



**HAIXI PHARMACEUTICAL
INTERNATIONAL HOLDINGS LIMITED**

PROSPECTUS

Haixi Pharmaceutical International Holdings Limited
(ACN 616 806 574)



For the offer of 50,000,000 New Shares at an Offer Price of A\$0.50 each to raise A\$25,000,000 with up to A\$5,000,000 of oversubscriptions and the admission to the Official List of Australian Securities Exchange.

Important notice

This is an important document, which should be read in its entirety before making any investment decision. You should obtain independent advice if you have any questions about any of the matters contained in this Prospectus.

LEAD MANAGER

BLUEMOUNT
CAPITAL™

CORPORATE ADVISER


CHINA AUSTRALIA CAPITAL

IMPORTANT INFORMATION

OFFER

The Offer contained in this Prospectus is an invitation to acquire Shares in Haixi Pharmaceutical International Holdings Limited (ACN 616 806 574).

LODGEMENT AND LISTING

This Prospectus is dated 19 July 2017. A copy of this Prospectus was lodged with ASIC on 19 July 2017. This Prospectus is a replacement prospectus and replaces the prospectus dated 6 July 2017. A copy of this Prospectus will be lodged with ASX.

This Prospectus has been issued to provide further disclosure regarding corporate advisory and lead manager agreements and voluntary escrow arrangements.

Neither ASIC nor ASX or their officers take any responsibility for the contents of this Prospectus or for the merits of the investment to which this Prospectus relates.

EXPIRY DATE

No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

NOTE TO APPLICANTS

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. This Prospectus should not be construed as financial, taxation, legal or other advice.

This Prospectus is important and should, along with each of the documents incorporated by reference, be read in its entirety prior to deciding whether to invest in the Company's Shares. There are risks associated with an investment in the Shares and the Shares offered under this Prospectus must be regarded as a speculative investment. Some of the risks that should be considered are set out in Section 9 (Risk Factors) of this Prospectus. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues).

There may also be risks in addition to these that should be considered in light of your personal circumstances. If you do not fully understand this Prospectus or are in doubt as to how to deal with it, you should seek professional guidance from your stockbroker, lawyer, accountant or other professional adviser before deciding whether to invest in the Shares.

No person named in this Prospectus guarantees the Company's performance or any return on investment made pursuant to this Prospectus.

NO OFFERING WHERE OFFERING WOULD BE ILLEGAL

This Prospectus does not constitute an Offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The taxation treatment of

Australian securities may not be the same as those for securities in foreign jurisdictions. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The distribution of this Prospectus outside Australia may be restricted by law and therefore any person who resides outside Australia and who receives this Prospectus should seek advice on and observe any such restrictions. Any person who has a registered address in any other country who receives this Prospectus may only apply for Shares where that person is able to reasonably demonstrate to the satisfaction of the Company that the person may participate in the Offer relying on a relevant exception from, or are not otherwise subject to, the lodgement, filing, registration or other requirements of any applicable securities laws in the jurisdiction in which they have a registered address.

The Company will not offer to sell, nor solicit an offer to purchase, any securities in any jurisdiction where such offer, sale or solicitation may not lawfully be made. Any failure to comply with these restrictions may constitute violation of applicable laws.

NOTICE TO UNITED STATES RESIDENTS

The securities being offered pursuant to this Prospectus have not been registered under the US Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration under the US Securities Act and applicable State securities laws. This Prospectus does not constitute an offer or invitation to sell, or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful. Any hedging transactions involving these securities may not be conducted unless in compliance with the US Securities Act and applicable State securities laws.

NOTICE TO HONG KONG RESIDENTS

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

NOTICE TO PRC RESIDENTS

The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph only, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

FINANCIAL INFORMATION AND AMOUNTS

The "Financial Information" section in Section 6 sets out in detail the Financial

Information referred to in the Prospectus. The basis of preparation of the Financial Information is set out in the "Financial Information" in Section 6. All references to FY2014, FY2015, and FY2016 appearing in this Prospectus are to the financial years ended or ending 31 December 2014, 31 December 2015, or 31 December 2016 respectively, unless otherwise indicated. Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by International Financial Reporting Standards.

The Historical Financial Information in this Prospectus should be read in conjunction with, and they are qualified by, reference to the information contained in Section 6.

The functional currency of the operating entities in the Haixi Group is Chinese Yuan. The presentation currency is Australian dollars. Save as set out above, the financial amounts referred to in this Prospectus are expressed in Australian dollars unless stated otherwise. Haixi has adopted the foreign currency translation accounting policy set out in Section 6. Accordingly, investors should be aware that the amounts represented in the Prospectus may change as a result of fluctuations in the exchange rates between AUD and RMB.

DISCLAIMER

Investors should not rely on any information which is not contained in this Prospectus in making a decision as to whether to acquire Shares in the Company under the Offer. No person is authorised by the Company or the Lead Manager to give any information or make any representation in connection with the Offer that is not contained in the Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, its Directors or any other person in connection with the Offer. The Company's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus.

This Prospectus contains forward-looking statements concerning the Company's business, operations, financial performance and condition as well as the Company's plans, objectives and expectations for its business, operations and financial performance and condition. Any statements contained in this Prospectus that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as "aim", "anticipate", "assume", "believe", "could", "due", "estimate", "expect", "goal", "intend", "may", "objective", "plan", "predict", "potential", "positioned", "should", "target", "will", "would" and other similar expressions that are predictions of or indicate future events and future trends.

These forward-looking statements are based on current expectations, estimates and projections about the Company's business and the industry in which the Company operates and management's beliefs and assumptions. These forward-looking statements are not guarantees

of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond the Company's control. As a result, any or all of the Company's forward-looking statements in this Prospectus may turn out to be inaccurate. Factors that may cause such differences include, but are not limited to, the risks described under the heading "Risk factors" in Section 9.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as at the date of this Prospectus. Unless required by law, the Company does not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks the Company describes in the reports to be filed from time to time with the ASX after the date of this Prospectus.

This Prospectus contains market data and industry forecasts that were obtained from industry publications, third-party market research and publicly available information. These publications generally state that the information contained in them has been obtained from sources believed to be reliable, but the Company has not independently verified the accuracy and completeness of such information.

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

This Prospectus also includes trademarks, trade names and service marks that are the property of other organisations.

EXPOSURE PERIOD

The Corporations Act prohibits the Company from processing Applications under the Offer in the seven-day period after the lodgement of the Original Prospectus with ASIC. However, ASIC Corporations (Exposure Period) Instrument 2016/74 means that there is no additional exposure period under the Corporations Act for this Prospectus.

ELECTRONIC PROSPECTUS

This Prospectus will also be made available in electronic form on the Company's website: www.haixipharmaceutical.com/investor/prospectus. Any references to documents included on the Company's website are for convenience only, and none of the documents or other information available on the website is incorporated by reference in this Prospectus. The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus in electronic form within Australia. Persons who access the electronic version of

this Prospectus should ensure that they download and read the entire Prospectus. If unsure about the completeness of the Prospectus received electronically, or a print out of it, you should contact the Company. A paper copy of the Prospectus will be available free of charge by contacting:

Boardroom Pty Limited (Registry)
Tel: 1300 737 760 (within Australia)
Tel: +61 2 9290 9600 (outside Australia)

or

BlueMount Capital (Sydney) Pty Ltd (Lead Manager)

Within Australia: 1300 70 70 10
Outside Australia: +61 2 9252 2122

Applications for Shares under this Prospectus may only be made on a printed copy of the Application Form attached to or accompanying this Prospectus. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to a hard copy of the Prospectus or the complete and unaltered electronic version of the Prospectus. If this Prospectus is found to be deficient, any Applications may need to be dealt with in accordance with section 724 of the Corporations Act.

PRIVACY

By completing an Application Form, you are providing personal information to the Company and the Registry, which is contracted by the Company to manage Applications, and consent to the collection and use of that personal information in accordance with these terms. That personal information will be collected held and used both in and outside of Australia by the Company, and the Registry on its behalf, to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration of your investment. If you do not wish to provide this information, the Company may not be able to process your Application.

Once you become a Shareholder, the Corporations Act requires information about you (including your name, address and details of the Shares you hold) to be included in the Company's public share register. This information must continue to be included in the Company's public share register even if you cease to be a Shareholder. The Company and the Registry on its behalf, may disclose your personal information for purposes related to your investment to their agents and service providers (which may be located outside of Australia) including those listed below or as otherwise authorised under the *Privacy Act 1988* (Cth):

- the Registry for ongoing administration of the Company's public share register;
- the Lead Manager in order to assess your Application;
- the Australian Tax Office and other government bodies as required by law;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;

- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

Under the *Privacy Act 1988* (Cth), you may request access to your personal information that is held by, or on behalf of, the Company. You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Company or the Registry, details of which are set out elsewhere in this Prospectus. The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Registry if any of the details you have provided change. In accordance with the requirements of the Corporations Act, information on the Shareholder register will be accessible by members of the public.

DEFINED WORDS AND ABBREVIATIONS

Defined terms and abbreviations used in this Prospectus are defined in the "Glossary" section.

TIME

All references to time in this Prospectus refer to Australian Eastern Standard Time unless stated otherwise.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only. Unless otherwise stated, all data contained in graphs and tables is based on information available as at the date of this Prospectus.



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CHAIRMAN'S LETTER

19 July 2017

Dear Investors,

On behalf of the Board of Directors, I am pleased to invite you to become a Shareholder of Haixi Pharmaceutical International Holdings Limited (**Haixi** or **Company**).

The Haixi Group is a medicinal products business which is engaged in the manufacturing, sales, and research and development of over the counter ointment and medicinal creams to treat pain, swelling and itching. The Group engages with other distributors and pharmaceutical companies to distribute its products in China. Haixi's products are recognised for their brand and long standing presence in the market and utilisation of natural herbal ingredients and mixtures to maximise product effectiveness.

The Group operates in a growing pharmaceutical market, with increasing consumer demand for medicinal products as a result of demographic changes to the population in China, growing incidence of chronic disease, rising household wealth, economic stimulation and extension of health insurance. The Company is well positioned in this market for growth and development.

Going forward, the Group's core strategy will involve expanding its production capacity to increase its product range. The Group plans to build on its product range by increasing the product types for its creams and ointments, as well as to expand and develop a new ingestible liquids and capsules range, which may utilise traditional Chinese medicinal techniques and raw materials. In parallel, the Group plans to maintain and strengthen its brand by investing in marketing efforts.

Haixi is an Australian holding company subject to Australian regulations, with business operations in China. The Group structure can be described as follows: the Company holds 100% interest in Haixi HK, which in turn holds 100% interest in Yong'an Tongtai Pharmaceutical Co. Ltd, which is the WFOE, which in turn holds 100% interest in Haixi China, which is the operating company within the Group (please see Section 10.2).

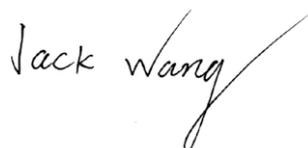
The Company believes that an ASX listing will facilitate the Company to access Australia's well-established pharmaceuticals market, tap into Australia's natural and unpolluted resources for raw materials as well as access its sophisticated R&D know-how. Listing on the ASX allows the Company to also access a sophisticated capital market and an internationally recognised and robust corporate governance environment.

Haixi's listing as a public company and the corresponding improved transparency and corporate governance will be a significant milestone in the Company's development. The Listing also provides Haixi a unique opportunity to sincerely welcome those investors who share our vision by becoming the first group of public Shareholders of this promising Company.

This Prospectus contains detailed information about the Offer, the industry in which Haixi operates and its financial and operating performance. An investment in the Company is subject to risks, including but not limited to manufacturing risks, product price variation risks and competition risks. These risks are fully detailed in Section 9. I encourage you to read this document carefully and in its entirety before making your investment decision.

On behalf of the Directors, I invite you to subscribe for Shares in the Company and I look forward to welcoming you as a Shareholder of Haixi Pharmaceutical International Holdings Limited.

Yours sincerely,



Jack Wang
Chairman

01. INVESTMENT OVERVIEW



01. INVESTMENT OVERVIEW

The information set out in this Section is intended to be a summary only and should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus. In deciding whether to apply for Shares, you should read this Prospectus carefully and in its entirety. If you are in doubt as to the course you should follow, please consult your professional advisers.

1.1 Summary of the Offer

This Prospectus provides investors with the opportunity to participate in the initial public offering of New Shares in Haixi Pharmaceutical International Holdings Limited, a company incorporated in Victoria.

THE OFFER

Key Offer statistics	Minimum Subscription	Maximum Subscription
Offer Price	A\$0.50	A\$0.50
Total number of New Shares to be issued	50,000,000	60,000,000
Number of Shares held by Existing Shareholders	200,000,000	200,000,000
Total number of Shares on issue at Completion of the Offer	250,000,000	260,000,000
Total cash proceeds to the Company from the Offer	A\$25,000,000	A\$30,000,000
Costs of the offer to be paid from the cash proceeds (estimate) ¹	A\$3,532,000	A\$4,153,000
Market capitalisation at Completion of the Offer ²	A\$125,000,000	A\$130,000,000

1. The above only represents the cash costs of the Offer yet to be paid as at the date of the Prospectus (ie, total Offer costs less costs already paid as at the date of the Prospectus).
2. Calculated as the total number of Shares on issue on Completion of the Offer multiplied by the Offer Price.

IMPORTANT DATES

Event	Date and time (Australian Eastern Standard Time)
Lodgement of this Prospectus with ASIC	19 July 2017
Opening Date	21 July 2017
Closing Date	22 September 2017
Issue of New Shares	25 September 2017
Expected dispatch of Holding Statements	26 September 2017
Shares expected to begin trading on ASX	28 September 2017

These dates are indicative only and may change. Haixi reserves the right to vary the dates and times set out above subject to Corporations Act and other applicable laws. Haixi reserves the right to vary the times and dates of the Offer including to close the Offer early, extend the Offer or to accept late Applications, either generally or in particular cases, without notification. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law. Investors are therefore encouraged to submit their Application Forms as early as possible after the Offer opens.

01. INVESTMENT OVERVIEW / CONTINUED

How to invest

Applications for New Shares can only be made by completing and lodging the Application Form attached to or accompanying this Prospectus. Instructions on how to apply for Shares are set out in Section 2.2 of this Prospectus and on the back of the Application Form.

Admission to the Official List of ASX

The Prospectus is also issued for the purpose of qualifying the Company for admission to the Official List of ASX. The Company will apply to ASX for listing and quotation of its Shares, including the New Shares, within seven days after the date of the Prospectus.

