence report or audit report issued by such financial consultants of the Group, is less than or more than the Initial Consideration, the Consideration shall be adjusted downward or upwards (as the case may be) to be equivalent to the Final Consideration. Such adjustment (the “**Adjustment**”), if any, shall be satisfied under the third instalment of the purchase consideration as set out below.

The purchase consideration is to be satisfied in four (4) instalments in the following manner:

- (i) the first instalment equivalent to 50% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 15 days after the Completion Date (as defined below);

- (ii) *the second instalment equivalent to 30% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 45 days after the Completion Date (as defined below);*
- (iii) *the third instalment equivalent to the amount of the Adjustment shall be paid by the Group to the vendor of the Jiangyou Neautus Shares, or returned by the vendor of the Jiangyou Neautus Shares to the Group, as the case may be, within 15 days after the issuance of the financial due diligence report or audit report by the financial consultants of the Group; and*
- (iv) *the fourth instalment equivalent to 20% of RMB 8,631,000 shall be paid by the Group to the vendor of the Jiangyou Neautus Shares within 15 days after Jiangyou Neautus is issued the construction completion and acceptance certificate (竣工验收备案证明) in respect of the Industrial Complex.*

The Company will make an announcement of the Final Consideration after it has been determined.

The Group intends to use internal sources of funds to finance the proposed acquisition of the Jiangyou Neautus Shares.

As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Acquisitions and the Additional Cost (as defined below), the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

*The Industrial Complex has yet to be completed as at the Latest Practicable Date and there will be an additional cost to be incurred by the Company in respect of the four (4) completed buildings of the Industrial Complex of approximately RMB 20.0 million (“**Additional Cost**”) for the air purification system (approximately RMB 5.0 million), construction of common facilities (approximately RMB 4.0 million), purchase of production equipment (approximately RMB 9.0 million) and ancillary costs to complete the construction (approximately RMB 2.0 million). These Additional Cost shall be incurred progressively up to the completion of the construction of the Industrial Complex, which is expected to be April 2017 and financed via the Group’s internal resources. In addition, any construction costs for the remaining three (3) buildings will be incurred by the Company after the acquisition of the Jiangyou Neautus Shares.*

For the avoidance of doubt, the Additional Cost does not include the costs to be incurred by the Company in respect of the remaining three (3) buildings that will be incurred by the Company after the acquisition of the Jiangyou Neautus Shares. Currently, the Company does not have any intention to construct the remaining three (3) buildings.

(c) *Registration and completion*

- (i) *Within five (5) business days after the satisfaction of the condition in paragraph 3.5.2(a) above:*
 - (A) *the vendor of the Jiangyou Neautus Shares shall de-register the Share Pledge at the SAIC and obtain the notice of de-registration (注销登记通知书) for the discharge of the Share Pledge indicating that the Share Pledge has been duly de-registered in accordance with PRC laws; and*
 - (B) *the parties shall prepare the necessary documents respectively to complete the legal transfer of the Jiangyou Neautus Shares and resignation of the officers appointed by the vendor of the Jiangyou Neautus Shares.*

- (ii) *Within 10 business days after the satisfaction of the condition in paragraph 3.5.2(a) above, the vendor of the Jiangyou Neautus Shares (or its nominee) shall:*
- (A) *proceed to the SAIC with respect to the transfer of the Jiangyou Neautus Shares and the change of officers from those appointed by vendor of the Jiangyou Neautus Shares to those appointed by the Group; and*
 - (B) *obtain the new business licence of Jiangyou Neautus and the approval notice issued by the SAIC to Jiangyou Neautus according to which the Group has in fact been registered as the shareholder of Jiangyou Neautus holding all the Jiangyou Neautus Shares in accordance with PRC laws (the date when the SAIC issues such approval notice being the “Registration Date”).*
- (iii) *On the fifth business day following the Registration Date (the “Completion Date”), the parties shall proceed with completion of the sale and purchase of the Jiangyou Neautus Shares (“Completion”). For the purpose of effecting Completion, the vendor of the Jiangyou Neautus Shares shall deliver all the seals, certificates, documents, and materials of Jiangyou Neautus and the Industrial Complex to the Group.*

(b) *Representations, warranties and undertakings*

The vendor of the Jiangyou Neautus Shares represents, warrants and undertakes to the Purchaser, inter alia, that:

- (i) *it has discharged, or will discharge as soon as practicable the Share Pledge to the extent permitted under the applicable laws and regulations, and it is or will prior to the Registration Date be entitled to sell and transfer the Jiangyou Neautus Shares to the Purchaser, free from all and any encumbrances together with all rights and benefits;*
- (ii) *the business scope as described in the business license of Jiangyou Neautus shall under no circumstances include any business activity which is restricted or prohibited for foreign investment under the applicable PRC laws and regulations;*
- (iii) *notwithstanding any agreement in oral or written form between the vendor of the Jiangyou Neautus Shares and Jiangyou Neautus, the vendor of the Jiangyou Neautus Shares will not demand any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares before the Completion Date, and Jiangyou Neautus shall in no event be subject to any interest, penalty, damages, compensation or other liabilities that may arise from the aforesaid withholding or delay of the repayment of any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares. Jiangyou Neautus shall have the sole and absolute discretion to determine when to repay the outstanding amount of RMB 19.7 million owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares depending on its cash flow and subject to the obtaining of the approval from the board of the Company;*
- (iv) *up to the Completion Date, the Land and the Industrial Complex are free from any title defect, and are not subject to (1) first right of refusal of purchase; (2) priority right to claim the construction and engineering payments; (3) mortgage, easement, lease or any other security interest or encumbrance; (4) preservations, seizure, administrative restrictions and any other restriction of rights taken by any judicial or administrative authority; and (5) any claim filed by any third party including construction and engineering contractor(s);*

- (v) *all licences and documents in connection with the development and construction of the Industrial Complex (including but not limited to all approvals, permits, agreements, reports relating to planning, land grant, construction, civil defense engineering and property completion, inspection and acceptance) are and/or will be legally obtained without breach;*
- (vi) *the development and construction of the Industrial Complex, including without limitations the land grant, construction and property completion inspection and acceptance of the Industrial Complex, are in compliance with PRC laws and regulations, Jiangyou Neautus' articles of association and any contract or agreement entered between/among the vendor of the Jiangyou Neautus Shares and/or Jiangyou Neautus with any third party;*
- (vii) *it shall endeavor to assist and cooperate with the Purchaser to complete the construction completion inspection and acceptance (竣工验收) of the Industrial Complex and shall procure that the title certificates of the Industrial Complex will be legally obtained by Jiangyou Neautus without breach; and*
- (viii) *in the event that Jiangyou Neautus is subject to any economic loss, unsettled payment, default charges, fine, penalty or other liabilities, administrative compulsory measure or any restriction to the lawful exercise of its rights arising from or in connection with the Land or the Industrial Complex, the vendor of the Jiangyou Neautus Shares shall assume all responsibilities and liabilities and shall keep the Purchaser indemnified from any impact that may arise therefrom and shall undertake the liabilities for breach to the Purchaser in accordance with the Jiangyou Neautus Shares SPA."*

5.2 Evaluation of the Proposed Jiangyou Acquisition

5.2.1. Rationale for the Proposed Jiangyou Acquisition

We note from Section 3.4 of the Circular that the Directors are of the view that the Proposed Jiangyou Acquisition is in the best interests of the Company and its Shareholders as it is in-line with the business strategies of the Company, the acquisition of the Industrial Complex will allow the Group to expand its current production capacity and also to accommodate any potential new business operations, as the Group is currently unable to increase the production capacity of its present factory in the Guilin county, Sichuan Province, PRC due to regulatory restrictions relating to restrictions on land use and zoning restrictions. The Group's existing factory, located in Guilin county, Sichuan Province, the PRC, is currently operating at almost maximum capacity of 5 million boxes for the production of granular extracts. The size and location of the Industrial Complex is suitable for the Group's operations and will ensure that the Group is able to continually serve its customers' requirements efficiently. The Industrial Complex is suitable to be used by the Group to expand its production capacity as the completed structures will allow the Group to expand its production capacity within a shorter time. The Industrial Complex is also conveniently located and accessible. The proposed acquisition will increase the Group's production capacity by additional 15 million boxes per year upon completion of the construction of the four (4) completed buildings of the Industrial Complex which is expected to be completed in the second quarter of 2017. For avoidance of doubt, this increase does not include the existing production capacity based on the existing factory in Guilin. Hence, on completion of construction of the Industrial Complex, production capacity will be increased to 20 million boxes per year.

We understand from the Management that the Group's existing factory, located in Guilin county, Sichuan Province, the PRC, has been operating at utilization rate of approximately 78.0% and 90.0% for FY2014 and FY2015 respectively (the production capacity was approximately 3.9 million boxes and 4.5 million boxes in FY2014 and FY2015 respectively). The Management represented that the Group's existing factory is currently operating at almost maximum capacity of 5.0 million boxes for the production of granular extracts where the Group is facing bottlenecks for the extraction and drying processes. The Management expects that by FY2017, the existing production capacity of the Group would be insufficient to meet production requirements.

In addition, the Group's existing plant in Guilin county is located within the city area and any expansion will increase waste production (by-products generated during the production) which local authorities in Guilin are avoiding. Furthermore, we understand from the Management that there are indications from the local authorities asking the Group to shift its production plant to the outskirts of Guilin, as they want to develop the area. As at the Latest Practicable Date, the Board has no intention to shift its production from its existing plant in Guilin to the new premise. Due to relocation issue and regulatory restrictions (i.e. environment considerations), the Group is unable to expand their production capacity at their existing factory. The Proposed Jiangyou Acquisition will increase the Group's production capacity by additional 15 million boxes per year upon completion of the construction of the Industrial Complex, which is expected to be by April 2017.

We also understand from the Directors that the Group has considered leasing factory space or constructing their own factory. The Directors are of the view that leasing factory space will not be practicable given the manufacturing equipment and facilities that the Group uses are highly specialised. Such equipment includes, but is not limited to, clean room facilities for medicine manufacturing. At the end of the lease term, it will be impracticable to move the facilities which will put the Group in a less favourable position to negotiate lease renewal. Jiangyou Neautus's original plan was to construct the Industrial Complex to undertake a new business of production of granular extracts for its own use. However, due to commercial considerations, Jiangyou Neautus subsequently decided to postpone such expansion plan. The Group came to know that Jiangyou Neautus owned the Industrial Complex, which was constructed for the production of granular extracts, and the Groups considered that the acquisition of the Industrial Complex will save considerable time as it is nearly completed and will reduce the risks that the Group might face in the event the Group embarks on constructing a new factory. Such risks include, but are not limited to, availability of suitable sites, clearing regulatory hurdles for bidding of land, construction risks related to construction phases, and/or financing risks.

The acquisition of the Industrial Complex is made through the acquisition of the Jiangyou Neautus Shares instead of an asset acquisition as the acquisition of the shares of Jiangyou Neautus, which owns the Industrial Complex, is a simpler procedure as compared to the acquisition of the Industrial Complex. An asset acquisition requires the approval from different government authorities whereas the acquisition of shares only requires the approval of State Administration for Industry and Commerce. This will enable the Group to acquire the Industrial Complex and carry out its expansion plans within a shorter time.

The Directors have confirmed that the location of the Industrial Complex is nearer to the Group's distribution facility as compared to the existing factory at Guilin. Hence, if Group produces their granular extracts within the Industrial Complex, it will cut down significantly the Group's cost in terms of transportation expenses and delivery costs.

The Directors have also confirmed that they are not aware of any other factory sites within the nearby vicinity available-for-sale which are comparable to the Industrial Complex in terms of location, size, available of facilities, and costs.

5.2.2 Financial performance and position of Jiangyou Neautus

The extracts from the audited financial statements of Jiangyou Neautus for FY2013, FY2014 and FY2015 and the unaudited financial statements of Jiangyou Neautus for 9M2016 are presented in the table below.