If ASX does not grant permission for official quotation of the Shares within three months after the date of this Prospectus, or such longer period permitted by the Corporations Act, none of the Shares offered for subscription under this Prospectus will be allotted or issued and Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.

1.2 Overview of Haixi

Topic	Summary	For more information
Nature of the Company's business	Haixi is engaged in the manufacturing, sales via distribution, and R&D of pharmaceutical medicinal products. Its products include over the counter ointment and medicinal creams to treat pain, swelling and itching. It also plans to develop other products including orally ingestible tablets, capsules and liquids.	Section 4.1
Corporate structure	The Company is the holding company of the Group. The main operating entity, Fujian Yong'an Pharmaceutical Co., Ltd (Haixi China), is located in Fujian, China, and is wholly owned by the WFOE, which is wholly owned by Haixi HK, which is wholly owned by the Company. As the operating entity is based in China, the Company is reliant upon the repatriation of profits from Haixi China, its Chinese operating entity via the WFOE, in order to provide returns to shareholders.	Section 10.2
How the Company generates revenue	The Group's income is generated from sales and distribution of pharmaceutical products in China, which it develops and manufactures.	Section 4.3
Product Range	The Group sells a range of pharmaceutical and medicinal products, including over the counter ointment and medicinal creams to treat pain, swelling and itching. It also proposes to develop a new product range of orally ingestible tablets, capsules and liquids.	Section 4.4
Intellectual Property	As at the date of this Prospectus, the Company has 12 registered trademarks.	Section 4.6
Strengths and competitive advantage	<p>The Company has the following key strengths:</p> <ul style="list-style-type: none">• recognised and long standing brand;• effective and efficient vertically integrated model;• recognised manufacturer of high quality products;• strong focus on research and development capabilities; and• operates in a regulated market with high barriers to entry. <p>The Group believes that these established significant competitive advantages enable it to compete effectively with its competitors.</p>	Section 4.7

Topic	Summary	For more information
Funding for operations	The Group expects to fund its operations through cash flow generated from its operations and funds raised under the Offer.	Section 4.11
Strategies for growth	<p>The Company intends to grow its business by:</p> <ul style="list-style-type: none"> • increasing its existing product range, and developing a new product range of ingestible liquids and capsules; • construction of its new factory as part of its factory expansion plans; • utilising elements of traditional Chinese medicine techniques and raw materials; • accessing Australia's high quality natural resources as a source for its raw materials for its medicinal products; • potentially cooperation with the Australian pharmaceutical market and R&D; and • accessing resources from an international market. 	Section 4.10
Facilities and Assets	<p>Haixi China operates on approximately 33,689 square metres of land, which has 17,270 square metres of offices and factories in Yong'an City, Fujian, China. The total approximate value of property, plant and equipment amounts to A\$7 million.</p> <p>In November 2013, Haixi China received government approvals from the Yong'an City Planning Bureau to expand its factory complex by 70,000 square metres. In 2015, Haixi China has begun construction of a new factory building. This new factory building has an area of 11,500 square meters and the construction is due to be fully completed in 2018. Factory expansion costs will not be financed by the funds raised from IPO. The Group intends that future capital requirements be sourced from Haixi China's cash and working capital.</p>	Section 4.8
Management and employees	As of the date of this Prospectus, Haixi China has 99 employees, including 14 senior management officers and 85 production and operational staff.	Section 4.9
Future funding use	<p>The Company is planning to use the funds raised:</p> <ul style="list-style-type: none"> • to invest in a production line for oral liquids, tablets and capsules; • to invest in R&D regarding Anoctochilus Lotus and other medicinal products; • business expansion and development opportunities in Australia including any potential acquisition of and/or investment in Australian or Chinese pharmaceutical enterprises; • for the launch of 20 new products; and • for marketing and sales expenses. 	Section 4.11

01. INVESTMENT OVERVIEW / CONTINUED

1.3 Key investment features

Feature	Description
Repute and long-standing brand recognition	Haixi China has been established since 1995 and has long-standing recognition in the Chinese pharmaceutical products market. Over the years, Haixi China's products have remained reliable, safe and of the highest quality, with no significant complaints from customers or regulatory bodies. The Group is dedicated to ensuring meeting high production and product safety standards.
Mature and stable, yet competitive business model	<p>By having a vertically-integrated business model, Haixi China is able to continually manufacture and sell its products in a cost- and time-effective manner.</p> <p>Given its long operating history in the market, Haixi China has developed long-standing partnerships with various qualified and trusted suppliers of raw and packaging materials. Similarly, Haixi China has also entered into a number of distribution agreements with intermediaries, agencies or other trusted and highly regarded pharmaceutical companies which then on-sell Haixi China's products to end-consumers.</p> <p>By having established and mutually beneficial relationships, Haixi China is able to ensure the consistency and quality of its products as well as the efficiency and effectiveness of its sales and marketing strategies.</p>
Experienced management personnel	The Board of Directors and management team have extensive management and financial expertise, including work experience in or with global firms, listed companies, stock exchanges and CPA Australia. They also bring to the Company over 20 years of experience in the pharmaceutical industry.
Established research and development practices and personnel	<p>Haixi China has an established R&D practice which is committed to developing and improving the quality of its pharmaceutical products as well as the efficiency of its production processes.</p> <p>As at the date of this Prospectus, Haixi China is currently collaborating with Fuzhou Chang Fu Xing New Drug Development Co., Ltd on a R&D project to improve its mupirocin and ibuprofen cream products (please see section 10.4.3 for further details).</p>
Regulatory approvals	Haixi China holds 9 SFDA drug certifications that only a very limited number of other pharmaceutical product manufacturers hold. As such, Haixi China's products are competitive and enjoy high levels of demand.
Production processes that fulfil Good Manufacturing Practices standards	Haixi China's production management processes satisfy the GMP standards established by the SFDA. To ensure ongoing compliance, Haixi China has developed and implemented a uniform code of production, which entails strict management protocols and detailed operating procedures. This ensures and maintains strict product safety standards, quality and standardisation as well as sustainable and efficient production processes.

1.4 Key risk factors

Investing in Shares involves substantial risks. The key risks as listed in the table below are not exhaustive and an investment in the Company should be considered speculative. Before making an investment decision, potential investors should read the entire Prospectus. In particular, investors should give full consideration to the detailed discussion on the risks that are associated with, and which could affect the financial performance of, an investment in the Company, as set out in "Risk factors" in Section 9.

Risk factors	Summary	For more information
Company specific risks		
Innovation	China's drug research market is at its initial development stage. Compared with the other countries with a more advanced pharmaceutical industry, there remains a considerable gap in drugs research. The gap in research and innovation in the field of medical science and pharmaceutical industry may impact the rate at which new products are developed and may impact the growth of the Company.	Section 9.2.1
Managing growth	As Haixi's business and operations expands, there is a risk of a material adverse effect on Haixi's financial performance if it is not able to manage its expansion and growth efficiently and effectively, or if new products are not effectively integrated into current operations and systems.	Section 9.2.2
New product risk	As a key part of Haixi's growth strategy, it plans to develop and market new pharmaceutical products. There is no assurance that the Company will successfully develop and commercialise new products. Further, it cannot be guaranteed that Haixi's research and development activities will be successful, the required regulatory approvals will be obtained, its new products will be capable of being produced in commercial quantities at an acceptable cost, or that the products will be positively accepted by the market.	Section 9.2.3
Pharmaceutical regulatory risk	The manufacture and trade of pharmaceutical goods in China is regulated by the SFDA. Although Haixi holds numerous SFDA licences, the SFDA has the power to suspend licences or place conditions on them. There is no guarantee that the SFDA will not impose new or additional requirements on pharmaceutical manufacturing. If this occurs, there may be significant unanticipated costs of compliance.	Section 9.2.4
Product liability risk	As a manufacturer and distributor of products designed for human use and application, the Group could be subject to product liability claims if the use of its products is allegedly to have caused injury. Product liability claims may lead to business interruption, product recalls or liability to customers.	Section 9.2.5
Competition risks	As a result of market forces, any increase in market competition may reduce the volume and price of the products that Haixi is able to sell, which may have a material and adverse effect on the Company's revenue and profitability and, in particular, its growth.	Section 9.2.6
Relationship with suppliers	Haixi has long-term partnerships with numerous key suppliers. Any loss of or changes to these key suppliers may have a material and adverse affect on Haixi's production, sales and terms of trade.	Section 9.2.7

01. INVESTMENT OVERVIEW / CONTINUED

Risk factors	Summary	For more information
Company specific risks		
Relationship with agents	Haixi has a number of distribution agreements with intermediaries, agents and other pharmaceutical companies (Agents). If any of these Agents are lost and not replaced, this may be disruptive to the availability of Haixi's products in the market and could have a material adverse effect on Haixi's sales and financial performance.	Section 9.2.8
Reliance on key personnel	Haixi's business is reliant upon the provision of high quality operational services by its senior personnel. It is also dependent on its skilled training staff and technical personnel for the successful and ongoing manufacture of pharmaceutical products and business activities. Any change in the quality or quantity of these services, or an inability to attract qualified and motivated personnel to provide these services, could affect Haixi's pharmaceutical products or business activities and financial performance.	Section 9.2.9
Intellectual property protection	The industry in which the Group operates is characterised by vigorous pursuit and protection of intellectual property rights, which may result in protracted and expensive litigation, which may adversely affect the Group's financial performance. If the Group is unable to enforce its intellectual property rights, then the value of its brand and products may diminish.	Section 9.2.10
Business approvals, permits and licences	<p>The business activities of Haixi and its subsidiaries are subject to the supervision of PRC authorities which have the power to revoke previously granted licences or approvals or reject applications for new or extended licences or approvals.</p> <p>If any activity carried out by the Group fails to meet the requirements of applicable rules or regulations, the Group may incur legal liabilities. Any interruption to the Group's business activities or potential penalties may have a material and adverse effect on Haixi and its subsidiaries' business, net assets, financial condition and operational results.</p>	Section 9.2.11
Acquisitions and investments	As part of its growth strategy, Haixi plans to acquire and/or invest in other businesses which have strong market potential in their pharmaceutical medicinal product varieties. Haixi's growth strategy may be adversely impacted if it is unable to find suitable targets for acquisitions and investments.	Section 9.2.12
Significant control by Existing Shareholders	Immediately after the Offer, the Existing Shareholders will beneficially own approximately 76.92% of Haixi's issued capital assuming 60,000,000 New Shares are issued under the Offer. As a result, these Existing Shareholders, if they act together, would be able to exert a significant degree of influence over Haixi's management affairs.	Section 9.2.13
Emerging market issuer status	Pursuant to ASIC's Report 368, 'Emerging Market Issuers,' (Report 368), the Company may be classified as an emerging market issuer. In Report 368, ASIC identified risks associated with identification as an emerging market issuer, including implementation of good corporate governance in light of a geographically scattered board of directors and implementing effective internal controls and risk management systems where operations are geographically diverse.	Section 9.2.14

Risk factors	Summary	For more information
PRC related risks		
Chinese regulatory environment and associated risks	Haixi's operations are subject to PRC Drug Administration laws and other regulations. The PRC's legal system is largely based on legislation and prior case law has limited precedential value. However, the PRC is still in the process of developing a comprehensive statutory framework. Its legal system is still considered to be underdeveloped in comparison with the legal systems in some western countries.	Section 9.3.1
Repatriation of dividends	As the Group generates the majority of its profit through the business operations of Haixi China, the ability of the Company to pay dividends to shareholders will be dependent upon the PRC subsidiary's ability to distribute profits from China. However, this is dependent upon laws and processes are subject to the discretion of the Chinese government. Any tightening of this process inhibiting the ability of the WFOE to remit profits out of China may adversely affect the Company's ability to pay dividends to shareholders.	Section 9.3.2
Government control of currency conversion	The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its foreign currency demands, it may not be able to pay dividends in foreign currencies to the Company's shareholders.	Section 9.3.3
Land-title risk	<p>In China, all lands are either state-owned or collectively owned, depending on the location of the land.</p> <p>According to the Urban Real Estate Administration Law of the People's Republic of China, the land user that has maintained continuous use of the land has the right to apply to the land administration department for an extension of the term at least one year before the expiration of the term. The Application would be approved except when the tract of land needs to be taken back in consideration of public interest.</p> <p>When the term of the land-use right expires and if the land user has not applied for an extension, the right to use the land is returned to the state. Under special circumstances, the state may also take back the land before the expiry of the granted land-use right in consideration of public interest. However, the state is required to give compensation to the related land user. Such compensation is determined by the remaining effective term of the land-use right grant and the conditions of development of the reclaimed land.</p>	Section 9.3.4
Lack of insurance coverage	In China it is not customary for businesses to take out extensive insurance protection. Aside from comprehensive property insurance for its real property, Haixi has not taken out any insurance policies. Thus, Haixi does not have insurance protection against either business disruption or fire damage, and may not be able to recover compensation in such circumstances. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material and adverse effect on the Company or its subsidiaries' business, net assets, financial condition, and operational results.	Section 9.3.5

01. INVESTMENT OVERVIEW / CONTINUED

1.5 Key Financial information

The following table presents a summary of the Group's financial data which has been derived from the Financial Information set out in Section 6 and should be read together with the Investigating Accountant's Report on the Financial Information as set out in Section 7.

This Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards adopted by the Australian Accounting Standards Board which are consistent with International Financial Reporting Standards issued by the International Accounting Standards Board, and the accounting policies of the Company. The summarised financial data should be read together with the management discussion and analysis of the Financial Information in Section 6.

Summary historical Statement of Profit or Loss and Other Comprehensive Income of Haixi China

In AUD \$000	FY 2014 Audited	FY 2015 Audited	FY 2016 Audited
Revenue	12,926	19,586	23,339
Gross profit	8,450	12,949	15,628
EBITDA	7,707	11,992	14,430
EBIT	7,554	11,812	14,259
NPAT	5,524	8,718	10,578
Gross Profit % ¹	65.4%	66.1%	67.0%
EBITDA Margin % ²	59.6%	61.2%	61.8%
EBIT Margin % ³	58.4%	60.3%	61.1%
NPAT Margin % ⁴	42.7%	44.5%	45.3%

1. Gross profit/revenue

2. EBITDA/revenue

3. EBIT/revenue

4. NPAT/revenue

Summary historical Statement of Cash Flows of Haixi China

In AUD \$000	FY2014 Audited	FY2015 Audited	FY2016 Audited
Net cash flow from operating activities before investing activities, financing activities and tax	8,545	12,193	12,099
Purchase of property, plant and equipment	(13)	(1,058)	(4,660)
Net cash flow before interest, tax and financing activities	8,532	11,135	7,438
Net Proceeds/(repayment) of borrowings	(90)	(11)	(4)
Net interest	(172)	(167)	(138)
Taxation paid	(1,684)	(2,735)	(3,322)
Dividends paid	(4,494)	(7,403)	(4,449)
Net increase/(decrease) in cash held	2,093	819	(475)
Cash and cash equivalents at the beginning of the financial year	2,482	4,931	6,102
Effects of exchange rates on translational from RMB to AUD	357	352	(337)
Cash and cash equivalents at the end of the financial year	4,931	6,102	5,290

Summary historical pro forma consolidated Statement of Financial Position of Haixi as at 31 December 2016

In AUD \$000	Minimum pro forma	Maximum pro forma
Total current assets	31,287	35,666
Total non-current assets	9,613	9,800
Total assets	40,900	45,466
Total current liabilities	(4,751)	(4,751)
Net assets	36,149	40,714

01. INVESTMENT OVERVIEW / CONTINUED

1.6 Directors and key management

Haixi has assembled a well-credentialed and balanced Board, and a management team with extensive experience in the pharmaceutical industry.

Name and position	Experience
Jack Wang Executive Chairman and General Manager	Mr Wang has been working in the pharmaceuticals industry for over 20 years. He joined Haixi China in 1996 as the Section Chief for Supply and Marketing. He became a director and later the Chairman and General Manager of the Company.
Fook Weng (Phillip) Au Non-executive Director	Mr Au is the principal consultant of Phillip Au & Associates, a firm that specialises in accounting, taxation, real estate and business management consulting services. Mr Au is an experienced non-executive director, and is a non-executive director of the ASX listed OneAll International Limited. Mr Au graduated from Macquarie University in Sydney with a degree in arts, majoring in accounting and economics. He is a certified practicing accountant (CPA).
Chen Chik (Nicholas) Ong Non-executive Director and Company Secretary	Mr Ong was a Principal Adviser at the Australian Securities Exchange in Perth and brings 12 years' experience in listing rules compliance and corporate governance. He has overseen the admission of over 100 companies to the official list of the ASX. Mr Ong is currently a director of Tianmei Beverage Group Corporation Limited (TB8), Jijiafu Modern Agriculture Limited (JJF), Global Gold Holdings Limited, Segue Resources Limited and CoAssets Limited and is company secretary to TB8, JJF, Blackgold International Holdings Limited, and Sagalio Energy Limited. Mr Ong was a director of Excelsior Gold Limited, Auroch Minerals NL, Minerals Corporation Limited, and Fraser Range Metals Group Limited.
Yanqun Li Executive Director	Ms Li has served as the Executive Supervisor of Haixi China since 2005 and has extensive experience in corporate finance, capital raising and corporate management. Ms Li also served as the Director of Sales for over 10 years in the Agricultural Bank of China. During her time at the Agricultural Bank of China, she developed strong data analytics, technical accounting and strategic planning skills.
Xuelan Wang Executive Director	Ms Wang is currently the manager of Yong'an City Tongheng Logistics Co., Ltd and has also worked within the Department of Shipping of Dexun (China) Freight Forwarders Co., Ltd. Ms Wang graduated from Huaqiao University, Xiamen, China, with a degree in International Economics and Trade. She has also attained Level 6 Certification in Business English.
Da Peng Chief Financial Officer	Mr Peng has extensive experience in corporate financial management, accounting, administration and capital raising. Mr Peng holds a Executive Masters of Professional Accountancy from the Chinese University of Hong Kong and a Masters of Management from the Central University of Finance, China. Mr Peng is a member of CPA Australia and is also a Certified Management Accountant of the United States.

1.7 Use of Funds

The Company expects to receive proceeds of A\$25,000,000 at Minimum Subscription and of A\$30,000,000 at Maximum Subscription from the issue of Shares at the Offer Price of A\$0.50 per Share. The table below sets out the proposed use of funds based on the Minimum Subscription and Maximum Subscription (**Total Funds**). The amounts represented below may change as a result of fluctuations in the exchange rate.

Use of funds	Minimum Subscriptions		Maximum Subscriptions	
	Amount (A\$)	% of Total Funds	Amount (A\$)	% of Total Funds
Costs of the offer to be paid out of proceeds raised (current estimate) ¹	3,532,000	14.1%	4,153,000	13.8%
Investment in a production line for oral liquids, tablets and capsules	3,750,000	15.0%	4,800,000	16.0%
R&D investments into Anoectochilus Lotus and other medicinal products	5,000,000	20.0%	6,000,000	20.0%
Business expansion and development opportunities in Australia	4,000,000	16.0%	4,800,000	16.0%
New Product launch and distribution costs	6,751,000	27.0%	8,100,000	27.0%
Marketing and sales costs	1,967,000	7.9%	2,147,000	7.2%
Total	\$25,000,000	100.0%	\$30,000,000	100.0%

1. The actual costs of the offer differs from the cost of offer to be paid from cash proceeds as the Company, prior to the IPO, has paid approximately \$800,000 of the actual costs. It is anticipated that balance of the costs of the offer will be paid from the cash proceeds. Refer to Section 5.2.2 for more information about the amounts and other expenses to be paid by the Company (or one of its subsidiaries) out of funds raised under the Offer. Refer to Section 10.9 for a detailed breakdown of the costs of the Offer.

The proposed use of proceeds described above represents the Company's current intentions based upon the present plans and business conditions. The amounts and timing of the actual expenditures may vary significantly and will depend upon numerous factors, including the timing and success of the Company's development efforts.

1.8 Capital structure following the offer

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

Shareholders	Minimum Subscriptions		Maximum Subscriptions	
	Number of Shares	%	Number of Shares	%
Bizoe Investment Limited ¹	118,000,000	47.2	118,000,000	45.38
Fast Team International (HK) Limited ²	30,000,000	12	30,000,000	11.54
Gold Dynasty Company Limited	10,000,000	4	10,000,000	3.85
Chio Fai U	10,000,000	4	10,000,000	3.85
Season Best International Limited	11,000,000	4.4	11,000,000	4.23
Best Scenery Investments Limited	10,000,000	4	10,000,000	3.85
So Wah Hun	7,000,000	2.8	7,000,000	2.69
Win Source Group Limited	4,000,000	1.6	4,000,000	1.54
Shares on issue at date of Prospectus	200,000,000	80	200,000,000	76.92
Shares offered under this Prospectus	50,000,000	20	60,000,000	23.08
Total	250,000,000	100.00	260,000,000	100.00

1. Bizoe Investment Limited is 100% held by Jack Wang who is a director of the Company.
2. Fast Team International (HK) Limited is 100% held by Yang Xiao Bin and is not a related party of Haixi.

01. INVESTMENT OVERVIEW / CONTINUED

1.9 Answers to key questions

Topic	Summary	More information
Who is the issuer of this Prospectus?	Haixi Pharmaceutical International Holdings Limited, a company incorporated in Victoria, Australia.	Section 1.1
What is being offered?	Pursuant to the Offer, the Company invites Applications for 50,000,000 Shares with the right to accept oversubscriptions up to 10,000,000 additional Shares at an Offer Price of A\$0.50 each to raise up to A\$30,000,000.	Section 2.1
What is the Offer Price?	The Offer Price is A\$0.50 per Share.	Section 2.1
Is the Offer underwritten?	The Offer is not underwritten.	
What are the key dates of the Offer?	The Offer closes on 22 September 2017. The Shares are expected to be allotted on 25 September 2017. The Holding Statements are expected to be dispatched on 26 September 2017. The Shares are expected to commence trading on ASX on 28 September 2017.	Section 1.1
What is the amount to be raised under the Offer?	Haixi is offering 50,000,000 Shares with an oversubscription up to 10,000,000 Shares to raise up to A\$30,000,000 before costs of the Offer.	Section 1.1
What is the Maximum Subscription available under the Offer?	Haixi is offering a Maximum Subscription of 60,000,000 Shares to raise up to A\$30,000,000.	Section 1.1
What is the Minimum Subscription available under the Offer?	Haixi is offering a Minimum Subscription of 50,000,000 Shares to raise A\$25,000,000. If the Minimum Subscription amount is not raised then Haixi will not proceed with the Offer and will repay Application Monies received (without interest).	Section 1.1
What will the market capitalisation of the Company be upon Listing on ASX?	Based on the Offer Price of A\$0.50 per Share, the market capitalisation is expected to be A\$125,000,000 if the Minimum Subscription of 50,000,000 Shares is reached, and A\$130,000,000 if the Maximum Subscription of 60,000,000 Shares is reached.	Section 1.1
What are the significant tax implications of investing in the Company?	The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 10.13
What are the costs of the Offer payable by the Company?	The Company's costs of the Offer are estimated to total approximately A\$4,949,229 (inclusive of tax) based on the Maximum Subscription amount.	Section 10.9
How do I apply for Shares?	You can apply for Shares by submitting a valid Application Form contained within or accompanying this Prospectus (including the electronic version of the Prospectus) in accordance with the instructions contained within.	Section 2.2

Topic	Summary	More information
What is the allocation policy?	The Company will determine the basis for the allocation of Shares.	Section 2.3
When will I receive confirmation that my Application has been successful?	Holding Statements confirming Applicants' allocations under the Offer are expected to be dispatched to Shareholders on 25 September 2017.	Section 1.1
Why is the admission of the Company to the Official List of ASX being sought?	The Company seeks to be listed on the ASX to improve liquidity and funding sources, to have access to Australian markets, to enhance its brand image and to have access to natural and human resources.	

1.10 Questions or further information

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

- contact the Offer Information Line on 1300 737 760 (for Australian investors) or +61 2 9290 9600 (for international investors) open from 8.30am until 5.00pm (AEST) Monday to Friday until Completion of the Offer; or
- visit www.haixipharmaceutical.com/investor/prospectus to download and print an electronic copy of the Prospectus. You may only download an electronic copy of the Prospectus if you are a resident of Australia and access the website from within Australia.

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

02. DETAILS OF THE OFFER



02. DETAILS OF THE OFFER

2.1 The Offer

Haixi is seeking to raise A\$25,000,000 with an oversubscription amount of A\$5,000,000 through the issue of up to 60,000,000 Shares under the Offer. The Offer is a general public offer. The allocation of Shares between the Applicants is determined by Haixi at its absolute discretion.

The Offer is not underwritten.

A Minimum Subscription amount of A\$25,000,000, representing 50,000,000 Shares at the Offer Price of A\$0.50 per Share, is required under the Offer. The Offer will not proceed and all Applications and associated Application Monies will be returned to Applicants (without interest), unless the Minimum Subscription amount of A\$25,000,000 is raised under the Offer. The Company reserves the right not to proceed with the Offer or any part of it at any time before allotment of Shares to Applicants under the Offer.

New Shares will be issued as fully paid Shares and when issued will rank equally with the existing Shares on issue.

2.2 How to apply for Shares under the Offer

2.2.1 Completing the Application Form

Except as set out below, to participate in the Offer, you must complete the Application Form attached to, or accompanying this Prospectus. The Application Form contains detailed instructions on how to complete the form.

2.2.2 Payment and submitting the Application Form

Payment by BPAY®

You may apply for Shares online and pay your Application Monies by BPAY®. Applicants wishing to pay by BPAY® should complete the online Application Form accompanying the electronic version of this Prospectus which is available at www.haixipharmaceutical.com/investor/prospectus and follow the instructions on the online Application Form (which includes the Biller Code and your unique Customer Reference Number (CRN)).

You should be aware that you will only be able to make a payment via BPAY® if you are the holder of an account with an Australian financial institution which supports BPAY® transactions.

When completing your BPAY® payment, please make sure you use the specific Biller Code and your unique CRN provided on the online Application Form. If you do not use the correct CRN your Application will not be recognised as valid. It is your responsibility to ensure that payments are received by 5.00pm (Sydney time) on the Closing Date. Your bank, credit union or building society may impose a limit on the amount which you can transact on BPAY®, and policies with respect to processing BPAY® transactions may vary between banks, credit unions or building societies. The Company accepts no responsibility for any failure to receive Application Monies or payments by BPAY® before the Closing Date arising as a result of, among other things, processing of payments by financial institutions.

If paying by cheque(s) or bank draft(s):

Once your Application Form is completed, please send your Application Form and cheque or bank draft for the Application Monies to the Registry at the address set out below:

Mailing Address

Haixi Pharmaceutical International Holdings Limited Offer
C/- Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001
Australia

Hand Delivery

Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000

02. DETAILS OF THE OFFER / CONTINUED

Cheque(s) or bank draft(s) must be:

- in Australian currency;
- drawn at an Australian branch of a financial institution;
- crossed "Not Negotiable"; and
- made payable: to "Haixi Pharmaceutical International Holdings Limited – Offer A/C"

If paying by cheque(s), Applicants should ensure that sufficient funds are held in the relevant account(s) to cover your cheque(s). If the amount of your cheque(s) for Application Monies (or the amount for which those cheques clear in time for the allocation) is insufficient to pay for the amount you have applied for in your Application Form, you may be taken to have applied for such lower amount as your cleared Application Monies will pay for (and to have specified that amount in your Application Form) or your Application may be rejected.

2.2.3 Acceptance of Applications

Regardless of the method of lodgement, the Registry must receive the relevant Application by no later than the close of the Offer (unless Haixi varies the dates and times).

A completed Application Form constitutes an irrevocable offer to Haixi to subscribe for Shares on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus), and as set out in the Application Form.

Haixi reserves the right to:

- reject any Application, including Applications that have not been correctly completed or are accompanied by payments that are dishonoured;
- accept late Applications received after the close of the Offer;
- allocate to any Applicant a lesser number of Shares than that for which any Applicant applied; and
- waive or correct any errors made by an Applicant in their Application.

2.2.4 Withdrawal or early close of the Offer

The Company reserves the right to withdraw the Offer at any time before the issue of Shares to Successful Applicants. If the Offer is withdrawn, then Application Monies will be refunded. No interest will be paid on any Application Money refunded as a result of the withdrawal of the Offer or otherwise. The Company will retain any interest, which accrues on Application Monies.

The Company reserves the right to close the Offer early.