Summary of income statement

Figures in RMB'000	Unaudited 9M2016	Audited FY2015	Audited FY2014	Audited FY2013
Revenue	–	–	250	–
Cost of sales	–	–	(328)	–
Gross loss	–	–	(78)	–
Loss after tax	(140)	(257)	(322)	(408)

Summary of statements of financial position

Figures in RMB'000	Unaudited 9M2016	Audited FY2015	Audited FY2014	Audited FY2013
Non-current assets	29,421	28,062	20,750	53,710
Current assets	56	55	3,475	936
Current liabilities	21,218	19,718	15,568	45,668
Shareholders' equity	8,259	8,399	8,657	8,978
Net working capital	(21,162)	(19,663)	(12,093)	(44,732)

Note:

(1) *Figures and computation presented in this section are subject to rounding.*

We note the following:-

- (i) Jiangyou Neautus was incorporated in the PRC on 26 October 2010 for the sole purpose to engage in the business of research, development and sale of Chinese herbal medicine. As at the Latest Practicable Date, Jiangyou Neautus has not commenced any business activities as the construction of the Industrial Complex is still in progress and will only be completed by April 2017. However, it was noted that Jiangyou Neautus recorded a revenue of approximately RMB250 thousand only in FY2014 due to sale of partial land and buildings to a third party and recorded loss after tax of approximately RMB140 thousand, RMB257 thousand, RMB322 thousand and RMB408 thousand in 9M2016, FY2015, FY2014 and FY2013 respectively mainly due to operating expenses relating to, *inter alia*, amortization of intangible assets and land use taxes.
- (ii) Jiangyou Neautus's non-current assets mainly comprises construction in progress of approximately RMB24.5 million and intangible assets arising to land use rights of approximately RMB4.9 million as at 30 September 2016. Jiangyou Neautus's current assets comprise solely of cash and cash equivalents of approximately RMB56 thousand as at 30 September 2016.
- (iii) Jiangyou Neautus's liabilities comprise mainly other payables of approximately RMB21.2 million as at 30 September 2016 due to advances from shareholders
- (iv) It was also noted that Jiangyou Neautus recorded negative net working capital of approximately RMB21.2 million as at 30 September 2016.

Shareholders should note that the financial statements of Jiangyou Neautus for FY2015 is subject to financial due diligence to be conducted by the Company at a later date.

5.2.3 Market Value of the Industrial Complex

It is noted from Section 3.3 of the Circular that the Company has commissioned the Valuer to, *inter alia*, determine the market value of the Industrial Complex in existing state. We recommend that the Independent Directors advise Shareholders to note and review carefully Section 3.3 of the Circular and the contents of the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report (attached as Appendix C of the Circular) in its entirety including the methodology, assumptions made and the basis for the assumptions.

We have not made any independent evaluation or appraisal of the Industrial Complex (including the land) and we have been furnished by the Company with the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report in respect of the market value of, *inter alia*, the Industrial Complex. With respect to such valuation, we are not experts in the evaluation or appraisal of the Industrial Complex and have relied on the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report for the market value of the Industrial Complex.

The following property valuation assumptions have been made by the Valuer in determining the market value of the Industrial Complex:

- (i) all land premium payments and other costs such as resettlement and ancillary utilities services have been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;
- (ii) the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works; and
- (iii) all requisite title certificates have been obtained and the property can be freely transferred, leased or mortgaged by Jiangyou Neautus without payment of any further land premium or transfer fees.

We understand that the Directors having reviewed the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report (*inter alia*, the assumptions, methodology used and information relied upon by the Valuer) as a whole and are of the opinion that the assumptions and methodology of the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report are reasonable.

As stated in the Updated Jiangyou Neautus Shares Valuation Report, the Valuer had ascribed a market value of approximately RMB26.77 million to the construction-in-progress relating to the Industrial Complex and the land use rights in existing state as at 30 September 2016 (the “**Valuation Date**”), which represents a premium of approximately 3.7% over the aggregate net book value of the construction-in-progress relating to the Industrial Complex (approximately RMB20.9 million) and the land use rights (approximately RMB4.9 million) as at 30 September 2016.

We understand from the Directors and the Management that the remaining property, plant and equipment comprising engineering for equipment installation with a book value of approximately RMB3.6 million as at 30 September 2016 relates to prepayment made for new equipment and machineries purchased in late 2015 which have not been delivered as at the Latest Practicable Date and as such their book value is reflective of their market value.

5.2.4 Market value of Jiangyou Neautus Shares

It is noted from Section 3.3 of the Circular that the Company has commissioned the Valuer to, *inter alia*, determine the market value of the Jiangyou Neautus Shares as at the Valuation Date. We recommend that the Independent Directors advise Shareholders to note and review carefully Section 3.3 of the Circular and the contents of the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report (attached as Appendix C of the Circular) dated 1 December 2016 in its entirety including the methodology, assumptions made and the basis for the assumptions.

We have not made any independent evaluation or appraisal of the Jiangyou Neautus Shares and we have been furnished by the Company with the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report in respect of the market value of, *inter alia*, the Jiangyou Neautus Shares. With respect to such valuation, we are not experts in the evaluation or appraisal of the Jiangyou Neautus Shares and have relied on the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report for the market value of the Jiangyou Neautus Shares.

We note from the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report for Jiangyou Neautus that Jiangyou Neautus is still under construction, and it is a startup and has not yet generated any profit, the Valuer have relied solely on the cost approach in the valuation of 100% equity interest in Jiangyou Neautus (“**Equity Interest**”).

The Valuer had considered the types of assets and liabilities and their conditions when arriving at the market values of the subject items and have adopted appropriate valuation methodology for each different class of assets and liabilities.

Assets	Valuation Approach & Methodology
Cash and cash equivalents	Based on the book values which have been confirmed by bank statements.
Land and Construction in Progress	In valuing the property interest which was under construction as at the Valuation Date, due to the nature of the buildings and structures of the property and the particular locations in which it is situated, there are unlikely to be relevant market comparable sales readily available, the buildings and structures therefore been valued by the cost approach. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. Appropriate adjustments and analysis are considered to the differences between the comparable properties and the subject land. In arriving at its opinion of the value of buildings and structures and the land portion of the property as a whole, the Valuer has taken into account the land value, construction cost and professional fees relevant to the stage of construction as at the Valuation Date.
Liabilities	
Other Payables and Accruals	Based on book values. Checking of original contracts and/or invoices on sampling basis. Checking of subsequent settlements

Note: The book values are all based on the management account as at 30 September 2016.

In determining the market value of the Equity Interest in Jiangyou Neautus, the Valuer has made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for the Valuer's assessed value.

- (i) The Valuer has assumed the accuracy of the financial and operational information provided by Jiangyou Neautus, including the management account of Jiangyou Neautus as at 30 September 2016, and relied to a considerable extent on such information in arriving at their opinion of value;
- (ii) The Valuer has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Jiangyou Neautus;
- (iii) The Valuer has assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- (iv) The Valuer has been provided with copies of the operating licenses and company incorporation documents. The Valuer has assumed such information to be reliable and legitimate. The Valuer has relied to a considerable extent on such information provided in arriving at their opinion of value; and
- (v) The Valuer has assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, the Valuer assumes no responsibility for changes in market conditions after the Valuation Date.

We understand that the Directors having reviewed the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report (*inter alia*, the assumptions, methodology used and information relied upon by the Valuer) as a whole and are of the opinion that the assumptions and methodology of the Jiangyou Neautus Shares Valuation Report and the Updated Jiangyou Neautus Shares Valuation Report are reasonable.

As stated in the Updated Jiangyou Neautus Shares Valuation Report, the Valuer had ascribed a market value of approximately RMB9.22 million for the Equity Interest as at the Valuation Date. We note from Section 3.5.2 of the Circular that the Consideration for Jiangyou Neautus amounted to RMB8,631,000 (based on the assumption that there are (1) no variances between the management accounts and audited management accounts of Jiangyou Neautus as at 31 December 2015 and (2) no liabilities arising out of breaches in relation to the construction of the Industrial Complex and the liabilities in relation to an aborted construction project that Jiangyou Neautus had previously undertaken), which is at a slight discount of approximately 6.4% from the market value of the Jiangyou Neautus Shares as ascribed by the Valuer.

5.2.5. Evaluation of the salient terms and conditions of the Jiangyou Neautus Shares SPA

Consideration for the Equity Interest and its variances

- (i) Pursuant to the Jiangyou Neautus Shares SPA, the initial consideration (“**Initial Consideration**”) has been determined based on the unaudited management accounts of Jiangyou Neautus as at 31 December 2015, and calculated by taking the total assets minus total liabilities based on the balance sheet of Jiangyou Neautus and further minus the total amount that shall be undertaken by Sichuan Neautus arising from a breach of Jiangyou Neautus of any contract regarding the construction of the Industrial Complex, when such breach occurs prior to the completion date and to undertake all the responsibilities and liabilities with respect to the “毒性饮片生产厂房” which was aborted (“**Aborted Project**”) (“**Consideration Formula**”). The Directors have confirmed that to the best of their knowledge and belief, as at the Latest Practicable Date, there are no known breaches of Jiangyou Neautus of any contract regarding the construction of the Industrial Complex and/or liabilities in relation to the Aborted Project. Accordingly, for the purpose of this Letter, we have assumed that there are no breaches and/or liabilities in evaluating the premiums/discounts of the Initial Consideration.
- (ii) Pursuant to the Jiangyou Neautus Shares SPA, Sichuan Neautus shall, after Jiangyou Neautus Shares SPA has taken effect and within a reasonable period required by the Group, provide to the Group or its financial consultants all the financial documents of Jiangyou Neautus (including without limitation the accounting books) for the purpose of the financial due diligence or auditing to be conducted by the financial consultants of the Group.
- (iii) It is noted that in the event that the figure re-calculated with the same Consideration Formula based on the audited management accounts of Jiangyou Neautus as at 31 December 2015 (“**Final Consideration**”), as determined by the financial due diligence report or audit report issued by such financial consultants of the Group is less than or more than the Initial Consideration, the Consideration shall be adjusted downward or upwards (as the case may be) to be equivalent to the Final Consideration. Independent Directors should note that in the event there are any adjustments (as the case may be) (“**Adjustments**” or “**Third installment**”), an amount equivalent to the adjustments is payable by the Group to Sichuan Neautus or be returned by Sichuan Neautus to the Group within 15 days after the issuance of the financial due diligence report or the audit report by the financial consultants of the Group. Based on the information available as at the Latest Practicable Date and to the best of their knowledge, the Directors are of the view that the Adjustments will likely be minimal.

Registration and Completion

We note that the sale and purchase of the Jiangyou Neautus Shares is conditional upon Shareholders’ approval of the Group and to be obtained on or before 30 April 2017 or such other date as the parties shall mutually agree in writing, else the Jiangyou Neautus Shares SPA shall cease and be terminated.

We also note from the Jiangyou Neautus Shares SPA that:

- (1) within five (5) Business Days after the date of obtaining the Shareholders' approval:
 - (a) Sichuan Neautus shall de-register the pledge created by Sichuan Neautus in favour of Shanghai Pudong Development Bank, Chengdu Branch over 100% equity shares of Jiangyou Neautus ("**Share Pledge**") at the State Administration for Industry and Commerce ("**SAIC**") and obtain the notice of de-registration (注销登记通知书) for the discharge of the Share Pledge indicating that the Share Pledge having been duly de-registered in accordance with PRC laws, and
 - (b) the parties shall prepare the necessary documents respectively to complete legal transfer of the Equity Interest and resignation of the officers appointed by Sichuan Neautus.

- (2) Within ten (10) Business Days after the date of obtaining the Shareholders' approval:
 - (a) Sichuan Neautus (or its nominee) shall proceed to the SAIC with respect to the transfer of the Jiangyou Neautus Shares and the change of officers from those appointed by Sichuan Neautus to those appointed by the Group; and
 - (b) Sichuan Neautus (or its nominee) shall obtain the new business license of Jiangyou Neautus and the approval notice issued by the SAIC to Jiangyou Neautus, according to which Chengdu Kinna Pharma has in fact been registered as the shareholder of Jiangyou Neautus holding all the Jiangyou Neautus Shares in accordance with PRC laws (the date when the SAIC issues such approval notice being the "**Registration Date**").

The original copy of the new business license of Jiangyou Neautus shall be collected and be kept in the custody of Chengdu Kinna Pharma.

- (3) On the fifth (5th) Business Day following the Registration Date (the "**Completion Date**"), the parties shall proceed with the completion of the Jiangyou Neautus Shares SPA.

We wish to highlight that the first and second installments of the Consideration would only be payable by Chengdu Kinna Pharma within 15 days and 45 days respectively after the Completion Date. It is noted that by the Completion Date:

- the SAIC would have already issued the notice of de-registration (注销登记通知书) for the discharge of the Share Pledge, and the Share Pledge would have already been duly de-registered in accordance with PRC laws;
- Chengdu Kinna Pharma would have already received a letter from Sichuan Neautus according to which the loans or liabilities in connection with the Aborted Project (if any) owing by the Jiangyou Neautus to Sichuan Neautus has been duly discharged, with the form and the content of such letter to the satisfaction of the Chengdu Kinna Pharma; and
- Chengdu Kinna Pharma would have already obtained the approval notice issued by the SAIC on the Registration Date indicating that it is the registered shareholder of Jiangyou Neautus and the entity holding 100% equity interest of Jiangyou Neautus.

Chengdu Kinna Pharma will be required to pay the fourth installment equivalent to 20% of the Consideration to Sichuan Neautus within 15 days after issuance of the construction completion and acceptance certificate. The Directors have represented and confirmed that based on the legal advice obtained, in the event that Sichuan Neautus is unable to perform its obligations or its performance does not comply with the provisions, or violates any of the representations and warranties ("**Breach**"), *inter alia*, assist and cooperate to complete the construction completion and acceptance certificate and the title certificates for the construction on the land ("**Properties**"), Sichuan Neautus is required to remedy the Breach in accordance with the reasonable requirements of Chengdu Kinna Pharma and shall further compensate Chengdu Kinna Pharma for

the losses suffered therefrom. If the Breach is not remediable or Sichuan Neautus fails to remedy its Breach in accordance with the reasonable requirements of Chengdu Kinna Pharma, Chengdu Kinna Pharma shall have the right to terminate the Jiangyou Neautus Shares SPA and other relevant documents signed pursuant to Jiangyou Neautus Shares SPA, and Sichuan Neautus shall pay a liquidated damages equivalent to 20% of the Consideration to Chengdu Kinna Pharma. If the said liquidated damages are insufficient to cover the loss of Chengdu Kinna Pharma, Chengdu Kinna Pharma has the right to further claim compensation.

Representation, warranty and undertaking

Pursuant to the Jiangyou Neautus Shares SPA, Sichuan Neautus have represented, warranted and undertake to Chengdu Kinna Pharma, to *inter alia*, perform its obligations in accordance with the terms and conditions that:

- (i) it has discharged, or will discharge as soon as practicable the Share Pledge to the extent permitted under the applicable laws and regulations, and it is or will prior to the Registration Date be entitled to sell and transfer the Jiangyou Neautus Shares to the Purchaser, free from all and any encumbrances together with all rights and benefits;
- (ii) the business scope as described in the business license of Jiangyou Neautus shall under no circumstances include any business activity which is restricted or prohibited for foreign investment under the applicable PRC laws and regulations;
- (iii) notwithstanding any agreement in oral or written form between the vendor of the Jiangyou Neautus Shares and Jiangyou Neautus, the vendor of the Jiangyou Neautus Shares will not demand any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares before the Completion Date, and Jiangyou Neautus shall in no event be subject to any interest, penalty, damages, compensation or other liabilities that may arise from the aforesaid withholding or delay of the repayment of any outstanding amount owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares. Jiangyou Neautus shall have the sole and absolute discretion to determine when to repay the outstanding amount of RMB 19.7 million owing by Jiangyou Neautus to the vendor of the Jiangyou Neautus Shares depending on its cash flow and subject to the obtaining of the approval from the board of the Company;
- (iv) up to the Completion Date, the Land and the Industrial Complex are free from any title defect, and are not subject to (1) first right of refusal of purchase; (2) priority right to claim the construction and engineering payments; (3) mortgage, easement, lease or any other security interest or encumbrance; (4) preservations, seizure, administrative restrictions and any other restriction of rights taken by any judicial or administrative authority; and (5) any claim filed by any third party including construction and engineering contractor(s);
- (v) all licences and documents in connection with the development and construction of the Industrial Complex (including but not limited to all approvals, permits, agreements, reports relating to planning, land grant, construction, civil defense engineering and property completion, inspection and acceptance) are and/or will be legally obtained without breach;
- (vi) the development and construction of the Industrial Complex, including without limitations the land grant, construction and property completion inspection and acceptance of the Industrial Complex, are in compliance with PRC laws and regulations, Jiangyou Neautus' articles of association and any contract or agreement entered between/among the vendor of the Jiangyou Neautus Shares and/or Jiangyou Neautus with any third party;
- (vii) it shall endeavor to assist and cooperate with the Purchaser to complete the construction completion inspection and acceptance (竣工验收) of the Industrial Complex and shall procure that the title certificates of the Industrial Complex will be legally obtained by Jiangyou Neautus without breach; and

- (viii) in the event that Jiangyou Neautus is subject to any economic loss, unsettled payment, default charges, fine, penalty or other liabilities, administrative compulsory measure or any restriction to the lawful exercise of its rights arising from or in connection with the Land or the Industrial Complex, the vendor of the Jiangyou Neautus Shares shall assume all responsibilities and liabilities and shall keep the Purchaser indemnified from any impact that may arise therefrom and shall undertake the liabilities for breach to the Purchaser in accordance with the Jiangyou Neautus Shares SPA.

Independent Shareholders should note that there is no assurance that the construction completion inspection and acceptance as well as the title certificates of the Properties will be obtained. The Directors have confirmed that they are aware of such risk, but they are satisfied, based on the legal advice obtained, on the ability of Chengdu Kinna Pharma with assistance of Sichuan Neautus to obtain the construction completion inspection and acceptance as well as the title certificates of the Properties.

For the Proposed Jiangyou Acquisition, the PRC legal advisor engaged by the Company have conducted the due diligence and assisted the Company to draft and prepare the Jiangyou Neautus Shares SPA to ensure that it is in accordance and in compliance with the relevant PRC laws and regulations. Based on the guidance, discussion and advice obtained from the PRC legal advisor, the Directors and the Audit Committee confirm that the Jiangyou Neautus Shares SPA has been prepared in accordance and in compliance with the relevant PRC laws and regulations.

5.2.6 Analysis of comparable transactions

In our assessment of the reasonableness of the Proposed Jiangyou Acquisition and the Consideration, we have considered the salient terms of other acquisitions of equity interests which constitute interested person transactions undertaken by SGX-ST listed companies which were completed since 2015 (the “**Selected IPT Acquisitions**”) to provide, *inter alia*, a general comparison of the premium over or discount to NTA, without having regard to specific industry characteristics or consideration structure or other relevant considerations. We wish to highlight that the list of the Selected IPT Acquisitions is by no means exhaustive, and that the premium (if any) that a purchaser would pay for a business depends on various factors, including, *inter alia*, the purchaser’s rationale for the acquisition, consideration structure, prevailing market conditions and sentiments, attractiveness and profitability of the business and assets acquired as well as relative “bargaining position” of buyer/seller. Accordingly, any comparison made with respect to the Selected IPT Acquisitions is intended to serve as an illustrative guide only.

Selected companies	Target companies	Announcement date	% of equity interest acquired	Consideration Structure	Total consideration for target companies (\$\$ million)	Consideration to Target NTA (times)	Target profit/Loss
AVIC International Holdings Limited	Maritime Pte. Ltd.	21-Apr-15	60%	100% cash	4.9	1.2	Profit
Raffles United Limited	Raffles Capital Enterprise Pte. Ltd.	10-Jun-15	51%	100% cash	8.0	1.0	Profit
Rowsley Limited	GG Collections Private Limited	27-Aug-15	50%	91% cash and 9% debt	12.0	0.7	Loss
Rowsley Limited	Café Football Limited	27-Aug-15	75%	99.99% debt (less than 0.01% cash)	1.0	3.6	Loss
Rowsley Limited	Orchid Leisure Limited	27-Aug-15	50%	48.20 cash and 51.8% debt	50.1	1.0	Loss
EMS Energy Limited	Windale Holdings Limited	24-Apr-15	100%	20.84% cash and 79.16% shares	150.0	0.8	Profit (loss 3-mth interim)
Midas Holdings Limited	Huicheng Capital Limited	30-Nov-15	100%	100% shares	264.0	0.7	Profit
Koh Brothers Eco Engineering Limited	Koh Brothers Building & Civil Engineering Contractor (Pte.) Ltd.	7-Jan-16	100%	100% shares	19.0	0.8	Profit
3Energy Limited	Liberty Bridge Sdn Bhd	29-Mar-16	100%	100% shares	64.0	1.0	Loss
Manhattan Resources Limited	PT Kariangau Power	29-Apr-16	92%	100% cash	50.0	1.6	Loss
Singapore Medical Group Limited	Lifescan Imaging Pte. Ltd.	5-Aug-16	62%	100% shares	8.5	3.2	Loss (profit 6-mth interim)
Ocean Sky International Limited	Ang Tong Seng Brothers Enterprises Pte Ltd	21-Sep-16	70%	42.11% cash and 57.89% shares	22.8	4.3	Profit
MAXIMUM			100%		264.0	4.3	
MINIMUM			50%		1.0	0.7	
MEDIAN			75%		20.9	1.0	
AVERAGE			78%		54.5	1.7	
Company	Jiangyou Neautus		100%	100% cash	1.8⁽¹⁾	1.0⁽²⁾	Loss

Source: SGX-ST announcements and circulars to shareholders in relation to the respective acquisition transactions

Notes:

(1) Based on an exchange rate of S\$:FMB4.77 as at 6 May 2016.

(2) NTA of Jiangyou Neautus is based on the market value as ascribed by the Valuer.

For illustrative purposes only, we note the following:-

- (i) Jiangyou Neautus' value based on the Consideration as compared to the total consideration payable for the Selected IPT Acquisitions is within the range but lower than both the simple average and median for the Selected IPT Acquisitions.
- (ii) The P/NTA ratio for Jiangyou Neautus of approximately 1.0 times as implied by the Consideration and the market value of the Jiangyou Neautus Shares (please refer to Section 5.2.4 of this Letter) is within the range, in line with the median but lower than the simple average for the Selected IPT Acquisitions.

Independent Shareholders should note that as the circumstances for each of the companies listed is unique and as the companies or the transactions may not be identical to Jiangyou Neautus or the Proposed Jiangyou Acquisition in terms of business activities, size of operations, market capitalisation, asset base, risk profile, track record, future prospects, payment terms and other relevant criteria, the analysis is necessarily limited. Further, the list of Selected IPT Acquisitions is by no means exhaustive and information relating to the said companies was compiled from publicly available information. Accordingly, any comparison between the Proposed Jiangyou Acquisition and the Selected IPT Acquisitions serves as an illustrative guide only.

5.2.7 Additional construction costs for the Industrial Complex

We understand from the Management that the Industrial Complex has yet to be completed as at the Latest Practicable Date and there will be an additional cost to be incurred by the Company in respect of the four (4) completed buildings of the Industrial Complex of approximately RMB 20.0 million ("**Additional Cost**") for the air purification system (approximately RMB 5.0 million), construction of common facilities (approximately RMB 4.0 million), purchase of production equipment (approximately RMB9.0 million) and ancillary costs to complete the construction (approximately RMB 2.0 million). These Additional Cost shall be incurred progressively up to the completion of the construction of the Industrial Complex, which is expected to be by April 2017 and financed via the Group's internal resources. In addition, any construction costs for the remaining three (3) buildings will be incurred by the Company after the acquisition of the Jiangyou Neautus Shares.

For the avoidance of doubt, the Additional Cost does not include the costs to be incurred by the Company in respect of the remaining three (3) buildings that may be incurred by the Company after the acquisition of the Jiangyou Neautus Shares. However, the Directors confirm that currently, the Company does not have any intention to construct the remaining three (3) buildings.

6. **OTHER RELEVANT CONSIDERATIONS FOR THE PROPOSED ACQUISITIONS**

6.1 **Financial effects of the Proposed Acquisitions**

The proforma financial effects of the Proposed Acquisitions on the Group and its assumptions are set out in Section 8 of the Circular. We recommend that the Independent Directors advise the Independent Shareholders to read those pages of the Circular carefully. The financial effects of the Proposed Acquisitions have been extracted from Section 8 of the Circular and is set out in italic below.

"8 FINANCIAL EFFECTS

The financial effects of the Proposed Acquisitions on the Group set out below are purely for illustrative purposes only and do not reflect the future financial position of the Group after the completion of the Proposed Acquisitions.