2.2.5 Brokerage, commission and stamp duty

You do not have to pay brokerage, commission or stamp duty if you acquire Shares under the Offer. Fees are payable, in relation to the Offer, to the Corporate Adviser and the Lead Manager of the Offer. Details are set out in "Interests of advisers" in Section 5.2.2. These fees will be paid out of the proceeds of the Offer.

2.3 Allocation of Shares

The acceptance of Applications and the allocation of Shares are at the discretion of the Company. In consideration for the Directors agreeing to consider an Applicant's Application, the Applicant agrees its Application is an irrevocable offer, which cannot be withdrawn. The Company reserves the right to reject any Application and to allot to an Applicant a lesser number of Shares than the number for which the Applicant applies. No Applicant under the Offer has any assurance of being allocated all or any Shares applied for.

2.4 Application Monies

All Application Monies will be held in a special purpose trust account until Shares are issued to Successful Applicants.

Application Monies will be refunded (in full or in part) if:

- an Application is rejected;
- an Application is subject to scale-back;
- the Offer is withdrawn or cancelled;
- the Minimum Subscription is not met; or
- permission for quotation of the Shares is not granted within three (3) months after the date of this Prospectus or such longer time as permitted by the Corporations Act.

No interest will be paid on any Application Monies that are refunded. After Listing, or if Listing does not occur, the Company will retain any interest earned on Application Monies. Refund cheques will be sent after the close of the Offer or as otherwise applicable under the circumstances outlined above.

2.5 ASX Listing

The Company will, within seven days after the date of this Prospectus, apply for admission to the official list of ASX and for official quotation on ASX of the Shares offered under this Prospectus. Trading of Shares on ASX is expected to commence on 28 September 2017.

Haixi will apply to participate in the Clearing House Electronic Sub-register System (**CHESS**), operated by ASX Settlement Pty Ltd (a wholly owned subsidiary of the ASX), in accordance with the Listing Rules and ASX Settlement Operating Rules. On admission to CHESS, Haixi will operate an electronic issuer-sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the principal register of securities. Under CHESS, Haixi will not issue share certificates to Successful Applicants following allotment, Haixi will provide each Shareholder whose address is in Australia with a Holding Statement (similar to a bank account statement) which sets out the number of Shares allotted to the Shareholder under this Prospectus. If applicable, the Holding Statement will also advise Shareholders of their Holder Identification Number or Sponsoring Issuer Number. If a shareholding changes during a month, the Shareholder will receive a statement at the end of that month. Shareholders may also request statements at any other time (although Haixi may charge an administration fee). It is the responsibility of Applicants to determine their allocation prior to the trading of the Shares. Applicants who sell Shares before they receive notice of their allocation do so at their own risk.

It is expected that the initial Holding Statements will be despatched by standard post on 25 September 2017 and that trading of Shares on a normal settlement basis will commence on 28 September 2017. If you apply, then it is your responsibility to determine your allocation before you trade in Shares. If you trade in Shares before you receive your initial Holding Statement, then you do so at your own risk.

The fact that ASX may agree to grant Official Quotation to any Shares is not to be taken in any way as an indication of the merits of the Company or the Shares offered. ASX takes no responsibility for the contents of this Prospectus.

If permission for quotation of the Shares is not granted within 3 months after the date of this Prospectus, Application Monies will be refunded without interest as soon as practicable.

2.6 Tax implications of investing in the Company

The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest. A general summary of the tax implications of investing in the Company is contained in Section 10.13.

2.7 Foreign investors

This Prospectus and the Offer do not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia.

02. DETAILS OF THE OFFER / CONTINUED

2.7.1 PRC residents

The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

2.7.2 Hong Kong residents

This document has not been, and will not be, registered as a prospectus under the Hong Kong Companies Ordinance, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (SFO). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

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

2.7.3 United States residents

This document may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

03. INDUSTRY OVERVIEW



03. INDUSTRY OVERVIEW

FROST & SULLIVAN

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Independent Market Report on China Pharmaceutical Market

This Independent Market Report (IMR or Report) on the pharmaceutical market in China has been prepared by Frost & Sullivan on behalf of Haixi Pharmaceutical International Holdings Limited (**Haixi** or the **Company**), which, through its subsidiary Fujian Yong'an Pharmaceutical Co., Ltd. (**Haixi China**), is a developer and manufacturer of pharmaceutical products and dietary supplements. The Company has 9 regulatory approvals for its products currently. Its products include over the counter (OTC) ointments and medicinal creams to treat pain, swelling and itching. The Company is currently developing other products such as orally ingestible tablets, capsules and liquids as well as herbal based medicinal products, as well as providing dietary supplements such as vitamin pills. The Company mainly sells in China¹, and this report therefore covers the pharmaceutical market in China.

All currency in this report refers to US\$ unless specified otherwise. When converting from RMB, the following exchange rate has been used: US\$1 = RMB 6.91. From Australian dollars the rate used is A\$1 = US\$0.77.

1. Introduction and Background

Pharmaceuticals (also known as drugs or medicines) are products presented as having properties for treating or preventing disease in human beings.² The manufacture and sale of pharmaceuticals is characterised by being research-intensive and heavily regulated, and consequently the industry has relatively high entry barriers, high risks but potentially high returns, long investment cycles and a relatively high level of technology innovation.

Pharmaceutical products can be classified in a variety of ways, including by their chemical properties, therapeutic benefits and means of administration.

Another common classification is by regulation, with pharmaceuticals classified as prescription (Rx) products, which can only be purchased and dispensed following prescription by a licensed medical practitioner, and OTC products, which can be purchased and dispensed without a prescription. Prescription medicines include patented medicines (where the manufacturer has a patent-based monopoly on the drug) and generics (where the patent has expired and competing manufacturers are able to manufacture and distribute drugs to the same formulation).

OTC medicines include products that are clinically-recognised in Western medicine (such as analgesics, antifungals, antiseptics, etc.) as well as those that are classified as complementary or alternative medicines (i.e. medicines that are not regarded as orthodox in Western clinical practice). These include herbal medicines, aromatherapy products, etc.

In China, a third regulatory category exists, traditional Chinese medicine (TCM)³ products, generally manufactured from herbal ingredients, and designed to be used in TCM practice. TCM products include finished medicines (which are formulated into dosage form, with fixed combination of ingredients) and herbal medicines which are prepared and mixed from ingredients by a TCM practitioner at a TCM retail outlet, based on a diagnosis of the patient.

Dietary supplements (such as vitamin tablets) sometimes fall within the definition of OTC medicines, although these are generally targeted at improving general well-being and preventing disease, rather than treating a specific medical condition.

The spectrum of health and wellness products is summarised below in Table 1.

1 References to China in this report are to the People's Republic of China (PRC), and exclude the Republic of China (Taiwan) as well as the Hong Kong and Macau special administrative regions (SARs).

2 Official Journal of the European Union, 30 April 2004 L136.

3 TCM is a traditional Chinese approach to medicine, and involves a range of practices including acupuncture, Chinese herbal medicine, tui na (Chinese therapeutic massage), dietary therapy, and tai chi and qi gong.

Table 1: Health and Wellness Products, Market Definition

Category	Usage	Typical Formulations	Medically Supervised?	Distribution Channels	Functional Claims
Prescription medicines	Treatment or cure of specific conditions	Tablets, capsules, injectables	Yes	Pharmacies, hospitals	Yes
OTC medicines	Treatment or cure of specific conditions	Tablets, capsules, creams, gels	No	Pharmacies, hospitals, other retail	Yes
TCM medicines	Treatment or cure of specific conditions	Tablets, capsules, granules, teas	No (TCM practitioner may be involved)	Pharmacies, TCM outlets	No
Dietary supplements	Improving health, reducing susceptibility to disease	Tablets, capsules	No	Pharmacies, general retail	No – improve general well-being only

Source: Frost & Sullivan.

Pharmaceutical products can be distributed and sold through a wide range of outlets, including hospitals, doctor's clinics, retail pharmacies, general retail outlets and online. Globally, pharmaceutical markets are growing, driven by a combination of increasing populations, greater incidence of chronic diseases that require medications, aging populations and rising wealth levels. Countering this is growing pressure from payers (particularly governments and health insurers) to manage the costs of pharmaceutical products.

2. Healthcare Trends in China

China has the second largest market for pharmaceuticals globally. The market is increasing rapidly as a number of demographic, political, social and economic factors drive increased expenditure on healthcare products and services. These factors are summarised below, and described in more detail in Section 3:

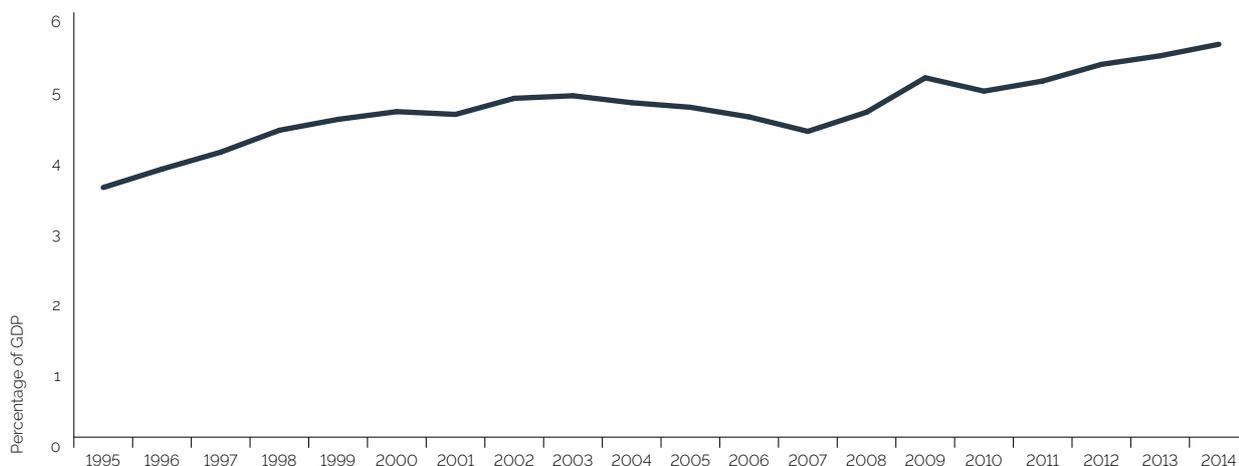
- Aging population
- Increased coverage of health insurance
- Increased incidence of chronic diseases
- Increased urbanization and pollution
- Growing disposable income
- Strong focus by government
- Increased focus by MNCs and local manufacturers
- Healthcare reforms under consideration

Healthcare Expenditure

Consumption of pharmaceutical products will be stimulated by increased expenditure on healthcare as the population ages, living standards rise and incidence of chronic diseases increase. In 2016, China's GDP at current prices was US\$ 11.4 trillion, the second highest in the world after the USA.⁴ Healthcare expenditure in China has increased ahead of GDP growth over recent years. Public healthcare spending has been higher than private healthcare spending since 2001.⁵ Healthcare spending is forecast to increase by 9.5%–11.8% through to 2018, reaching an estimated RMB5.7 trillion (US\$ 825 billion) by 2018.⁶

In 1994, the total healthcare expenditure in China as a percentage of GDP was 3.7% and this increased to 5.5% in 2014.⁷

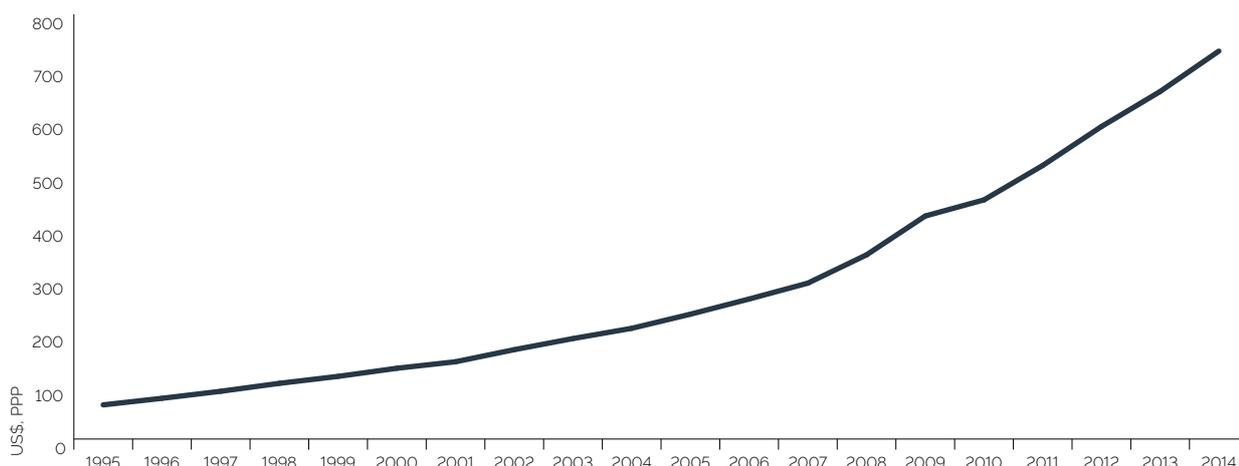
Figure 1: Healthcare Expenditure as Percentage of GDP, China, 1995 to 2014



Source: World Bank Development Indicators, accessed March 2017.

Over recent years, healthcare expenditure per capita has almost doubled. In 2010, healthcare expenditure per capita was US\$ 220, rising to US\$ 420 in 2014, on purchasing power parity (PPP) basis.⁸

Figure 2: Per Capita Healthcare Expenditure, China, 1995 to 2014



Source: World Bank Development Indicators.

4 International Monetary Fund, World Economic Outlook Database, October 2016.

5 'The rise of private health insurance in China', 2016, EY, [http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/\\$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf](http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf)

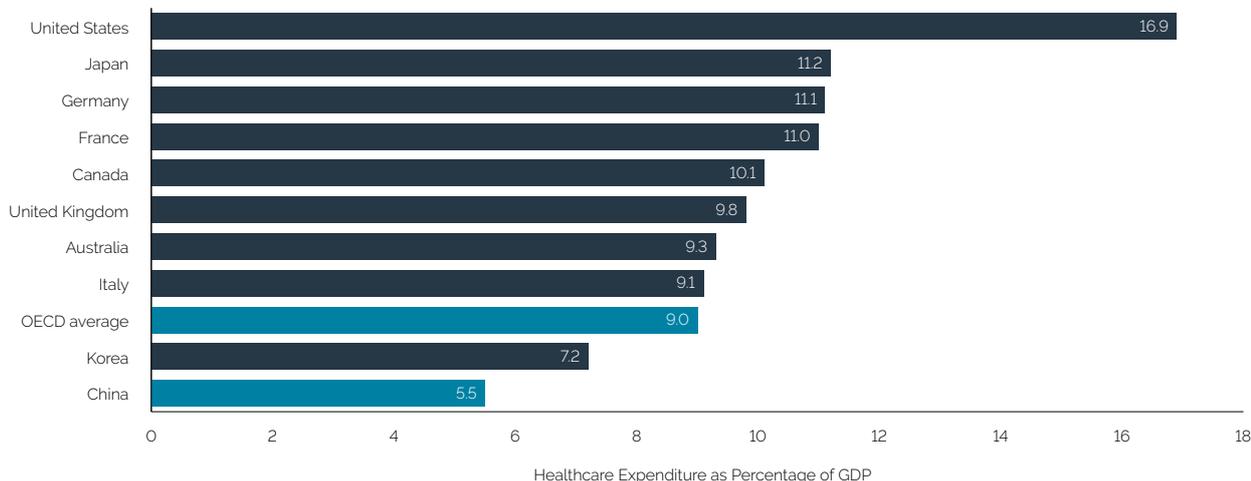
6 Ibid.