The pro forma financial effects have been prepared based on the audited consolidated financial statements of the Group for FY2015, being the end of the most recently completed financial year.

(a) NTA per Share

Had the Proposed Acquisitions been effected on 31 December 2015, the Proposed Acquisitions would have had the following financial effects on the Group's NTA per share as at 31 December 2015:

For FY2015	Before Proposed Acquisitions	After the Ying Bin Property acquisition	After the Jiangyou Neautus Shares acquisition	After Proposed Acquisitions (in aggregate)
Net tangible assets (RMB'000)	94,843	94,843	95,298	95,298
Number of Shares ('000)	23,000	23,000	23,000	23,000
Net tangible assets per Share (RMB)	4.12	4.12	4.14	4.14

(b) EPS

Had the Proposed Acquisitions been effected on 1 January 2015, the Proposed Acquisitions would have had the following financial effects on the Group's EPS for FY2015:

For FY2015	Before Proposed Acquisitions	After the Ying Bin Property acquisition	After the Jiangyou Neautus Shares acquisition	After Proposed Acquisitions (in aggregate)
Group profit after tax (RMB'000)	2,449	2,449	2,192	2,192
Weighted average number of Shares ('000)	20,748	20,748	20,748	20,748
Earnings per share (RMB cents)	11.8	11.8	10.6	10.6

For illustrative purposes only, we note from the table above that the earnings per Share ("EPS") of the Group before and after completion of the Proposed Acquisitions would decrease from RMB0.118 to RMB0.106 for FY2015. We understand from the Management that they have not considered, *inter alia*, the potential additional income or cost savings arising from the Proposed Acquisitions in the computation of the EPS after completion of the Proposed Acquisitions. The Group's NTA per Share would increase from RMB4.12 to RMB4.14 for FY2015 after completion of the Proposed Acquisitions.

In addition, the Management has represented that there will be no effect on the Group's financial position in terms of gearing ratio as the Proposed Acquisitions will be financed solely from the Group's internal resources. However, the Group's cash and cash equivalents will be reduced from RMB78.4 million as at 30 September 2016 to approximately RMB42.8 million as the Proposed Acquisitions and the Additional Cost will be financed solely from the Group's internal resources. As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Ying Bin Property Acquisition, the Proposed Jiangyou Acquisition and the Additional Cost, the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

6.2 Outlook for the Group

The following commentary was made in relation to the business outlook for the Group in the results announcement dated 14 November 2016 in connection with the Group's unaudited financial statement for 9M2016:

“The Group's prescribed drugs will continue to face intense competition and pricing pressure given the highly competitive and regulated nature of China's pharmaceutical industry. The Group will continue to pursue its plans to expand its production capacity in order to grow its revenue and enhance shareholders' value.”

We note from the discussion with the Directors and the Management that the Proposed Acquisitions are in anticipation of the business outlook for the Group and, in particular for the Proposed Jiangyou Acquisition, it is in line with the strategic direction of the Group to expand its current production capacity and also to accommodate any potential new business operations.

6.3 Funding method

The Directors have represented that the Proposed Ying Bin Property Acquisition and the Proposed Jiangyou Acquisition will be financed solely from the Group's internal resources.

We note that based on the unaudited financial statements of the Group for 9M2016, the Group's cash and cash equivalents amounted to approximately RMB78.4 million as at 30 September 2016, which is sufficient to satisfy the cash considerations for an aggregate amount of approximately RMB15.6 million for both the Proposed Ying Bin Property Acquisition and the Proposed Jiangyou Acquisition as well as the Additional Cost to be incurred by the Company to complete the construction of the Industrial Complex.

	RMB'000
Proposed Ying Bin Property Acquisition	6,973 ⁽¹⁾
Proposed Jiangyou Acquisition	8,631 ⁽²⁾
Additional Cost	20,000
Total	35,604
Cash and cash balances as at 30 September 2016	78,423

Notes:

- (1) *This is based on the assumption that there are no variances between the Initial Purchase Consideration and the Final Purchase Consideration.*
- (2) *This is based on the assumption that there are no variances between the Initial Consideration and the Final Consideration.*

As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Ying Bin Property Acquisition, the Proposed Jiangyou Acquisition and the Additional Cost, the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

6.4 Abstention from voting

The information on abstention from voting are set out in Section 11 of the Circular. We recommend that the Independent Directors advise the Independent Shareholders to read those pages of the Circular carefully. The information on abstention from voting have been extracted from Section 11 of the Circular and is set out in italic below.

“11 ABSTENTION FROM VOTING

In accordance with the requirements of the Listing Manual, the Interested Persons (as described in Section 2.2 of this Circular and Section 3.2 of this Circular), which for the avoidance of doubt shall include Mr Jiang, Mr Wu and Mr Jiang Ercheng, shall abstain, and have undertaken to ensure that their associates will abstain, from voting on resolutions approving the New IPT General Mandate and the Proposed Acquisitions. As at the Latest Practicable Date, Mr Jiang does not have any direct or indirect interest in the Shares.

The Interested Persons and their associates (which shall include: (a) Mr Jiang; (b) the Sichuan Neautus Group; (c) Chengdu Kinna Investment, the majority shareholder of Sichuan Neautus; (d) Mr Jiang Ercheng, who is the son of Mr Jiang and who has a controlling interest in Emperor Wealth Holdings Limited, a controlling shareholder of the Company; (e) Emperor Wealth Holdings Limited; and (f) Mr Wu) will also refrain from accepting nomination as proxy or otherwise vote at the EGM in respect of the resolution to be proposed unless Shareholders appointing them as proxies give specific instructions in the relevant proxy forms on the manner in which they wish their votes to be cast for the said resolution.”

7. OPINION

7.1 The Proposed Adoption of the New IPT General Mandate

In arriving at our opinion in respect of the proposed adoption of the New IPT General Mandate, we have considered, *inter alia*, the following:

- (i) the rationale for and benefit of the New IPT General Mandate as set out in Section 2.4 of the Circular; and
- (ii) the review procedures and additional controls of the Company in relation to the New IPT General Mandate, including the role of the Audit Committee in ensuring that the Company adheres to the review procedures, as set out in Section 2.5 of the Circular, and in particular that the Audit Committee will review all Interested Person Transactions at least on semi-annual basis.

Based on the above, we are of the opinion that the proposed adoption of the New IPT General Mandate and the procedures as set out in the Circular, is in the interest of the Company and that the review procedures (including the additional controls) for determining the transaction prices pursuant to the proposed adoption of the New IPT General Mandate as set out in Section 2.5 of the Circular, if adhered to fully, are sufficient to ensure that the Interested Person Transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders.

7.2 The Proposed Acquisitions as IPTs

In arriving at our recommendation, we have reviewed and examined all factors which we have considered to be pertinent in our assessment of the Proposed Acquisitions as IPTs, including the views of and representations by the Directors and the Management. Our recommendation or opinion is by no means an indication of the merits, prospects, financial performance and position of the Company or the Group or Jiangyou Neautus after completion of the Proposed Acquisitions as IPTs, or whether the Company or the Group can improve their financial position and performance, and cash flow or that the anticipated benefits from the Proposed Acquisitions can be realised (as the case may be) or the prices at which the Shares would trade after the completion of the Proposed Acquisitions. Our views, recommendation and opinion are necessarily limited and subject to the matters stated in this Letter. The following should be read in conjunction with, and in the context of, the full text of this Letter.

7.2.1 The Proposed Ying Bin Property Acquisition as an IPT

In arriving at our opinion in respect of the Proposed Ying Bin Property Acquisition as an IPT, we have reviewed and examined the following key considerations:

- (a) The rationale for the Proposed Ying Bin Property Acquisition (as set out in Section 3.4 of the Circular and Section 4.2.1 of this Letter), in particular, the following:
 - (i) The Directors' view that the Proposed Ying Bin Property Acquisition will allow the Group to secure a location to utilise as a non-manufacturing and auxiliary facility which the Group requires for its expanding operations, as well as to accommodate its expanding staff force and centralise its back office support staff who are currently located in different offices for better management and control.

- (ii) The Proposed Ying Bin Property Acquisition will ensure continuity of the Group's operations as the Ying Bin Property will further be able to accommodate any future expansions plans of the Group.
 - (iii) Confirmation from the Directors and the Management that (1) the Proposed Ying Bin Property Acquisition could enable the Group to save estimated future rental cost of approximately RMB1.5 million per annum, to minimize the impact of rising rental expenses and to avoid the adverse effect to its operation in the event of termination; (2) by acquiring the Ying Bin Property, it could broaden the fixed asset base of the Group and the Group may enjoy future capital appreciation of the Ying Bin Property; (3) the Ying Bin Property is located at the same location as the Group's previous headquarter in the PRC (which was dispersed as the landlord repossessed the units for re-development) and is located in the third ring road and near its operating factories, which is considered by the Board to be a convenient location in facilitating the co-operation and communication between the Group (including its factories) while moving in another nearby business place is unlikely to achieve further advancement in facilitating current business operations of the Group as compared to the Ying Bin Property.
 - (iv) The Group has considered identifying a suitable office unit(s) at the surrounding area including online searching and enquiries to several property agencies, however the Proposed Ying Bin Property Acquisition is deemed as the best option and is in the interest of the Company and its Shareholders taking into account the strategic location, requirements and specifications by the Group, size, etc.
- (b) The aggregate Tentative Purchase Consideration is supported by the market value for the Ying Bin Property as ascribed by the Valuer as at the Valuation Date. The aggregate Tentative Purchase Consideration for the Ying Bin Property amounted to RMB6,973,280 (based on the estimated construction area of approximately 918.02 square metres and sale price of RMB7,596 per square meter), which is at a slight discount of approximately 5.0% from the market value of the Ying Bin Property of approximately RMB7.34 million as ascribed by the Valuer. Likewise, the sale price of RMB7,596 per square meter represents a discount of approximately 5.0% from the implied market value of approximately RMB7,995 per square meter.
- (c) Salient terms of the Ying Bin Property SPAs including but not limited to aggregate Tentative Purchase Consideration and its variances, transaction steps, liabilities for breach, discharge of mortgages which we have assessed in conjunction with the following Directors' confirmations:
- (i) The appointment of the qualified independent survey institution shall be subject to review and approval of the Audit Committee of the Company and the Board.
 - (ii) The payment terms and the default charges in connection with delay in the delivery of the Ying Bin Property are based on commercial negotiations between willing buyer and willing seller.
 - (iii) Based on the legal advice obtained, there is no specific requirement or rules governing the payment terms and timeframe within which Chengdu Kinna Investment shall apply for the initial title certificates of the Project or the Chengdu Kinna Pharma's title certificates in respect of the Ying Bin Property are to be obtained under the PRC laws and regulation.
 - (iv) The Ying Bin Property SPAs have been prepared in accordance with the PRC laws and regulation.

- (v) Based on the Letter of Confirmation, Undertaking and Indemnity from Chengdu Kinna Investment, the Ying Bin Property falls into the scope of industrial property. Therefore, the timeline for registration of title certificates differs from residential and commercial properties. Chengdu Kinna Investment has sought the advice of the Management Commission (管委会) on the titles application processes and procedures and confirm that the transaction steps and the timeline for registration of initial title certificates and the Chengdu Kinna Pharma's title certificates stipulated in the Ying Bin Property SPAs are in accordance with the practice in the PRC.
 - (vi) Based on the Letter of Confirmation, Undertaking and Indemnity from Chengdu Kinna Investment, the terms of the Ying Bin Property SPAs (including but not limited to payment terms, transaction steps, duration of obtaining title certificates, liquidated damages, liabilities for breach, default charges etc) are referenced from the standard sale and purchase agreement which is adopted by Chengdu Kinna Investment for the sales in the Ying Bin Property development. The general terms in the Ying Bin Property SPAs are comparable to, or not less favourable than the terms of the sale and purchase agreement signed by Chengdu Kinna Investment with third parties in respect of the sale of other real properties at No.8 Ying Bin Avenue. The payment terms, in particular, are not uncommon practice in the PRC.
 - (vii) Based on the legal advice obtained, the initial title registration certificate of the Project could only be obtained by Chengdu Kinna Investment upon completion of the discharge of the mortgage.
 - (viii) The Directors are aware of Chengdu Kinna Pharma's liabilities for default charges and/or liquidated damages arising from any delay of payment, which are resulted from commercial negotiations, and that they do not foresee that Chengdu Kinna Pharma shall be liable for any default charges and/or liquidated damages as the Group has sufficient cash balances to pay for the Tentative Purchase Consideration.
 - (ix) The Directors are aware of the credit risk arising from the Proposed Ying Bin Property Acquisition and based on the information provided by the Management including *inter alia* assessment of credit worthiness of Chengdu Kinna Investment, they are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.
- (d) The confirmation, undertaking and indemnity by Chengdu Kinna Investment set out in Section 4.2.4 of this Letter.
 - (e) The potential financial effects of the Proposed Acquisitions as outlined in Section 8 of the Circular. We note that the Proposed Acquisitions will lead to higher NTA per Share for the Group and no effect on the Group's financial position in terms of gearing ratio as the Proposed Acquisitions will be financed solely from the Group's internal resources. As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Ying Bin Property Acquisition, the Proposed Jiangyou Acquisition and the Additional Cost, the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

Having considered the above and subject to the limitations, qualifications and assumptions set out in this Letter (including, *inter alia*, the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs which is based on the Directors' confirmation), and after having considered

carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to our terms of reference, from a financial point of view, **we are of the opinion that, on balance, in the absence of an alternative acquisition opportunity, the Proposed Ying Bin Property Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders.**

7.2.2 The Proposed Jiangyou Acquisition

In arriving at our opinion in respect of the Proposed Jiangyou Acquisition as an IPT, we have reviewed and examined the following key considerations:

- (a) The rationale for the Proposed Ying Bin Property Acquisition (as set out in Section 3.4 of the Circular and Section 5.2.1 of this Letter), in particular, the following:
 - (i) The Directors' view that the Proposed Jiangyou Acquisition is in-line with the business strategies of the Company, the acquisition of the Industrial Complex will allow the Group to expand its current production capacity and also to accommodate any potential new business operations, as the Group is currently unable to increase the production capacity of its present factory in the Guilin county, Sichuan Province, PRC due to regulatory restrictions relating to restrictions on land use and zoning restrictions.
 - (ii) The Management's representation that the Group's existing factory, located in Guilin county, Sichuan Province, the PRC, has been operating at utilization rate of approximately 78.0% and 90.0% for FY2014 and FY2015 respectively and the Group's existing factory is currently operating at almost maximum capacity of 5.0 million boxes for the production of granular extracts where the Group is facing bottlenecks for the extraction and drying processes. The Management expects that by FY2016, the existing production capacity of the Group would be insufficient to meet production requirements. The Proposed Jiangyou Acquisition will increase the Group's production capacity by additional 15 million boxes per year, upon completion of the construction of the Industrial Complex, which is expected to be by April 2017.
 - (iii) The Directors' confirmation that they have considered leasing factory space or constructing their own factory and they are of the view that leasing factory space will not be practicable given the manufacturing equipment and facilities that the Group use are highly specialised. Such equipment and facilities include but not limited to clean room facilities for medicine manufacturing etc. At the end of lease term, it will be impracticable to move the facilities which will put the Group in a less favourable position to negotiate lease renewal. Jiangyou Neatus's original plan was to construct the Industrial Complex to undertake a new business of production of granular extracts for its own use. However, due to commercial considerations, Jiangyou Neatus subsequently decided to postpone such expansion plan. In addition, the Directors are of the opinion that the Proposed Jiangyou Acquisition will save considerable time as the Industrial Complex is nearly completed and reduce the risk that the Group might face in the event they embark on constructing a new factory, including but not limited to availability of suitable sites, clearing regulatory hurdles for bidding of land, construction risks related to construction phases, and/or financing risks etc.
 - (iv) The Management's representation that there are indications from the local authorities asking the Group to shift its production plant to the outskirts of Guilin, as they want to develop the area. Due to potential relocation issue and regulatory restrictions (i.e. environment considerations), the Group is unable to expand their production capacity at their existing factory.
 - (v) The Proposed Jiangyou Acquisition will cut down significantly the Group's cost in terms of transportation expenses and delivery costs in view of the location of the Industrial Complex (it is nearer to the Group's distribution facility as compared to the existing factory).

- (vi) The Directors are not aware of any other factory sites within the nearby vicinity available-for-sale which are comparable to the Industrial Complex in terms of location, size, available of facilities, and costs.
- (b) The market value of the construction-in-progress relating to the Industrial Complex in existing state and the land use rights as ascribed by the Valuer of approximately RMB26.77 million in aggregate as at the Valuation Date represents a premium of approximately 3.7% over the aggregate net book value of the construction-in-progress relating to the Industrial Complex (approximately RMB20.9 million) and the land use rights (approximately RMB4.9 million) as at 30 September 2016.
- (c) The Consideration for Jiangyou Neautus is supported by the market value ascribed by the Valuer as at the Valuation Date. We note from Section 3.5.2 of the Circular that the Consideration for Jiangyou Neautus amounted to RMB8,631,000 (based on the assumption that there are (1) no variances between the management accounts and audited management accounts of Jiangyou Neautus as at 31 December 2015 and (2) no liabilities arising out of breaches in relation to the construction of the Industrial Complex and the liabilities in relation to an aborted construction project that Jiangyou Neautus had previously undertaken), which is at a discount of approximately 6.4% from the market value of the Jiangyou Neautus Shares as ascribed by the Valuer.
- (d) Salient terms of the Jiangyou Neautus Shares SPA including but not limited to the consideration for the Equity Interest and its variances, registration and completion, representation, warranty and undertaking, discharge of mortgages which we have assessed in conjunction with the following Directors' confirmations:
 - (i) There are no known breaches and/or liabilities in relation to the Industrial Complex and Aborted Project.
 - (ii) Based on the legal advice obtained, in the event that Sichuan Neautus is unable to perform its obligations or its performance does not comply with the provisions, or violates any of the Breach, *inter alia*, assist and cooperate to complete the construction completion and acceptance certificate and the title certificates for the Properties, Sichuan Neautus is required to remedy the Breach in accordance with the reasonable requirements of Chengdu Kinna Pharma and shall further compensate Chengdu Kinna Pharma for the losses suffered therefrom. If the Breach is not remediable or Sichuan Neautus fails to remedy its Breach in accordance with the reasonable requirements of Chengdu Kinna Pharma, Chengdu Kinna Pharma shall have the right to terminate the Jiangyou Neautus Shares SPA and other relevant documents signed pursuant to Jiangyou Neautus Shares SPA, and Sichuan Neautus shall pay a liquidated damages equivalent to 20% of the Consideration to Chengdu Kinna Pharma. If the said liquidated damages are insufficient to cover the loss of Chengdu Kinna Pharma, Chengdu Kinna Pharma has the right to further claim compensation.
 - (iii) The Directors are aware that there is no assurance that the construction completion inspection and acceptance as well as the title certificates of the Properties will be obtained, but they are satisfied, based on the legal advice obtained, on the ability of Chengdu Kinna Pharma with assistance of Sichuan Neautus to obtain the construction completion inspection and acceptance as well as the title certificates of the Properties.
 - (iv) The Jiangyou Neautus SPA has been prepared in accordance with the PRC laws and regulation.
- (e) Fair comparison (from the Company's perspective as buyer) of the Proposed Jiangyou Acquisition and the Selected IPT Acquisitions. The P/NTA ratio for Jiangyou Neautus of approximately 1.0 times as implied by the Consideration and the market value of the 100% equity interest in Jiangyou Neautus is within the range, in line with the median but lower than the simple average for the Selected IPT Acquisitions.

- (f) The potential financial effects of the Proposed Acquisitions as outlined in Section 8 of the Circular. We note that the Proposed Acquisitions will lead to higher NTA per Share for the Group and no effect on the Group's financial position in terms of gearing ratio as the Proposed Acquisitions will be financed solely from the Group's internal resources. As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Ying Bin Property Acquisition, the Proposed Jiangyou Acquisition and the Additional Cost, the working capital available to the Group is sufficient to meet its requirements for the next 12 months.

Having considered the above and subject to the limitations, qualifications and assumptions set out in this Letter (including, *inter alia*, no known breaches and/or liabilities in relation to the Industrial Complex and Aborted Project, and the ability of Chengdu Kinna Pharma with assistance of Sichuan Neautus to obtain the construction completion inspection and acceptance as well as the title certificates of the Properties), and after having considered carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to our terms of reference, from a financial point of view, **we are of the opinion that, on balance, in the absence of an alternative acquisition opportunity, the Proposed Jiangyou Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders.**

7.3 Recommendation

Based on our assessment of the proposed adoption of the New IPT General Mandate and the financial terms of both the Proposed Ying Bin Property Acquisition and the Proposed Jiangyou Acquisition as IPTs as set out above, we advise the Independent Directors to recommend that Independent Shareholders vote **in favour of** the resolutions pertaining to the proposed adoption of the New IPT General Mandate, the Proposed Ying Bin Property Acquisition and the Proposed Jiangyou Acquisition, to be proposed at the EGM. We advise the independent Directors to highlight to Independent Shareholders the matters as stated in our Letter, including, *inter alia*, our limitation in analysis, evaluation, comments and opinion in this Letter is limited. We advise the Independent Directors to recommend the Independent Shareholders to exercise caution in their decision in voting in favour of or against the proposed adoption of the New IPT General Mandate, the Proposed Ying Bin Property Acquisition and the Proposed Jiangyou Acquisition. In performing our evaluation, we have not been provided with, and have not had access to, any financial projections or future plans or corporate actions (if any) of the Company or the Group or Jiangyou Neautus. The opinion set forth herein is based solely on publicly available information and information provided by the Directors and the Management and therefore does not reflect any projections or future financial performance of the Company or the Group or Jiangyou Neautus after the completion of the Proposed Transactions and is based on the economic and market conditions prevailing as of the date of this opinion. Our advice is solely confined to our views on the the proposed adoption of the New IPT General Mandate, the Proposed Ying Bin Property Acquisition as an IPT and the Proposed Jiangyou Acquisition as an IPT.

Matters to highlight

We would also wish to highlight the following matters which may affect the decisions or actions of the Independent Shareholders:

- (1) We have not made any independent evaluation or appraisal of the Ying Bin Property, the Industrial Complex and Jiangyou Neautus (including without limitation, market value or economic potential) and we have not been furnished with any such evaluation and appraisal save for the Valuation Reports from the Valuer in respect of the market value of the Ying Bin Property, the Industrial Complex, and 100% equity interest in Jiangyou Neautus. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment) including, *inter alia* the Ying Bin Property, the Industrial Complex and Jiangyou Neautus and have relied on the opinion of the Directors and the financial statements (audited and unaudited) of the Group and Jiangyou Neautus, where applicable for the assessment.

- (2) It is not within our scope to opine on the future financial performance or position of the Company or the Group subsequent to the Proposed Acquisitions or the proposed adoption of the New IPT General Mandate or the possibility or probability that the Group can improve their profitability or that the anticipated benefits from the Proposed Acquisitions and the proposed adoption of the New IPT General Mandate can be realised (as the case may be) or the prices at which the Shares would trade after the completion of the Proposed Transactions or the viability, profitability and risks of the Proposed Acquisitions.
- (3) Our scope does not require us to opine on the ability of the Group to service its borrowings (both principal and interest payment) or to pay its liabilities (existing and future, including the liabilities which may arise in connection with the Proposed Acquisitions or completion of the construction of the Industrial Complex) when they fall due or the adequacy of the working capital of the Group after completion of the Proposed Acquisitions.
- (4) As at the Latest Practicable Date, the Directors are of the opinion that, barring unforeseen circumstances and after taking into account the cash considerations to be paid for the Proposed Ying Bin Property Acquisition, the Proposed Jiangyou Acquisition and the Additional Cost, the working capital available to the Group is sufficient to meet its requirements for the next 12 months.
- (5) Our scope does not require us to opine on the ability of Chengdu Kinna Investment (being the vendor for the Proposed Ying Bin Property Acquisition) to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.
- (6) The Directors have confirmed that they are aware of the credit risk arising from the Proposed Ying Bin Property Acquisition and based on the information provided by the Management including *inter alia* assessment of credit worthiness of Chengdu Kinna Investment, they are satisfied on the ability of Chengdu Kinna Investment to deliver the Ying Bin Property, to discharge the existing mortgage before the title transfer of the Ying Bin Property, or to refund the Tentative Purchase Consideration or the Final Purchase Consideration or to pay the deferred compensation/default charges /liquidated damages/ penalty or to fully compensate any losses or expenses upon occurrence of certain event as stipulated in the Ying Bin Property SPAs.
- (7) Our scope does not require us to opine on the ability of Jiangyou Neautus to obtain the construction completion inspection and certificates as well as title certificates for the Industrial Complex. Independent Shareholders should note that there is no assurance that the construction completion inspection and acceptance as well as the title certificates of the Properties will be obtained. The Directors have confirmed that they are aware of such risk, but they are satisfied, based on the legal advice obtained, on the ability of Chengdu Kinna Pharma with assistance of Sichuan Neautus to obtain the construction completion inspection and acceptance as well as the title certificates of the Properties.