7 World Bank Development Indicators, accessed March 2016.

8 Ibid.

Despite this strong growth, healthcare expenditure in China as a percentage of GDP is still well behind the level of developed East Asian countries such as Japan and South Korea, and other OECD economies. In 2015, healthcare expenditure in Japan was 11.2% of GDP, and in South Korea 7.2% (see Figure 3).

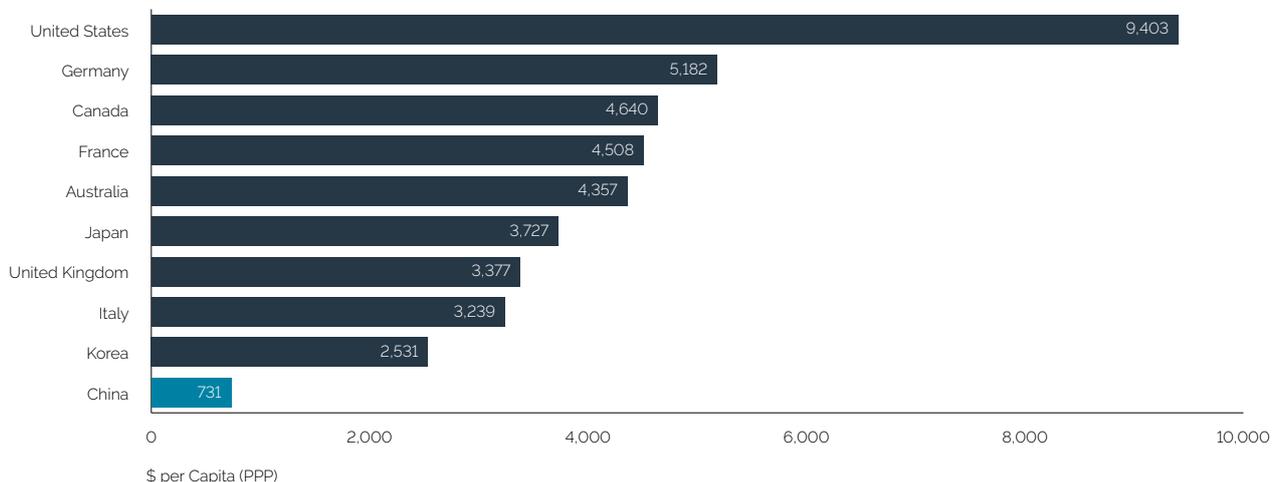
Figure 3: Healthcare Expenditure as a Percentage of GDP, 2015



Source: World Bank Development Indicators. OECD. China data is for 2014.

The potential for further growth is also illustrated by the comparison of per capita healthcare expenditure in China with other countries. Expenditure in China is approximately one-third the level of Korea, one-fifth the level of Japan and one-thirteenth the level of the USA, which has the highest per capita expenditure on healthcare in the world (see Figure 5).

Figure 4: Per Capita Healthcare Expenditure by Country, 2015



Source: World Health Organization, 2017.

3. Market Drivers for the Pharmaceutical Market in China

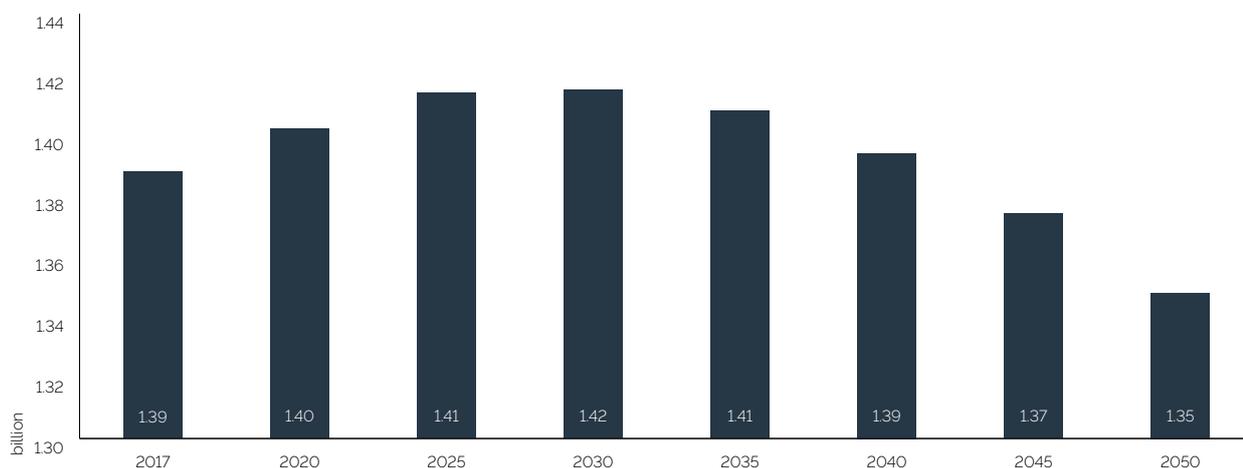
A number of factors are stimulating growth in the pharmaceutical market in China, as described below:

Aging population

The size of the pharmaceutical market in China is driven not just by the large population, but also the demographic shift towards a population with a greater number of aged people, as the aged are more significant consumers of pharmaceutical products than other demographic groups.

China is the world's most populous country. It also has a population that is significantly ageing. In 2015 its total population was 1.37 billion, of which 9.6% was aged 65 and above.⁹ In the coming years, the share of the elderly population is expected to rise even further. An analysis by the ratings agency Moody's predicts that by 2030 16.2% of China's population will be aged 65 and above.¹⁰ By 2050, it is expected that about a quarter of China's population will be aged 65 and above, and half of the population will be aged 45 and above.¹¹ Although as a result of this demographic change the population of China is forecast to decline after about 2030, the population will not fall below its current level until approximately 2043 (see Figure 6).

Figure 5: Estimated Total Population, China, 2017 – 2050



Source: United Nations, Department of Economic and Social Affairs, Population Division.

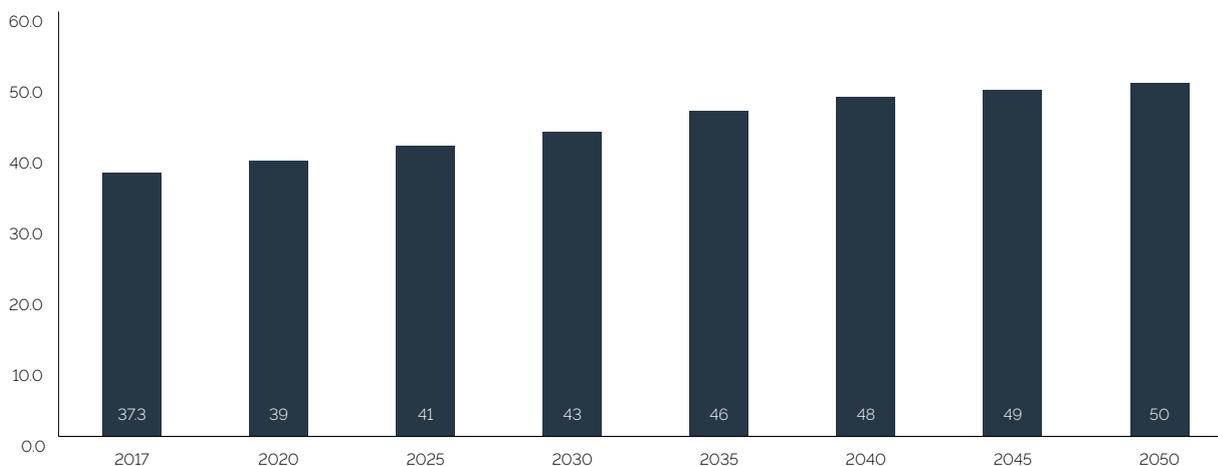
The median age in China is forecast to increase from just over 37 in 2017 to 50 by 2050 (see Figure 7).

9 World Bank data, accessed March 2017 (<http://data.worldbank.org/indicator/SP.POP.TOTL>).

10 'Super-aged Britain: One in five will be 65-plus in a decade...with dire economic impact, say experts', 7 August 2014, <http://www.dailymail.co.uk/news/article-2718969/Super-ageing-planet-By-2030-20-people-65-34-countries-world.html>

11 'The rise of private health insurance in China', 2016, EY, [http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/\\$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf](http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf)

Figure 6: Estimated Median Age, China, 2017 – 2050



Source: United Nations, Department of Economic and Social Affairs, Population Division.

Increased coverage of health insurance

Public health insurance covers a majority of the population in China, providing basic subsidies for public healthcare. In 2016, public health insurance schemes covered 97% of the population in China.¹² There are three public health insurance schemes in China, as detailed in table 2 below:

Table 2: Public Health Insurance, China, 2016

	Urban Employees Basic Medical Insurance (UEBMI)	Urban Residents Basic Medical Insurance (URBMI)	New Rural Cooperative Medical Insurance (NRCMI)
Launch Year	1998	2007	2003
Coverage	All urban employees in both public and private sectors	Primary and secondary school students, very young children, and other unemployed urban residents	Rural residents
Compulsory/ Voluntary	Compulsory	Voluntary	Voluntary
Premium Contribution	<ul style="list-style-type: none"> Employee: 2% of salary Employer: 6% of the employee's salary 	<ul style="list-style-type: none"> Beneficiary Local government Central government 	<ul style="list-style-type: none"> Beneficiary Local government Central government
Benefits	The UEBMI provides basic health insurance. Premiums are divided into two independent accounts: the Medical Savings Account (MSA) and the Social Pooling Account (SPA). The MSA is used to cover outpatient and the SPA is used to cover inpatient expenses.	The URMBI policy covers about 45% of inpatient expenses and some outpatient expenses for chronic and fatal diseases.	The NRCMI policy provides a very basic coverage under which reimbursement rate for inpatient expenses may be as low as 30%.

Source: Frost & Sullivan.

¹² Ibid.

03. INDUSTRY OVERVIEW / CONTINUED

However, there is significant funding pressure on the public health insurance schemes. To meet the demand for better health insurance coverage, the Chinese government is encouraging participation from private health insurance providers by relaxing regulatory restrictions for companies and by providing tax incentives to consumers.¹³ Expenditure on private health insurance was reported to have grown by 60% from RMB 1.5 trillion (US\$ 217 billion) in 2014 to RMB 2.4 trillion (US\$347 billion) in 2015,¹⁴ and is forecast to increase to RMB 5 trillion (US\$ 724 billion) by 2020.¹⁵

Increased incidence of chronic diseases

Rapidly growing incidence of chronic diseases such as diabetes, obesity, eating disorders, hypertension, cerebrovascular disease, arthritis, and heart disease is stimulating growing demand for pharmaceutical products to manage these conditions. An example is the rapid growth in incidence of diabetes in China. In 2014, although its share of the global population was 19%, China accounted for 30% of all adult diabetes cases in the world.¹⁶ The prevalence of diabetes among the Chinese has increased from <1% in 1980 to 9.8% in 2015, whilst the global average moved from 4.7% in 1980 to 8.5% in 2015.¹⁷ By 2015, an estimated 110 million adults in China suffered from diabetes, and this is forecast to increase to 151 million by 2040.¹⁸

Similarly, China has a very high incidence of cardiovascular disease (CVD). An estimated one on five adults in China has CVD, and China has one of the highest CVD death rates in the world.¹⁹

The high incidence of chronic diseases such as diabetes and CVD is stimulated by lifestyle factors such as high levels of smoking and obesity. For example, two-thirds of all males in China and one-quarter of the population overall smoke.²⁰ In 2015, it was reported that 35.4% of China's adults were overweight, 7.3% were obese and 23.8% were physically inactive.²¹ 27.3% of the population have hypertension which can increase risk of heart attack, heart failure, kidney disease or stroke.²²

Increasing urbanization and pollution

Incidence of chronic diseases is also being stimulated by the pollution levels in many Chinese cities, and the growing population living in these cities. China's urban population was 49.2% of the total in 2010.²³ By 2015, this share rose to 55.6%²⁴ and by 2050 is expected to reach 73%.²⁵ With rapid urbanization, China is facing unprecedented levels of pollution. In 2014, a survey conducted by the National Bureau of Statistics found that about 90% of the 161 cities surveyed had air quality that did not meet the official standards.²⁶ In 2016, an analysis by the WHO found China to be the world's deadliest country for outdoor air pollution.²⁷

Growing disposable income

Increasing household wealth is driving the ability of consumers to afford pharmaceutical products. Between 2007 and 2016, per capita disposable income in China is estimated to have increased from RMB 13,786 (US\$ 1995) to RMB 33,616 (US\$ 4,865):

13 'The rise of private health insurance in China', 2016, EY, [http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/\\$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf](http://www.ey.com/Publication/vwLUAssets/EY-the-rise-of-private-health-insurance-in-china/$FILE/EY-the-rise-of-private-health-insurance-in-china.pdf)

14 China Insurance Regulatory Commission (CIRC).

15 Chinese language report from China Investment Research.

16 'One in three of world's adults with diabetes is in China, WHO reports', 7 April 2016, South China Morning Post, <http://www.scmp.com/lifestyle/health-beauty/article/1934513/one-three-worlds-adults-diabetes-china-who-reports>

17 International Diabetes Federation, Country Report, China, 2015.

18 Ibid.

19 World Heart Federation Factsheet, Cardiovascular disease in China.

20 'Study Shows Spread of Cigarettes in China', 12 October 2015, The New York Times, <https://www.nytimes.com/2015/10/13/health/study-shows-spread-of-cigarettes-in-china.html>