Specific objectives

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or particular or individual needs and constraints of any individual Independent Shareholder. As each Independent Shareholder or group of Independent Shareholders would have different investment objectives and profiles, we would advise the Independent Directors to advise any individual Shareholder or group of Shareholders who may require specific advice in the context of investments in unlisted shares or his or their specific investment objectives or portfolio should consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.

8. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy or proxies to attend and vote on their behalf, will find enclosed with this Circular, a Proxy Form which they are requested to complete, sign and return, in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to arrive at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the holding of the EGM. The completion and return of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM in place of his proxy or proxies if he finds that he is able to do so.

In addition, Independent Directors should advise Independent Shareholders to read Section 14 of the Circular and Notice of the EGM which has been enclosed with the Circular carefully so that the appropriate election on voting for or voting against can be made.

This Letter is addressed to the Independent Directors in connection with and for the sole purpose of their evaluation of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs, and is not meant or intended to be an evaluation of the other resolutions to be proposed or alternatives. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor any other party, may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters and the scope of our appointment stated herein and does not apply by implication to any other matter. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any other third party and the Contracts (Rights of Third Parties) Act Chapter 53B and any reenactment thereof shall not apply.

The recommendations made by the Independent Directors to the Independent Shareholders in relation to the proposed adoption of the New IPT General Mandate and the Proposed Acquisitions as IPTs as well as other resolutions (where applicable) referred to in the Circular and the issue of the Circular shall remain the sole responsibility of the Independent Directors and the Directors respectively.

Yours faithfully
For and on behalf of
Asian Corporate Advisors Pte. Ltd.

H.K. Liao
Managing Director

Foo Quee Yin
Managing Director

APPENDIX C

VALUATION REPORTS AND UPDATED VALUATION REPORTS



6 May 2016

Pharmesis International Ltd.
5 Kallang Sector
#03-02
Singapore 349279

Dear Sirs,

In accordance with the instructions from Pharmesis International Ltd. (the “Company”, and together with its subsidiaries, the “Group”), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value of the 100 percent equity interest in Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd. (江油新荷花中药科技有限公司, “Jiangyou Neautus” or the “Target Company”), as at 31 December 2015 (the “Valuation Date”), for disclosure purpose. The report which follows is dated 6 May 2016 (the “Report Date”).

Our valuation was carried out on a market value basis. Market value is defined as “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

We do not intend to express any opinion in matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.



INTRODUCTION

According to the announcement dated on 6 May 2016, Chengdu Kinna Pharmaceutical Co., Ltd. (成都国嘉联合制药有限公司, the “Purchaser”, a wholly-owned subsidiary of the Company), has on 6 May 2015 entered into three separate conditional sale and purchase agreements (collectively, the “SPAs”) to respectively acquire:

- (a) An industrial complex under construction located at Industrial Park of Jiangyou Municipality (江油工业园区) with the plot number 81-3-31-61 in Jiangyou City, Mianyang City, Sichuan Province, the People’s Republic of China (the “PRC”), through the acquisition of the entire issued and paid-up share capital of the Target Company; and
- (b) Two units in a development under construction which are held and occupied by Chengdu Kinna Investment Co., Ltd. (“Chengdu Kinna Investment”), located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu City, Sichuan Province, the PRC.

The Target Company is established in 26 October 2010, and located in East Zone of Jiangyou Industrial Park in Sichuan Province. It is still in the stage of construction and has not started the production yet. In the future, the target company plans to produce granules as its main product, such as dispensing granules and classical granules.

Pharmesis International Ltd., established in 2004, has origins back to 1995, specializes in the business of research and development, production, sale and marketing of Western medicine and TCM (Traditional Chinese Medicine) formulated products for the treatment of illnesses relating to the liver and gall bladder. Two leading pharmaceutical products of Pharmesis are ATT (anetholtrithione) tablets, a Western medicine marketed under the “国嘉” brand, and TCM formulated Gansu granules marketed under the “古蔺肝苏” brand. These products are sold to approximately 2,000 hospitals all over the PRC through an established sales and marketing network.

BASIS OF OPINION

We have conducted our valuation in accordance the International Financial Reporting Standards issued by the International Accounting Standards Board and with International Valuation Standards issued by International Valuation Standards Council (“IVSC”). In valuing the property interests, we also have complied with all requirements contained in the RICS Valuation - Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors. The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Company;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject assets;
- Analysis on tactical planning, management standard and synergy of the subject assets; and
- Assessment of the leverage and liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION METHODOLOGY

Given the fact that the Target Company is still under construction, and it is a startup and has not yet generated any profit, we have relied solely on the cost approach in the valuation of 100 percent equity interest in the Target Company.

In this valuation exercise, we had considered the types of assets and liabilities and their conditions when arriving at the market values of the subject items. We adopted appropriate valuation methodology for each different class of assets and liabilities.

<i>Assets</i>	<i>Valuation Approach & Methodology</i>
Cash and cash equivalents	Based on the book values which have been confirmed by bank statements.
Receivables	Based on the economic realities with due consideration paid to their collectability, aging records, reputation and financial positions of the debtors which could result in provision of bad debts. Confirmation by checking to subsequent receipts on sampling basis.
Land and Construction in Progress	In valuing the property interest which was under construction as at the valuation date, due to the nature of the buildings and structures of the property and the particular locations in which it is situated, there are unlikely to be relevant market comparable sales readily available, the buildings and structures therefore been valued by the cost approach. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. Appropriate adjustments and analysis are considered to the differences between the comparable properties and the subject land. In arriving at our opinion of the value of buildings and structures and the land portion of the property as a whole, we have taken into account the land value, construction cost and professional fees relevant to the stage of construction as at the valuation date.
<i>Liabilities</i>	
Other Payables and Accruals	Based on book values. Checking of original contracts and/or invoices on sampling basis. Checking of subsequent settlements

Note: The book values are all based on the management account as at 31 December 2015.

Valuation for Land and Construction in Progress

The property

The industrial complex is located in East Zone of Jiangyou Industrial Park. It is about 8.0 kilometers far from Jiangyou Railway Station. The surrounding area of the property is clustered with many factories of industrial companies. The industrial complex occupies a parcel of land



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with a site area of approximately 34,153.60 sq.m. which will be developed into 7 industrial buildings and various ancillary structures erected thereon. Upon completion, the industrial buildings will have a total gross floor area of approximately 28,644.69 sq.m.

As at the valuation date, 4 buildings with a total gross floor area of approximately 10,369.10 sq.m. and various ancillary structures were vacant and the interior and external decoration of the property is scheduled to be commenced, whilst construction works of the remaining buildings have not commenced.

The buildings include a factory, a composite building, two quality control buildings, a raw material warehouse and two guard houses. The factory and the composite building are scheduled to be completed in April 2017.

The land use rights of the property have been granted for a term expiring on 22 June 2061 for industrial use.

The Existing State of the Property in January 2016



Situation and Locality

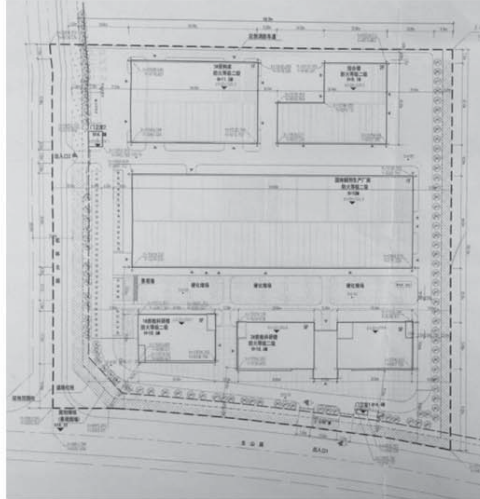
The industrial complex is located in East Zone of Jiangyou Industrial Park. It is about 8.0 kilometers far from Jiangyou Railway Station. The surrounding area of the property is clustered with many factories of industrial companies.

Location Map of the Property



Source: JLL, google maps

Site Plan of the Property



Source from Jiangyou Neautus

Title Documents

State-owned Land Use Rights Contract

Pursuant to a State-owned Land Use Rights Contract – No. 510601-2011-040, the land use rights of the parcel of land with a site area of approximately 65,642 sq.m. (including the property) have been granted to Jiangyou Zhangming Neautus Monkshood Co., Ltd. (江油彰明新荷花附子有限公司, “Jiangyou Zhangming”, the predecessor of Jiangyou Neautus) for a term of 50 years for industrial use.

State-owned Land Use Rights Certificate

Pursuant to a State-owned Land Use Rights Certificate – Jiang Guo Yong (2015) Di No. 0300765, the land use rights of the parcel of land with a site area of approximately 34,153.60 sq.m. have been granted to Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd. (“Jiangyou Neautus”) a term expiring on 22 June 2061 for industrial use.

Construction Work Commencement Permit

Pursuant to a Construction Work Commencement Permit – Jian Shi Di No. (2014)029 in favour of Jiangyou Zhangming, permission by the relevant local authority was given to commence the

construction work of the industrial complex.

Property Valuation Assumptions

We have made the following property valuation assumptions in the course of our valuation:

- a. all land premium payments and other costs such as resettlement and ancillary utilities services have been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;
- b. the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works; and
- c. all requisite title certificates have been obtained and the property can be freely transferred, leased or mortgaged by Jiangyou Neatus without payment of any further land premium or transfer fees.

Valuation Conclusion

Based on the above assumptions and analysis, we are of the opinion that the market value of the property in existing state as at the valuation date is in the sum of RMB25,550,000 (RENMINBI TWENTY-FIVE MILLION, FIVE HUNDRED AND FIFTY THOUSAND) assuming that the property could be freely transferred.

SOURCES OF INFORMATION

In conducting our valuation of the Target Company, we have reviewed information from several sources, including, but not limited to:

- Background of the Target Company and relevant corporate information;
- Management account of the Target Company as at 31 December 2015;
- Business licenses of the Target Company; and
- Other operation and market information in relation to the Target Company's business.

We have held discussions with management of Target Company, conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our opinion of value.



VALUATION ASSUMPTIONS

In determining the market value of the 100 percent equity interest in the Target Company, we have made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for our assessed value.

General Assumptions

- We have assumed the accuracy of the financial and operational information provided to us by the Target Company, including the management account of the Target Company as at 31 December 2015, and relied to a considerable extent on such information in arriving at our opinion of value;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

OPINION OF EQUITY VALUE

Based on the results of our investigations and analyses, we are of the opinion that as at 31 December 2015 the market value of the 100 percent equity interest in the Target Company is reasonably stated at the amount of **RMB 9,086,000 (RENMINBI NINE MILLION AND EIGHTY-SIX THOUSAND)**.

LIMITING CONDITIONS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company and Jones Lang LaSalle Corporate and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited



Simon M.K. Chan
Regional Director

Note: Mr. Simon M.K. Chan is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of CPA Australia. He is also a Certified Valuation Analyst and a member of The International Association of Consultants, Valuers and Analysts (IACVA). He oversees the business valuation services of JLL and has over 15 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States.



APPENDIX - SUMMARY OF VALUES

Jiangyou Neatus Traditional Chinese Medicine Technology Co., Ltd.		Value(RMB)
Total Assets		28,803,615
Cash on hand and in bank		54,215
Other receivables		1,000
Construction in process		23,090,400
-Plant & Machinery		3,198,400
-Buildings		19,892,000
Intangible asset-Land use right		5,658,000
Total Liabilities		19,717,921
Tax payable		20
Other payables		19,717,901
100% Equity Value(Rounded)		9,086,000

6 May 2016

PHARMESIS INTERNATIONAL LTD.