21 'One in three of world's adults with diabetes is in China, WHO reports', 7 April 2016, South China Morning Post, <http://www.scmp.com/lifestyle/health-beauty/article/1934513/one-three-worlds-adults-diabetes-china-who-reports>

22 World Heart Federation Factsheet, Cardiovascular disease in China.

23 World Bank Development Indicators, accessed March 2017.

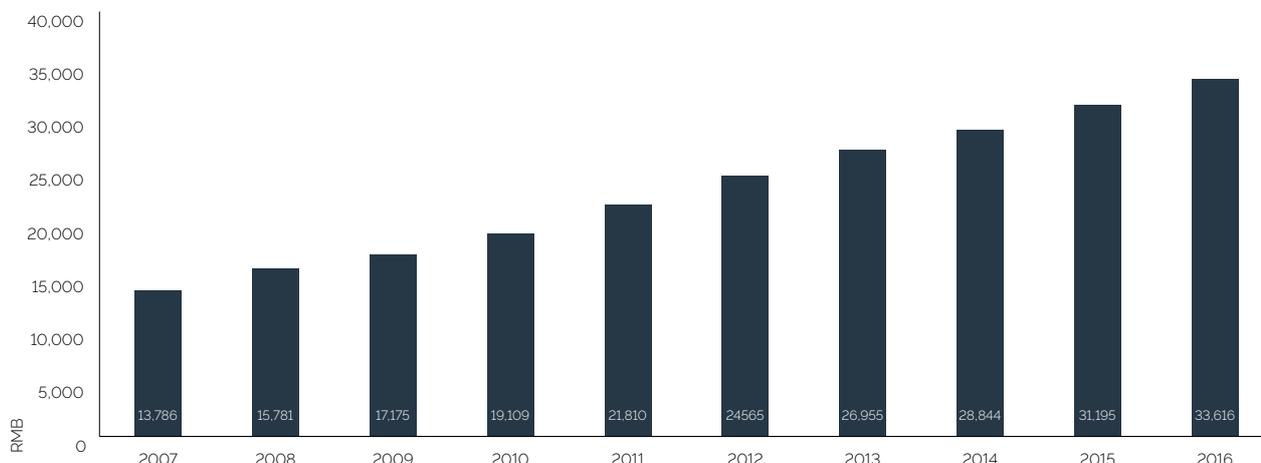
24 Ibid.

25 'An Urban World', UNICEF, <http://www.unicef.org/sowc2012/urbanmap/#>

26 'China Air Pollution Kills 4,000 People a Day: Researchers', 14 August 2015, Bloomberg, <https://www.bloomberg.com/news/articles/2015-08-13/china-air-pollution-kills-4-000-people-a-day-researchers>

27 'China tops WHO list for deadly outdoor air pollution', 27 September 2016, The Guardian, <https://www.theguardian.com/environment/2016/sep/27/more-than-million-died-due-air-pollution-china-one-year>

Figure 7: Disposable Income per Capita, China, 2007 – 2016



Source: 'China Disposable Income per Capita', 2017, Trading Economics, <http://www.tradingeconomics.com/china/disposable-personal-income>

Economic growth in China is driving a rapid increase in middle-class and affluent households.²⁸ By 2020, the number of upper-middle-class and affluent households will double to 100 million and account for 30% of all urban households, compared with 17% in 2016 and only 7% in 2010.²⁹

Strong focus by Government

The PRC government has a strong focus on improving access to healthcare for the population. The 12th 5-year Plan (2011 – 2015) included a number of policies in this regard:

- Expansion of basic medical insurance program to achieve universal coverage: To achieve this objective, some local governments formed alliances with private companies to manage their public insurance programs.³⁰ The government also announced tax breaks for private health insurance policy holders to encourage citizens to opt for private health insurance programs;
- Establishment of basic drug supply system: To meet this objective, the government set up a supply system that guaranteed the supply of all the drugs on the Essential Drug List at all the levels of medical facilities. In addition, the public health insurance programs provided 100% reimbursement for these essential drugs;
- Elimination of disparity between the quality of public healthcare facilities available in urban and rural regions: In China, there has traditionally been a vast difference in the quality of public healthcare facilities available in rural and urban regions. To address this issue, the government announced plans to develop a primary healthcare infrastructure in the rural regions which would include community health centers, community health stations and a 3-tier medical network comprising of county hospitals, township health centers and village clinics.³¹ In addition, the government is encouraging medical graduates and retired medical professionals to serve in the rural areas. The upgradation of the skillset of existing healthcare workers is being carried out through formal education programs; and
- Public hospital reform: In the past, a major part of public hospital revenues came from the sale of drugs as hospitals were allowed to sell drugs at a marked-up price, which incentivised doctors to overprescribe. Under the 12th 5-year Plan, all the public hospitals under reform were required to dispense drugs at the price at which they had been procured by the hospital.³² To make up for loss of revenue from the sale of drugs, these hospitals were allowed to adjust their charges for medical services such as consultation fees.³³

28 Middle-class households are defined as having annual disposable income of US\$ 24,001 to US\$ 46,000, and affluent households over US\$ 46,000.

29 '3 great forces changing China's consumer market', 4 January 2016, World Economic Forum, <https://www.weforum.org/agenda/2016/01/3-great-forces-changing-chinas-consumer-market/>

30 'The Chinese Healthcare System: How It Works And Future Trends', 13 November 2015, Alberto Forchielli, <http://www.albertoforchielli.com/2015/11/13/the-chinese-healthcare-system-how-it-works-and-future-trends/>

31 Ibid.

32 Ibid.

33 Ibid.

Healthy China 2030

The 'Healthy China 2030' blueprint was released by the State Council in October 2016 to serve as a general guideline document for healthcare in the coming 15 years. Some of the key objectives listed in therein are as follows:³⁴

- Provision of 3 certified or assistant doctors and 4.7 registered nurses for every 1,000 residents by 2030;
- Achievement of average life expectancy of 79 years by 2030 from that of 76.1 years in 2016³⁵;
- Increase in the number of people frequently participating in physical exercise to 530 million by 2030 from the estimated 360 million in 2014;
- Reduction in the number of smokers, higher taxation on cigarettes;
- Incorporation of health education in to the education system;
- Implementation of a national nutrition plan along with systems to monitor citizens' nutrition status;
- Reduction of infant mortality rate to 5 per 1000 live births by 2030 from 8 per 1000 live births in 2016;
- Equal access to basic health services for rural and urban residents; and
- Establishment of a nationwide network to monitor food safety and to record food-borne diseases.

Increased focus by MNCs and local manufacturers

The pharmaceutical market in China is also being driven by increased activity from multi-national corporations (MNCs) as well as local manufacturers. In the past, MNCs preferred to sell their older drugs in China as these were cheaper than their new innovative drugs.³⁶ However, with growing healthcare expenditure in China, some MNCs are now setting up research labs and manufacturing facilities in China to launch new innovative drugs in the local market.³⁷

The Chinese government is encouraging investment in R&D by offering local pharmaceutical companies tax breaks, eased regulations and in some cases, funding.³⁸ New partnerships between MNCs and local companies are also being formed. For instance, in March 2015, Eli Lilly formed a partnership with Innovent Biologics, a domestic company, to jointly develop a number of proprietary monoclonal antibodies.³⁹ In 2015, AstraZeneca formed a partnership with WuXi AppTec, a Chinese biologics manufacturer, to develop new drugs locally.⁴⁰ MNCs such as AstraZeneca, GlaxoSmithKline, and Pfizer, are reported to be investing in more research hubs and manufacturing facilities in China.⁴¹ Sanofi, Novartis and Merck have also set up their research hubs in China.⁴²

Healthcare reforms under consideration

The PRC government is focused on improving drug quality and reducing prices. In February 2017, the State Council of China released its 'opinions on policies for drug manufacturing and distribution'.⁴³ It is expected that some of these opinions will be incorporated in upcoming reforms for the pharmaceutical market in China. Some of the opinions expressed were as follows:

- Online drug sales are likely to be allowed: The State Council may allow drug distributors to liaise with e-commerce companies to sell drugs online.⁴⁴

34 'China eyes life expectancy of 79 by 2030', 26 October 2016, China Daily, http://www.chinadaily.com.cn/china/2016-10/26/content_27174470.htm

35 World Life Expectancy, <http://www.worldlifeexpectancy.com/world-health-review/china-vs-singapore>

36 'More wealth, less health: The changes fuelling China's drug industry boom', 4 March 2017, Telegraph, <http://www.telegraph.co.uk/business/2017/03/04/wealth-less-health-changes-fuelling-chinas-drug-industry-boom/>

37 Ibid.

38 Ibid.

39 'Lilly and Innovent Biologics Announce a Strategic Alliance to Bring Potential Oncology Therapies to Patients in China and Around the World', 20 March 2015, Eli Lilly, <https://investor.lilly.com/releasedetail.cfm?ReleaseID=902643>

40 'More wealth, less health: The changes fuelling China's drug industry boom', 4 March 2017, Telegraph, <http://www.telegraph.co.uk/business/2017/03/04/wealth-less-health-changes-fuelling-chinas-drug-industry-boom/>

41 Ibid.

42 'China: The Future Of Pharmaceutical Industry Innovation?', 26 June 2015, <http://www.mmm-online.com/pharmaceutical/china-the-future-of-pharmaceutical-industry-innovation/article/423041/>

43 'China pushes further on drug quality and price control', 15 February 2017, The Pharma Letter, <http://www.thepharmalletter.com/article/china-further-pushes-on-drug-quality-and-price-control>

44 Ibid.

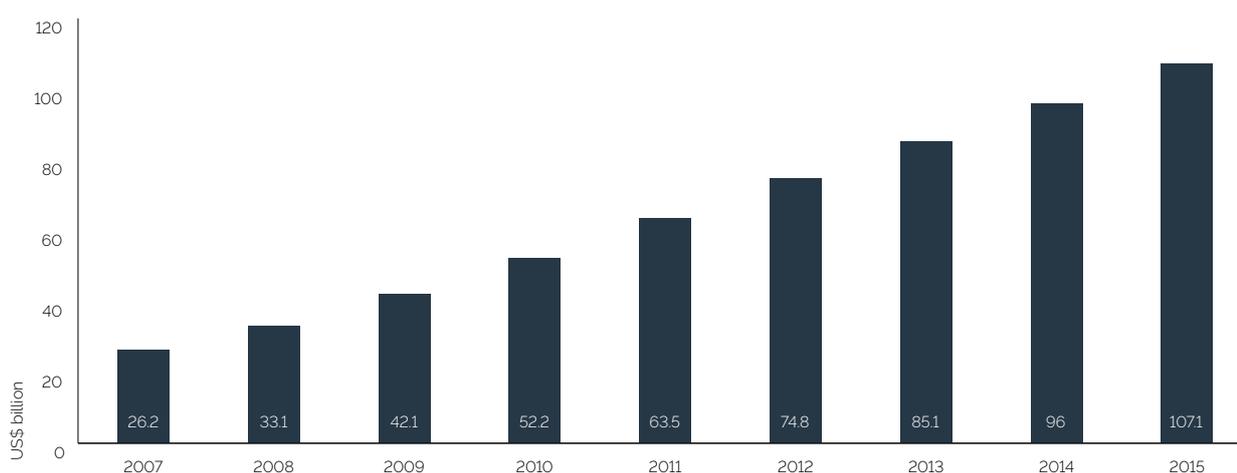
- International practices in the drug approval process will be adopted in China: The State Council may adopt international drug approval process under which the categorization of new drug applications may be changed. At present, new drug applications are broadly classified into chemical drugs, biologicals and TCM.⁴⁵ In the future, new drug applications may be classified according to the following categories: drugs for rare diseases, first aid medicine, medicines for the elderly, medicines for children's diseases and TCM.⁴⁶ Further, it is expected that these new drug applications would be assigned to different teams to expedite their approval process.⁴⁷ In addition to these changes under consideration, the State Council may also allow qualified third-party vendors, including commercial labs, hospitals and medical schools, to conduct bioequivalence testing for the approval of generic drugs. Under the existing regulations, the bioequivalence testing for generic drugs approval is conducted at designated national institutes for food and drug control.⁴⁸
- The Marketing Authorization Holder (MAH) process will be reformed: Until June 2016, the regulations in China allowed research labs and research personnel to obtain new drug certificates for the drugs developed by them. However, these research labs or researchers were not allowed to outsource the manufacturing and marketing of their drugs to third-parties. Instead, they were required to set up their own manufacturing facilities and to obtain a drug manufacturing licence and good manufacturing practice (GMP) certification to market their drugs. The pilot program of MAH was initiated in November 2015 in selected provinces to allow research labs and research personnel to hire the services of a third-party to launch their drugs in the market. This pilot program is expected to undergo expansion till November 2018.⁴⁹

The above stated opinions are most likely under consideration by the State Council to be incorporated in the pharmaceutical reforms. If implemented, these reforms would aid the growth of the pharmaceutical market in China.

4. Size and Growth of the Pharmaceutical Market in China

China is estimated to be the second largest market for pharmaceutical products globally after the USA, a function more of the large population than the maturity of the market, as sales of pharmaceuticals in China are still growing strongly. There are various estimates of total sales of pharmaceuticals in China, with one analyst estimating total pharmaceutical sales of US\$107 billion in 2015. Between 2007 and 2015, pharmaceutical sales have increased at a CAGR of 17.6% (see Figure 9).

Figure 8: Pharmaceutical Sales in China, 2007 to 2015



Source: Deloitte, the Next Phase: opportunities in China's Pharmaceutical Market.

On a per capita basis, pharmaceutical sales in China in 2015 were approximately US\$79. This is approximately one-tenth of the level in Japan, and significantly lower than other developed economies (see Figure 10).

45 Mossialos E., Ge Y., Hu J. and Wang L.(2016), 'Regulatory Structure And Drug Approval', WHO Report on Pharmaceutical Policy in China.