5 Kallang Sector
#03-02
Singapore 349279

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL” or “we”) is instructed by **PHARMESIS INTERNATIONAL LTD.** (the “Company”, and together with its subsidiaries, hereinafter together referred to as the “Group”) to provide valuation service on the property for disclosure purpose. According to the announcement dated on 6 May 2016, Chengdu Kinna Pharmaceutical Co., Ltd. (成都国嘉联合制药有限公司, the “Purchaser”, a wholly-owned subsidiary of the Company), has on 6 May 2016 entered into conditional sale and purchase agreements (collectively, the “SPAs”) to acquire:

- Two units (Units 4-6-1 and 4-6-2 in building 4) in a development under construction which are held by Chengdu Kinna Investment Co., Ltd. (“Chengdu Kinna Investment”, an interested person of the Company), located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu City, Sichuan Province, the PRC.

We are instructed to assess the market value as if completed of the property interest which is contracted to be disposed to the Group upon building completion. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market value of the property interest as at 31 March 2016 (the “**valuation date**”).

Our valuation is carried out on a market value basis. Market value is defined as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We have adopted the comparison approach in the valuation of the property interest which is contracted to be disposed to the Group upon building completion by making reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the

property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their value.

In valuing the property interest, we have complied with all requirements contained in the RICS Valuation - Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by Chengdu Kinna Investment, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including the State-owned Land Use Rights Certificate, Building Construction Work Planning Permit and Construction Work Commencement Permit to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest. It is assumed that the copies of the documents obtained are consistent with their originals.

We have no reason to doubt the truth and accuracy of the information provided to us by Chengdu Kinna Investment. We have also sought confirmation from Chengdu Kinna Investment that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in January 2016 by Ms. Cyndi Huang. Ms. Cyndi Huang is a China Real Estate Appraiser and has 3 years' experience in the valuation of property in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).



Our valuation is summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited



Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note:

Eddie T. W. Yiu is a Chartered Surveyor who has 22 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held under pre-sale agreement to be disposed to the Group upon building completion in the PRC

Property	Description and tenure	Particulars of occupancy	Market value as if completed as at 31 March 2016 RMB
Units 4-6-1 and 4-6-2 in building 4 located at No. 8 Yingbin Avenue Jinniu District Chengdu City Sichuan Province The PRC	<p>The property is located at No. 8 Yingbin Avenue which belongs to Jinniu High Tech Industrial Park of Chengdu. The surrounding area of the property is clustered with many non-manufacturing industrial and auxiliary facility buildings.</p> <p>The property comprises two units on Level 6 of building 4 in a development under construction which is scheduled to be completed in August 2016. Upon completion, the property will have a total gross floor area of approximately 918.02 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 6 October 2052 for industrial use.</p>	The property was under construction as at the valuation date.	7,340,000

Notes:

- Pursuant to a Commodity Property Sales and Purchases Contract dated 6 May 2016, Units 4-6-1 and 4-6-2 in building 4 with a total gross floor area of approximately 918.02 sq.m. will be purchased by the Group from Chengdu Kinna Investment Co., Ltd. ("Chengdu Kinna Investment") at a total consideration of RMB6,973,280.
- Pursuant to a State-owned Land Use Rights Certificate - Cheng Guo Yong (2014) Di No. 128, the land use rights of a parcel of land with a site area of approximately 23,353.04 sq.m. (including the land use rights of this property) have been granted to Chengdu Kinna Investment for a term expiring on 6 October 2052 for industrial use.
- Pursuant to a Construction Work Planning Permit - Jian Zi Di No. 510106201430131 in favour of Chengdu Kinna Investment, an industrial complex (including the property) with a total gross floor area of approximately 56,291.09 sq.m. has been approved for construction.
- Pursuant to a Construction Work Commencement Permit - No. 510106201502250201 in favour of Chengdu Kinna Investment, permission by the relevant local authority was given to commence the construction work of the industrial complex (including the property).
- We have prepared our valuation on the following assumptions:
 - all land premium payments and other costs such as resettlement and ancillary utilities services have

been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;

- b. the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works;
- c. the land use rights of the property is legally held by Chengdu Kinna Investment and the property can be freely transferred or mortgaged without payment of further land premium or transfer fees; and
- d. There will be no material legal impediment for the Group to obtain the property.



01 December 2016

Pharmesis International Ltd.
5 Kallang Sector
#03-02
Singapore 349279

Dear Sirs,

In accordance with the instructions from Pharmesis International Ltd. (the "Company", and together with its subsidiaries, the "Group"), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value of the 100 percent equity interest in Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd. (江油新荷花中药科技有限公司, "Jiangyou Neautus" or "Target Company"), as at 30 September 2016 (the "Valuation Date"), for disclosure purpose. The report which follows is dated 01 December 2016 (the "Report Date").

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We do not intend to express any opinion in matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.



INTRODUCTION

According to the announcement dated on 6 May 2016, Chengdu Kinna Pharmaceutical Co., Ltd. (成都国嘉联合制药有限公司, the “Purchaser”, a wholly-owned subsidiary of the Company), has on 6 May 2015 entered into three separate conditional sale and purchase agreements (collectively, the “SPAs”) to respectively acquire:

- (a) An industrial complex under construction located at Industrial Park of Jiangyou Municipality (江油工业园区) with the plot number 81-3-31-61 in Jiangyou City, Mianyang City, Sichuan Province, the People’s Republic of China (the “PRC”), through the acquisition of the entire issued and paid-up share capital of the Target Company; and
- (b) Two units in a development under construction which are held and occupied by Chengdu Kinna Investment Co., Ltd. (“Chengdu Kinna Investment”), located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu City, Sichuan Province, the PRC.

The Target Company is established in 26 October 2010, and located in East Zone of Jiangyou Industrial Park in Sichuan Province. It is still in the stage of construction and has not started the production yet. In the future, the target company plans to produce granules as its main product, such as dispensing granules and classical granules.

Pharmesis International Ltd., established in 2004, has origins back to 1995, specializes in the business of research and development, production, sale and marketing of Western medicine and TCM (Traditional Chinese Medicine) formulated products for the treatment of illnesses relating to the liver and gall bladder. Two leading pharmaceutical products of Pharmesis are ATT (anetholtrithione) tablets, a Western medicine marketed under the “国嘉” brand, and TCM formulated Gansu granules marketed under the “古蔺肝苏” brand. These products are sold to approximately 2,000 hospitals all over the PRC through an established sales and marketing network.

BASIS OF OPINION

We have conducted our valuation in accordance the International Financial Reporting Standards issued by the International Accounting Standards Board and with International Valuation Standards issued by International Valuation Standards Council (“IVSC”). In valuing the property interests, we also have complied with all requirements contained in the RICS Valuation - Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors. The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Company;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject assets;
- Analysis on tactical planning, management standard and synergy of the subject assets; and
- Assessment of the leverage and liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION METHODOLOGY

Given the fact that the Target Company is still under construction, and it is a startup and has not yet generated any profit, we have relied solely on the cost approach in the valuation of 100 percent equity interest in the Target Company.

In this valuation exercise, we had considered the types of assets and liabilities and their conditions when arriving at the market values of the subject items. We adopted appropriate valuation methodology for each different class of assets and liabilities.

<i>Assets</i>	<i>Valuation Approach & Methodology</i>
Cash and cash equivalents	Based on the book values which have been confirmed by bank statements.
Land and Construction in Progress	In valuing the property interest which was under construction as at the Valuation Date, due to the nature of the buildings and structures of the property and the particular locations in which it is situated, there are unlikely to be relevant market comparable sales readily available, the buildings and structures therefore been valued by the cost approach. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. Appropriate adjustments and analysis are considered to the differences between the comparable properties and the subject land. In arriving at our opinion of the value of buildings and structures and the land portion of the property as a whole, we have taken into account the land value, construction cost and professional fees relevant to the stage of construction as at the Valuation Date.
<i>Liabilities</i>	
Other Payables and Accruals	Based on book values. Checking of original contracts and/or invoices on sampling basis. Checking of subsequent settlements

Note: The book values are all based on the management account as at 30 September 2016.

Valuation for Land and Construction in Progress

The property

The industrial complex is located in East Zone of Jiangyou Industrial Park. It is about 8.0 kilometers far from Jiangyou Railway Station. The surrounding area of the property is clustered with many factories of industrial companies. The industrial complex occupies a parcel of land with a site area of approximately 34,153.60 sq.m. which will be developed into 7 industrial buildings and various ancillary structures erected thereon. Upon completion, the industrial buildings will have a total gross floor area of approximately 28,644.69 sq.m.



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As at the valuation date, 4 buildings with a total gross floor area of approximately 10,369.10 sq.m. and various ancillary structures were vacant and the interior and external decoration of the property is scheduled to be commenced, whilst construction works of the remaining buildings have not commenced.

The buildings include a factory, a composite building, two quality control buildings, a raw material warehouse and two guard houses. The factory and the composite building are scheduled to be completed in April 2017.

The land use rights of the property have been granted for a term expiring on 22 June 2061 for industrial use.

The Existing State of the Property in January 2016



Situation and Locality

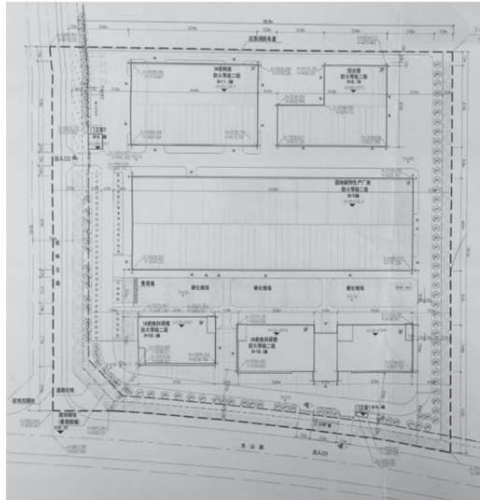
The industrial complex is located in East Zone of Jiangyou Industrial Park. It is about 8.0 kilometers far from Jiangyou Railway Station. The surrounding area of the property is clustered with many factories of industrial companies.

Location Map of the Property



Source: JLL, google maps

Site Plan of the Property



Source from Jiangyou Neautus

Title Documents

State-owned Land Use Rights Contract

Pursuant to a State-owned Land Use Rights Contract – No. 510601-2011-040, the land use rights of the parcel of land with a site area of approximately 65,642 sq.m. (including the property) have been granted to Jiangyou Zhangming Neautus Monkshood Co., Ltd. (江油彰明新荷花附子有限公司, “Jiangyou Zhangming”, the predecessor of Jiangyou Neautus) for a term of 50 years for industrial use.

State-owned Land Use Rights Certificate

Pursuant to a State-owned Land Use Rights Certificate – Jiang Guo Yong (2015) Di No. 0300765, the land use rights of the parcel of land with a site area of approximately 34,153.60 sq.m. have been granted to Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd. (“Jiangyou Neautus”) a term expiring on 22 June 2061 for industrial use.

Construction Work Commencement Permit

Pursuant to a Construction Work Commencement Permit – Jian Shi Di No. (2014)029 in favour of Jiangyou Zhangming, permission by the relevant local authority was given to commence the



construction work of the industrial complex.

Property Valuation Assumptions

We have made the following property valuation assumptions in the course of our valuation:

- a. all land premium payments and other costs such as resettlement and ancillary utilities services have been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;
- b. the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works; and
- c. all requisite title certificates have been obtained and the property can be freely transferred, leased or mortgaged by Jiangyou Neautus without payment of any further land premium or transfer fees.

Valuation Conclusion

Based on the above assumptions and analysis, we are of the opinion that the market value of the property in existing state as at the Valuation Date is in the sum of RMB26,769,000 (RENMINBI TWENTY-SIX MILLION, SEVEN HUNDRED AND SIXTY-NINE THOUSAND) assuming that the property could be freely transferred.



SOURCES OF INFORMATION

In conducting our valuation of the Target Company, we have reviewed information from several sources, including, but not limited to:

- Background of the Target Company and relevant corporate information;
- Management account of the Target Company as at 30 September 2016;
- Business licenses of the Target Company; and
- Other operation and market information in relation to the Target Company's business.

We have held discussions with management of Target Company, conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our opinion of value.



VALUATION ASSUMPTIONS

In determining the market value of the 100 percent equity interest in the Target Company, we have made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for our assessed value.