46 'China pushes further on drug quality and price control', 15 February 2017, The Pharma Letter, <http://www.thepharmaletter.com/article/china-further-pushes-on-drug-quality-and-price-control>

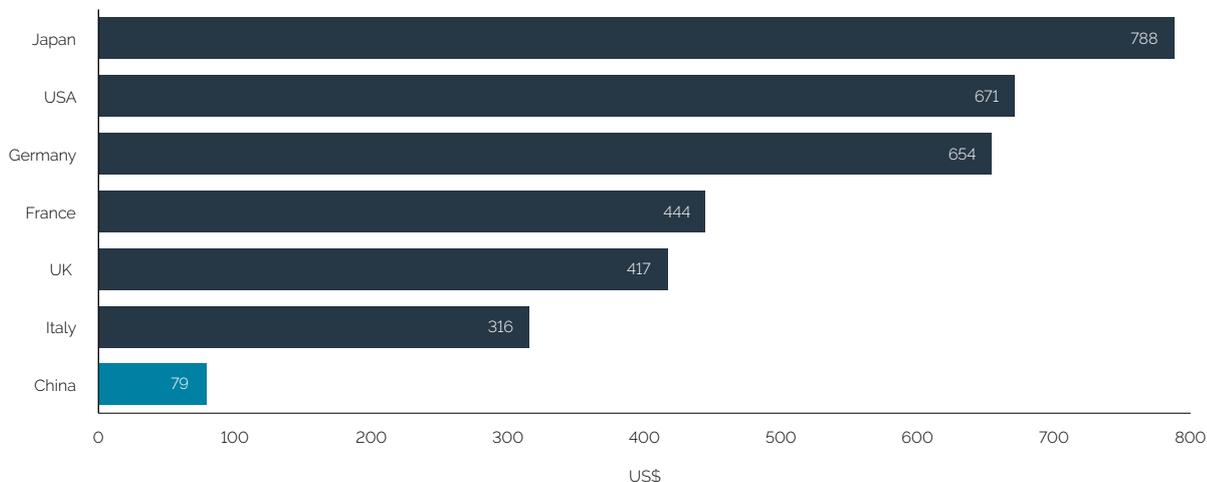
47 Ibid.

48 Ibid.

49 'China pilot eyes easier marketing authorization', 19 June 2016, FiercePharma, <http://www.fiercepharma.com/pharma-asia/china-drug-authorization-pilot-seen-helping-innovative-firms>

03. INDUSTRY OVERVIEW / CONTINUED

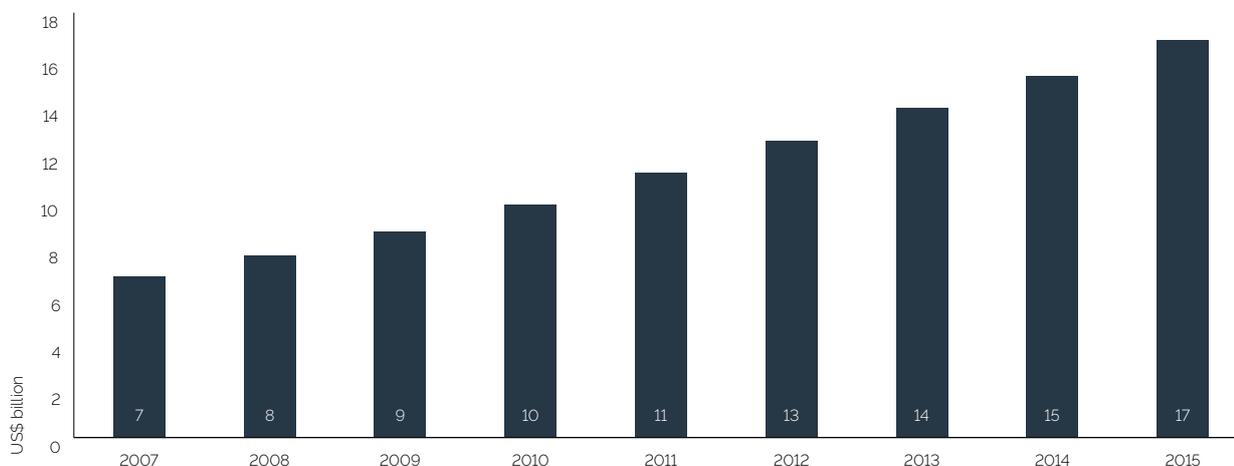
Figure 9: Per Capita Pharmaceutical Sales by Country, 2015



Sources: Deloitte, the Next Phase: opportunities in China's Pharmaceutical Market; Association of the European Self-Medication Industry.

Total pharmaceutical sales include prescription, OTC and TCM products. Based on industry research, Frost & Sullivan estimates that OTC products account for approximately 16% of total pharmaceutical sales, with OTC pharmaceutical sales of approximately US\$17 billion in 2015. Between 2007 and 2015, OTC pharmaceutical sales have increased at a CAGR of approximately 12% (see Figure 11).

Figure 10: OTC Pharmaceutical Sales, in China, 2007 to 2015



Source: Frost & Sullivan.

5. Regulatory and Policy Regime in China

The pharmaceutical industry in China, as in most other countries, is heavily regulated with regulations governing the manufacture and sales of pharmaceutical products. Obtaining regulatory approval can be time-consuming and expensive, offering competitive advantage and a significant degree of market protection to companies that have regulatory approval.

Main Laws Governing Pharmaceutical Products in China

The basic regulations that govern pharmaceutical products in China are outlined in the *Drug Administration Law* and the *Regulation for the Implementation of the Drug Administration Law*. These two sets of regulations cover several aspects of the pharmaceutical industry in China, including drug research, new drug registration, production, packaging, advertising, distribution and usage of drugs by medical institutions.⁵⁰

In China, drugs are broadly classified into three types:⁵¹

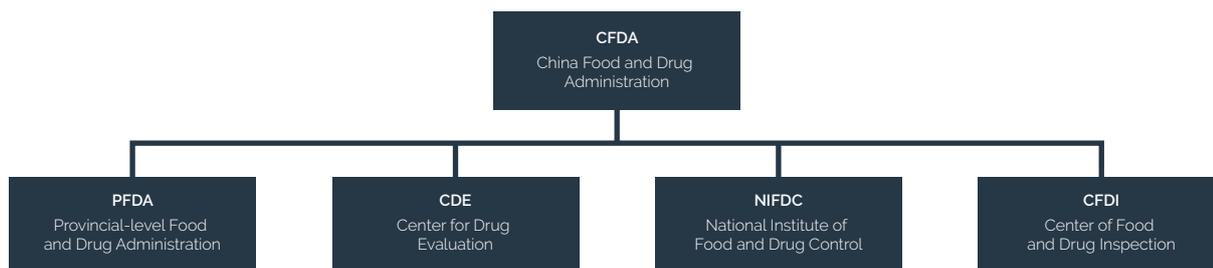
- Chemical Drugs;
- Biological Drugs; and
- Traditional Chinese Medicine/Natural Drugs.

Drugs in the above mentioned categories include both prescription drugs as well as OTC drugs. The OTC drugs are further categorised into Class A OTC drugs and Class B OTC drugs. Class A OTC drugs can be sold through pharmacies and hospitals only, whereas Class B OTC drugs can be sold through pharmacies as well as general commercial stores such as supermarkets and convenience stores.⁵²

Regulatory Bodies and Their Roles

The structure of the regulatory regime in China is illustrated in Figure 12:

Figure 11: Regulatory Bodies for Pharmaceutical Products in China



Source: 'Clinical Trials for Medical Products in China', 2017, Pacific Bridge Medical, <http://www.pacificbridgemedical.com/regulatory-services/medical-device-pharmaceutical/clinical-trials/china/>

The central governing body for all the categories of drugs is the China Food and Drug Administration (CFDA). The CFDA is modelled after the US Food & Drug Administration (FDA) and is under the direct management of the State Council.⁵³ The Provincial-level Food and Drug Administration (PFDA) supervises the pharmaceutical industry at the provincial level. The Center for Drug Evaluation (CDE) is the technical arm of the CFDA that primarily carries out the technical review of drugs.⁵⁴ The National Institute of Food and Drug Control (NIFDC) tests and analyses the drug samples it receives from the CDE to ascertain a drug's claimed standards. The Center for Food and Drug Inspection (CFDI) conducts inspection of manufacturing sites.⁵⁵

50 China Regulatory and Market Access Pharmaceutical Report, 2014, Pacific Bridge Medical

51 Ibid

52 Ibid

53 China Regulatory and Market Access Pharmaceutical Report, 2014, Pacific Bridge Medical

54 'Clinical Trials for Medical Products in China', 2017, Pacific Bridge Medical, <http://www.pacificbridgemedical.com/regulatory-services/medical-device-pharmaceutical/clinical-trials/china/>

55 Ibid

Licensing and Regulatory Mechanisms

For any prescription or OTC drug to be marketed in China, the first step is to conduct clinical trials in China. For this, a local manufacturer is required to submit its application to the PFDA, whereas a foreign manufacturer is required to submit its application directly to the CFDA. The preliminary review of a local manufacturer's application is done by the PFDA which then forwards the application to the CFDA. For a foreign manufacturer, the preliminary review is done by the CFDA itself.

After the preliminary review of an application is complete, the CFDA orders a technical review by the CDE. The CDE then sends the drug samples to the NIFDC to get them tested and analysed. The results from the NIFDC are sent to the CDE for review. Once the review by the CDE is complete, the CFDA discusses the received findings and arrives at the final decision of granting or not granting the manufacturer its requested clinical trial permit. In case the CFDA needs any additional information, it issues a supplement notice to the manufacturer, following which the manufacturer is given 2 months to provide the said information.

Once the approval for conducting clinical trials is granted by the CFDA, the manufacturer is required to conduct the trials and submit its results along with other dossiers to the CFDA to complete the drug registration and to obtain the drug manufacturing certificate or the drug import licence as applicable. If the CFDA rejects the application, the manufacturer has an option to request for a re-examination of its application.

A drug manufacturing certificate or an import licence is valid for 5 years. Applications for their renewal are to be submitted 6 months prior to their expiration. The submission of post-marketing surveillance reports is mandatory when requesting for a renewal.

The registration of an OTC drug and the permission to manufacture or import follows the same process as that for prescription drugs. Therefore, in practice, the time taken for the entire process to complete is the same for both prescription drugs and OTC drugs.

Traditional Chinese Medicine (TCM)

TCM is widely practised alongside Western medicine in China. To promote TCM as a standard part of the healthcare delivery system, a national TCM plan is integrated in the national health policy.⁵⁶ The State Administration of Traditional Chinese Medicine is the main regulatory body for TCM in China. Its key functions include the following:⁵⁷

- drafting of laws and regulations concerning TCM;
- supervising the implementation of TCM related laws, regulations and standards;
- planning and implementation of national projects on TCM;
- supervising reforms and operations at institutions concerned with TCM;
- coordinating the integration of TCM and Western medicine in medical and research institutions;
- guiding research on TCM theories, treatment methods and drugs; and
- promotion and development of TCM in China and abroad.

Good Manufacturing Practice (GMP) Certification

The GMP certification was first introduced by the CFDA in 1998 to regulate drug manufacturing practices in China. However, at the outset, GMP certification was optional for a drug manufacturer. In 2002, the Administration Provisions for the Certification of GMP was issued by the CFDA. In 2004, the CFDA made it compulsory for all drug manufacturers to be GMP compliant. Ever since, the CFDA has expanded the scope of GMP certification to include IVD reagents (administered as drugs) manufacturers in 2006, medicinal gas manufacturers in 2007 and manufacturers of crude drugs for TCM in 2008.⁵⁸

56 'Current Status of Standardization of Traditional Chinese Medicine in China', Accessed March 2017, <https://www.hindawi.com/journals/ecam/2016/9123103/>

57 State Administration of Traditional Chinese Medicine of the People's Republic of China website, Accessed March 2017, <http://www.satcm.gov.cn/English2010/structure/2010-10-06/150.php>

58 China Regulatory and Market Access Pharmaceutical Report, 2014, Pacific Bridge Medical.

The GMP certification is based on the fulfilment of several criteria some which concern hardware and software used by the manufacturing site, record-management practices, risk management systems and security. GMP certification for injectable products, radioactive drugs, and biological drug manufacturing is granted by the CFDA, whereas GMP certification for all other kinds of drug preparations is granted by the local health authorities.⁵⁹

To obtain a GMP certification, a manufacturer is required submit the mandated dossiers to the certification issuing authority which after reviewing the dossiers, sends a team of inspectors for site inspection. The final approval for GMP certification is generally received within 90 working days.⁶⁰

Regulations on Drug Pricing

Drug prices in China are regulated both at the national and the provincial levels. At the national level, the National Development and Reform Commission (**NDRC**) regulates drug prices, whereas at the provincial level, Pricing Bureaus (**PBs**) regulate the drug prices.

The public health insurance system in China has 3 drug reimbursement lists:

- Essential Drug List (**EDL**);
- National Reimbursement Drug List (**NRDL**); and
- Provincial Reimbursement Drug List (**PRDL**).

Of the above, the EDL is issued by the MOH at a national level. The drugs on the EDL are to be 100% reimbursable by the government. The EDL mostly includes old generic drugs.

The NRDL is issued by the Ministry of Human Resources and Social Security (**MOHRSS**) on a national level, but a part of it is amendable by local provincial governments. The NRDL is divided into two lists: List A and List B. The drugs on the List A are determined by the MOHRSS and are 100% reimbursable by the government.

For List B, the MOHRSS compiles the list of drugs at the national level which is then adjusted by each province according to the local needs. The provincial government is allowed to replace up to 15% drugs on the List B. All the drugs on List B are however only partially reimbursable. The co-payments by patients for these drugs range between 10% and 90%. List A mostly includes old, generic drugs, many of which are also on the EDL. In contrast, List B includes new and innovative drugs. The prices for drugs included in List A are set solely by the NDRC, while the prices of drugs included in List B are jointly set by the NDRC and the PB.

The PDRL is issued by provincial governments. In addition to substituting for drugs on List B, each province is able to provide reimbursement of additional drugs at the province level.

Regulations on Drug Advertising

A drug advertisement in China is prohibited from using the name of any physician, expert, patient or even medical/ pharmaceutical institution. Once an advertisement for a pharmaceutical product is designed, it is required to be approved by the local provincial government of the province where the manufacturer is based. On approval from the provincial government, an approval number is assigned to the advertisement and the CFDA is notified of the same. Advertisements for prescription drugs can only be featured in CFDA-approved medical publications. However advertisements for OTC drugs can be advertised on TV, radio, newspapers, etc.