General Assumptions

- We have assumed the accuracy of the financial and operational information provided to us by the Target Company, including the management account of the Target Company as at 30 September 2016, and relied to a considerable extent on such information in arriving at our opinion of value;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

OPINION OF EQUITY VALUE

Based on the results of our investigations and analyses, we are of the opinion that as at 30 September 2016 the market value of the 100 percent equity interest in the Target Company is reasonably stated at the amount of **RMB 9,223,000 (RENMINBI NINE MILLION TWO HUNDRED AND TWENTY-THREE THOUSAND)**.

LIMITING CONDITIONS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company and Jones Lang LaSalle Corporate and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited



Simon M.K. Chan
Regional Director

Note: Mr. Simon M.K. Chan is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of CPA Australia. He is also a Certified Valuation Analyst and a member of The International Association of Consultants, Valuers and Analysts (IACVA). He oversees the business valuation services of JLL and has over 15 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States.



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APPENDIX - SUMMARY OF VALUES

Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd.	Value(RMB)
Total Assets	30,441,201
Cash on hand and in bank	56,201
Construction in process	24,683,000
-Plant & Machinery	3,616,000
-Buildings	21,067,000
Intangible asset-Land use right	5,702,000
Total Liabilities	21,217,901
Other payables	21,217,901
100% Equity Value(Rounded)	9,223,000

1 December 2016

PHARMESIS INTERNATIONAL LTD.
5 Kallang Sector
#03-02
Singapore 349279

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“**JLL**” or “**we**”) is instructed by **PHARMESIS INTERNATIONAL LTD.** (the “**Company**”, and together with its subsidiaries, hereinafter together referred to as the “**Group**”) to provide valuation service on the property for disclosure purpose. According to the announcement dated on 6 May 2016, Chengdu Kinna Pharmaceutical Co., Ltd. (成都国嘉联合制药有限公司, the “**Purchaser**”, a wholly-owned subsidiary of the Company), has on 6 May 2016 entered into conditional sale and purchase agreements (collectively, the “**SPAs**”) to acquire:

- Two units (Units 4-6-1 and 4-6-2 in building 4) in a development under construction which are held by Chengdu Kinna Investment Co., Ltd. (“Chengdu Kinna Investment”, an interested person of the Company), located at No. 8 Ying Bin Avenue, Jinniu District, Chengdu City, Sichuan Province, the PRC.

We are instructed to assess the market value as if completed of the property interest which is contracted to be disposed to the Group upon building completion. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market value of the property interest as at 30 September 2016 (the “**valuation date**”).

Our valuation is carried out on a market value basis. Market value is defined as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We have adopted the comparison approach in the valuation of the property interest which is contracted to be disposed to the Group upon building completion by making reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the

property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their value.

In valuing the property interest, we have complied with all requirements contained in the RICS Valuation - Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by Chengdu Kinna Investment, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including the State-owned Land Use Rights Certificate, Building Construction Work Planning Permit and Construction Work Commencement Permit to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest. It is assumed that the copies of the documents obtained are consistent with their originals.

We have no reason to doubt the truth and accuracy of the information provided to us by Chengdu Kinna Investment. We have also sought confirmation from Chengdu Kinna Investment that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.


Inspection of the property was carried out in November 2016 by Ms. Amy Wang. Ms. Amy Wang has 4 years' experience in the valuation of property in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).



Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited



Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note:

Eddie T. W. Yiu is a Chartered Surveyor who has 23 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held under pre-sale agreement to be disposed to the Group upon building completion in the PRC

Property	Description and tenure	Particulars of occupancy	Market value as if completed as at 30 September 2016 RMB
Units 4-6-1 and 4-6-2 in Building 4 located at No. 8 Yingbin Avenue Jinniu District Chengdu City Sichuan Province The PRC	<p>The property is located at No. 8 Yingbin Avenue which belongs to Jinniu High Tech Industrial Park of Chengdu. The surrounding area of the property is clustered with many non-manufacturing industrial and auxiliary facility buildings.</p> <p>The property comprises two units on Level 6 of Building 4 in a development under construction which is scheduled to be completed in 2016. Upon completion, the property will have a total gross floor area of approximately 918.02 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 6 October 2052 for industrial use.</p>	The property was under construction as at the valuation date.	7,340,000

Notes:

1. Pursuant to a Commodity Property Sales and Purchases Contract dated 6 May 2016, Units 4-6-1 and 4-6-2 in Building 4 with a total gross floor area of approximately 918.02 sq.m. will be purchased by the Group from Chengdu Kinna Investment Co., Ltd. ("Chengdu Kinna Investment") at a total consideration of RMB6,973,280.
2. Pursuant to a State-owned Land Use Rights Certificate - Cheng Guo Yong (2014) Di No. 128, the land use rights of a parcel of land with a site area of approximately 23,353.04 sq.m. (including the land use rights of this property) have been granted to Chengdu Kinna Investment for a term expiring on 6 October 2052 for industrial use.
3. Pursuant to a Construction Work Planning Permit - Jian Zi Di No. 510106201430131 in favour of Chengdu Kinna Investment, an industrial complex (including the property) with a total gross floor area of approximately 56,291.09 sq.m. has been approved for construction.
4. Pursuant to a Construction Work Commencement Permit - No. 510106201502250201 in favour of Chengdu Kinna Investment, permission by the relevant local authority was given to commence the construction work of the industrial complex (including the property).
5. We have prepared our valuation on the following assumptions:
 - a. all land premium payments and other costs such as resettlement and ancillary utilities services have



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been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;

- b. the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities and all necessary authorizations and permits have been obtained in respect of the construction works;
- c. the land use rights of the property is legally held by Chengdu Kinna Investment and the property can be freely transferred or mortgaged without payment of further land premium or transfer fees; and
- d. There will be no material legal impediment for the Group to obtain the property.

PHARMESIS INTERNATIONAL LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200309641E)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of **PHARMESIS INTERNATIONAL LTD.** (the “**Company**”) will be held at 5 Kallang Sector, #03-02, Singapore 349279 on 27 December 2016 at 10.30 a.m., for the purpose of considering, and if thought fit, passing, with or without modifications:

All capitalised terms in this Notice which are not defined herein shall have the same meanings ascribed to them in the circular to shareholders of the Company dated 12 December 2016.

ORDINARY RESOLUTIONS:

Ordinary Resolution 1: The Proposed Adoption Of The New IPT General Mandate

THAT:

- (a) approval be and is hereby given, for the purpose of Chapter 9 of the Listing Manual (“**Chapter 9**”), in particular for the purposes of Rule 920 of the Listing Manual in relation to a general mandate from the Shareholders, for the Company, its subsidiaries and associated companies that are considered to be “entities at risk” (as that term is used in Chapter 9), or any of them, to enter into any of the transactions falling within the types of interested person transactions described in Section 2.3 of this Circular, with any party who is of the class of interested persons described in Section 2.2 of this Circular, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions (“**New IPT General Mandate**”);
- (b) the New IPT General Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and
- (c) the Directors and each of them be and is hereby authorised to take such steps, complete and do all such things (including without limitation to execute all such agreements and documents as may be required and to approve any amendments, alterations or modifications to any documents) as they or he may consider necessary, desirable, expedient or in the interests of the Company to give effect to the New IPT General Mandate and/or this Ordinary Resolution 1 as they or he may deem fit.

Ordinary Resolution 2: The Proposed Acquisition Of The Ying Bin Property, Through Its Wholly-Owned Subsidiary, As An Interested Person Transaction And A Major Transaction

THAT:

- (a) approval be and is hereby given for the purposes of Chapter 9 and Chapter 10 of the Listing Manual for the proposed acquisition by成都国嘉联合制药有限公司(Chengdu Kinna Pharmaceutical Co., Ltd) (“**Chengdu Kinna Pharma**”), a wholly-owned subsidiary of the Company, of two (2) units in a development under construction located at No. 8 Ying Bin Avenue of Jinniu District, Chengdu, Sichuan Province, PRC from成都国嘉投资股份有限公司(Chengdu Kinna Investment Co., Ltd.) (“**Chengdu Kinna Investment**”), for a consideration of RMB 6,973,280, on the terms and subject to the conditions of the sale and purchase agreements entered into between Chengdu Kinna Pharma and Chengdu Kinna Investment;
- (b) the Directors and each of them be and is hereby authorised to take such steps, complete and do all such things (including without limitation to execute all such agreements and documents as may be required and to approve any amendments, alterations or modifications to any documents) as they or he may consider necessary, desirable, expedient or in the interests of the Company to give effect to the acquisition of the Ying Bin Property and/or this Ordinary Resolution 2 as they or he may deem fit.

Ordinary Resolution 3: The Proposed Acquisition Of The Jiangyou Neautus Shares, Through Its Wholly-Owned Subsidiary, As An Interested Person Transaction And A Major Transaction

THAT:

- (a) approval be and is hereby given for the purposes of Chapter 9 and Chapter 10 of the Listing Manual for the proposed acquisition by Chengdu Kinna Pharma, a wholly-owned subsidiary of the Company, of the entire issued and paid-up share capital of 江油新荷花中药科技有限公司 (Jiangyou Neautus Traditional Chinese Medicine Technology Co. Ltd.) (“**Jiangyou Neautus**”) from四川新荷花中药饮片股份有限公司 (Sichuan Neautus Traditional Chinese Medicine Co., Ltd) (“**Sichuan Neautus**”), for a consideration of RMB 8,631,000, on the terms and subject to the conditions of the sale and purchase agreement entered into between Chengdu Kinna Pharma and Sichuan Neautus;
- (b) the Directors and each of them be and is hereby authorised to take such steps, complete and do all such things (including without limitation to execute all such agreements and documents as may be required and to approve any amendments, alterations or modifications to any documents) as they or he may consider necessary, desirable, expedient or in the interests of the Company to give effect to the acquisition of the Jiangyou Neautus Shares and/or this Ordinary Resolution 3 as they or he may deem fit.

BY ORDER OF THE BOARD

Lee Pay Lee
Company Secretary
12 December 2016

NOTES:

1. A member of the Company (“**Member**”) entitled to attend and vote at the Extraordinary General Meeting (“**EGM**”) is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. Where a member (other than a Relevant Intermediary) appoints two (2) proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies.
3. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

* A Relevant Intermediary means:
 - (a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
 - (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or
 - (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the EGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the EGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the EGM.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company’s Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for holding the EGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under the seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of an appointor, the letter of power attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such as it thinks fit to act as its representatives at the EGM, in accordance with the section 179 of the Companies Act (Chapter 50) of Singapore.
8. An investor who holds shares under the Central Provident Fund Investment Scheme (“**CPF Investor**”) and/or the Supplementary Retirement Scheme (“**SRS Investors**”) (as may be applicable) may attend and cast his vote(s) at the EGM in person. CPF and SRS Investors who are unable to attend the EGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the EGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending in EGM.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by CDP to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “**Purposes**”), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Pharmesis International Ltd.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200309641E)

Personal data privacy

By submitting an instrument appointing a proxy and/or representative, the Shareholders accepts and agrees to person data privacy terms set out in the Notice of EGM dated 12 December 2016.

PROXY FORM

Extraordinary General Meeting

(Please read notes overleaf before completing this form.)

IMPORTANT:

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We* _____ (Name)

of _____ (Address),

_____ (NRIC/Passport No.) being a member/members* of Pharmesis International Ltd. (the "Company") hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

as my/our proxy/proxies to vote for me/us on my/our behalf at the Extraordinary General Meeting (the "Meeting") to be held at 5 Kallang Sector, #03-02, Singapore 349279, on 27 December 2016 at 10.30 a.m. I/We direct my/our proxy/proxies to vote for/against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

No.	ORDINARY RESOLUTION	No. of votes *For	No. of votes *Against
	To approve the proposed adoption of the New IPT General Mandate		
	To approve the proposed acquisition of the Ying Bin Property		
	To approve the proposed acquisition of the Jiangyou Neautus Shares		

* Please indicate your vote "For" or "Against", tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ 2016

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Signature of Shareholder(s)
of Common Seal of Corporate Shareholder

*Delete where applicable

IMPORTANT: PLEASE READ NOTES OVERLEAF



NOTES:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary) entitled to attend and vote at a meeting of the Company is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member (other than a Relevant Intermediary) appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

* Relevant Intermediary means:

- (a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
 - (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or
 - (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
 6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the Meeting.
 7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
 8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with section 179 of the Companies Act (Chapter 50) of Singapore.
 9. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by CDP to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Member accepts and agrees to the personal data privacy terms set out in the Notice of EGM dated 12 December 2016.