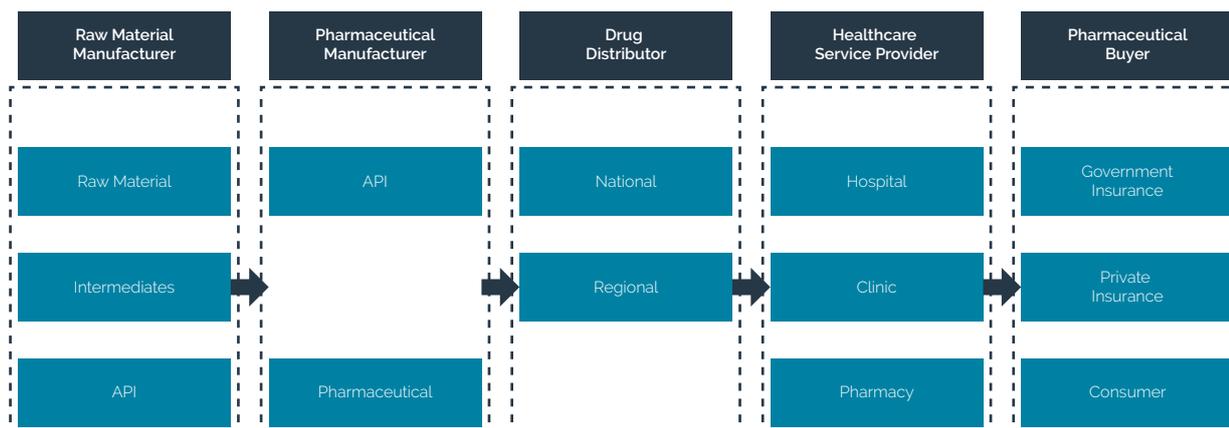
59 Ibid

60 Ibid

6. Value Chain and Industry Structure for Pharmaceutical Products

The value chain for pharmaceutical products in China is illustrated in Figure 13. Pharmaceutical manufacturers source raw materials, intermediates and active pharmaceutical ingredients (APIs) from raw material manufacturers, before manufacturing APIs and pharmaceutical products themselves. These are then sold through drug distributors to medical service providers (hospitals, clinics, pharmacies) before sale to customers which could be government or private insurers or consumers.

Figure 12: Value-Chain for Pharmaceutical Products, China



Source: Adapted from Deloitte, the Next Phase: Opportunities in China's Pharmaceutical Market.

More details on the distribution channels for prescription and OTC medicines are given below.

Prescription Medicines

Most prescription medicines in China are sold through hospitals, which have traditionally used drug sales as a major revenue generator, as they have marked up drug prices by a significant amount. An estimated 80% of prescription sales are made through hospitals, with the balance sold through retail pharmacies.⁶¹ Distribution of medicines follows a tiered-structure, with manufacturers distributing their products through national and regional wholesalers, which in turn sell to hospitals, clinics and pharmacies. There is an estimated 25,000 hospitals in China, approximately equally split between public and private facilities.⁶²

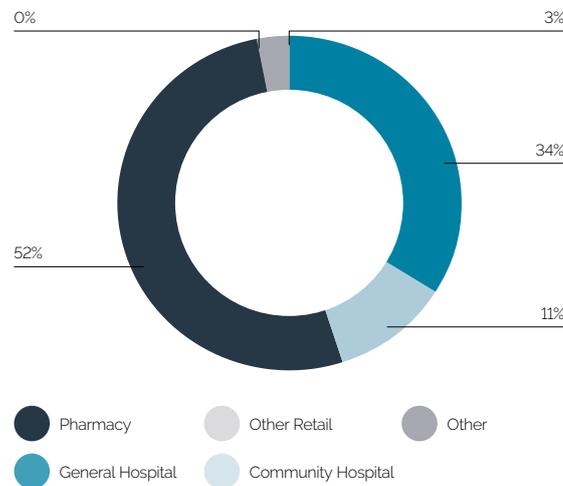
OTC Medicines

In China, retail pharmacies are the most common channel for sales of OTC medicines, with slightly over 50% of total sales through this channel. However, a significant portion of sales (45%) also goes through general and community hospitals (see Figure 14). Only pharmacies and hospitals can sell Class A OTC drugs, with supermarkets and other retail outlets restricted to selling Class B OTC drugs, after approval from local authorities.

61 China Regulatory and Market Access Pharmaceutical Report, 2014, Pacific Bridge Medical

62 Frost & Sullivan, 2016 China Hospital Outlook

Figure 13: Sales of OTC Medicines by Channel



Source: IMS Health, Healthcare Executive Magazine, July 2011.

China is estimated to have 388,000 retail pharmacies, approximately one for every 3,500 people.⁶³ Pharmacies in China typically fall into two types: TCM stores, which dispense herbal medicines individually formulated for each patient; and Western-style retail pharmacies selling prescription and OTC medicines. All Western-style pharmacies provide prescription and OTC products, as well as patient advice and counselling. However, the lack of reimbursement mechanisms for many products often reduces the willingness of pharmacists to offer high-quality advice to patients.

There is a steady trend towards consolidation in retail pharmacies, with pharmacy groups accounting for about 40% of all pharmacies in 2014, up from 35% in 2008. Leading chains include Chongqing TJG Drugstore (8,306 outlets), Hubei Tongjitang Pharmacy (4,723 outlets) and Chongqing Peace Drugstore (2,610 outlets).⁶⁴ Another trend is the emergence of online pharmacies, which have been progressively allowed to commence operations, with 525 online pharmacy licences approved by January 2016, and online pharmacy sales of US\$1.1 billion in 2014.⁶⁵

7. Main Industry Participants

The pharmaceutical industry in China is extremely fragmented, with over 5,000 manufacturers estimated to be active.⁶⁶ The vast majority of these are domestic companies manufacturing generic or OTC medicines. China has few companies manufacturing patented medicines, as lack of scale and expertise makes it difficult to compete with the global MNCs that dominate the patented pharmaceutical industry.

In the OTC market, several global companies such as Pfizer, GSK and Bayer have established positions in the Chinese market. However, the largest companies supplying OTC medicines in China are still domestically-owned, with the leading five industry participants profiled below. These companies typically supply product portfolios that include TCM products, western medicines and other products or services.

63 Fang et al, Community Pharmacy Practice in China, Past, Present and Future, International Journal of Clinical Pharmacy · May 2013.

64 Bayer, Pharmacies in the Chinese Market, 2016.

65 http://www.china.org.cn/business/2016-04/10/content_38211766.htm

66 International Trade Administration, 2016 Top Markets Report Pharmaceuticals, Country Case Study, China.

03. INDUSTRY OVERVIEW / CONTINUED

Yunnan Baiyao Group Co., Ltd

Founded	1902
Headquarters	Kunming, Yunnan
Revenue	US \$ 3.28 billion(2015)
Key Business	<ul style="list-style-type: none"> • TCM • Western medicine • toothpaste
Other Businesses	<ul style="list-style-type: none"> • hotel • securities and investment

Source: company website; 'Yunnan Baiyao Group', Forbes, accessed March 2017, <https://www.forbes.com/companies/yunnan-baiyao-group/>

The Yunnan Baiyao Group is one of the biggest and the oldest TCM manufacturers in China.⁶⁷ Its flagship product category is 'Series Yunnan Baiyao' which includes the following products under the brand name 'Yunnan Baiyao': tincture, powder, capsule, plaster, wound-plast and aerosol. The other product categories marketed by the Yunan Baiyao Group are phytobiological medicines, health products and modern medicine. The phytobiological medicine category includes 5 products based on a medicinal plant called *tienchi ginseng*, a dietary supplement (Shulie'an Capsule⁶⁸), a medicine for chest pain (Xuesaitong Capsule⁶⁹), a medicine for easing lochia (Gongxuening Capsule⁷⁰) and a medicine for treating respiratory infections (Redduqing Tablet⁷¹). The health products category includes a toothpaste, an itching relieving and skin smoothening ointment, a shower and foot bath effervescent tablet, shoe disinfectant, aerosol and first aid kits. The OTC medicine category includes Paracetamol, Aminophenazone, Caffeine, Chlorphenamine Maleate, Oxytetracycline and Norfloxacin tablets.

Table 2 presents a summary of the company's product portfolio:

Table 3: Product Portfolio, Yunnan Baiyao Group Co., Ltd, 2016

Series Yunnan Baiyao	Phytobiological Medicine	Health Products	Modern Medicine
<ul style="list-style-type: none"> • Yunnan Baiyao Tincture • Yunnan Baiyao Powder • Yunnan Baiyao Capsule • Yunnan Baiyao Plaster • Yunnan Baiyao Wound-plast • Yunnan Baiyao Aerosol 	<ul style="list-style-type: none"> • Tienchi Oral Liquid • Raw Tienchi Tablet • Steamed Tienchi Tablet • Tienchi Molasses Oral Liquid • Tienchi Flower Leave Granule • Redduqing Tablet • Gongxuening Capsule • Shulie'an Capsule • Xuesaitong Capsule 	<ul style="list-style-type: none"> • Yunnan Baiyo Toothpaste • Qiancaotang Itching Relieving and Smoothening Essential Skin Care Range • Qiancaotang Yao Shower & Foot Bath Effervescent Tablet • Aijia Shoe Disinfectant and Deodorize Aerosol • First Aid Kits 	<ul style="list-style-type: none"> • Paracetamol, Aminophenazone, Caffeine and Chlorphenamine Maleate tablets • Oxytetracycline Tablets • Norfloxacin Tablets

Source: Company website.

67 'China brands beat global rivals with tea toothpaste & pickled plums', 28 July 2014, Reuters, accessed March 2017, <http://www.reuters.com/article/china-retail-consumers-idUSL2N0PW01V20140728>

68 'Notification Letter for Statement on Dietary Supplement', June 2002, FDA, accessed March 2017, <https://www.fda.gov/ohrms/dockets/dailys/03/Aug03/082603/g7s-0162-let10687-vol81.pdf>

69 'Xuesaitong Soft Capsule (Chinese Patent Medicine) for the Treatment of Unstable Angina Pectoris: A Meta-Analysis and Systematic Review', 2013, Hindawi, accessed March 2017, <https://www.hindawi.com/journals/ecam/2013/948319/>

70 'Chinese Patent Herbs: Gong Xue Ning Capsules', 19 November 2008, Open TCM, Accessed March 2017, <http://www.opentcm.com/Article2296.html>

71 Company website.

Yangtze River Pharmaceutical Group Co., Ltd

Founded	1971
Headquarters	Taizhou, Jiangsu
Revenue	US \$ 7.4 billion (2015)
Key Business	<ul style="list-style-type: none"> • TCM • Western medicines
Other Businesses	<ul style="list-style-type: none"> • medical equipment, apparatus, fittings • medical consumables⁷²

Source: company website.

The Yangtze River Pharmaceutical Group is one of the biggest TCM manufacturers in China with operations in domestic and international markets. Its international markets include Hong Kong, the Middle East, Eastern Europe, South America, Southeast Asia, and Africa.⁷³ The group owns over 20 subsidiaries in China, and has a product portfolio that includes TCM as well as Western medicines as detailed below.⁷⁴

Table 4: Product Portfolio, Yangtze Pharmaceutical Group Co., Ltd, 2016

Traditional Chinese Medicines	Western Medicines
<ul style="list-style-type: none"> • drugs for regulating immune system • drugs for circulatory system ailments • drugs for digestive system ailments • drugs for nervous system ailments • drugs for premenstrual syndrome • drugs for respiratory system ailments 	<ul style="list-style-type: none"> • analgesics, antipyretic-analgesics & non-steroidal anti-inflammatory agents • anaesthetics • anti-allergy drugs • anti-microbial drugs • anti-neoplastic drugs • drugs for regulating immune system • drugs for circulatory system ailments • drugs for digestive system ailments • drugs for regulating the secretion of hormones • drugs for nervous system ailments • drugs for respiratory system ailments • drugs for skin disorders • drugs for uropoietic system ailments • water, electrolyte & acid-base balance regulating agents • drugs used in carrying out certain diagnostic tests such as CT scan

Source: Company website.

⁷² 'Company Overview of Jiangsu Yangtze River Pharmaceutical Group Company Ltd.', Bloomberg, accessed March 2017, <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=40239651>

⁷³ 'Company Overview of Jiangsu Yangtze River Pharmaceutical Group Company Ltd.', Bloomberg, accessed March 2017, <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=40239651>

⁷⁴ Company website.

03. INDUSTRY OVERVIEW / CONTINUED

China Resources Sanjiu Medical & Pharmaceutical Co., Ltd

Founded	1999
Headquarters	Shenzhen, Guangdong
Revenue	US \$ 1.3 billion(2016)
Key Business	<ul style="list-style-type: none">• OTC drugs• TCM• API• Antibiotic drugs
Other Businesses	<ul style="list-style-type: none">• medical appliances• medical/healthcare services• package printing• international trading• real estate

Source: Company website.

China Resources Sanjiu Medical & Pharmaceutical Co., Ltd is the flagship subsidiary of the China Resources Group.⁷⁵ It was acquired by the China Resources Group in 2008⁷⁶ and is a leading manufacturer of pharmaceutical products and medical appliances under the brand name 999.⁷⁷ Its pharmaceutical product portfolio includes APIs, antibiotic drugs, OTC drugs and TCM drugs which it distributes in the domestic as well as international markets.⁷⁸

Shan Dong Dong-E E-Jiao Co., Ltd.

Founded	1952
Headquarters	Liaocheng, Shandong
Revenue	US\$ 913.5 million(2016)
Key Business	<ul style="list-style-type: none">• TCM• OTC drugs• biopharmaceuticals• Health food
Other Businesses	<ul style="list-style-type: none">• medical apparatus• wine

Source: Company website.

Shan Dong Dong-E E-Jiao Co., Ltd is also a subsidiary of the China Resources Group.⁷⁹ It was acquired by the China Resources Group in 2008⁸⁰ and is the largest manufacturer of e jiao medicines in China.⁸¹ E jiao refers to the substance that is derived from the hide of Equus Asinus L. donkey.⁸² Under TCM, this substance is believed to have several medicinal properties and hence e jiao medicines are indicated for a number of ailments including

⁷⁵ Company website, accessed March 2017, <http://www.crpharm.cn/EN/acp/au/>

⁷⁶ Company website, accessed March 2017, <http://www.crpharm.cn/EN/acp/au/>

⁷⁷ 'China Resources Sanjiu Medical & Pharmaceutical Co Ltd (000999)', The Business Research Store, Accessed March 2017, <https://www.businessresearchstore.com/product/207245-china-resources-sanjiu-medical-%26-pharmaceutical-co.html>

⁷⁸ 'China Resources Sanjiu Medical & Pharmaceutical Co Ltd (000999)', The Business Research Store, Accessed March 2017, <https://www.businessresearchstore.com/product/207245-china-resources-sanjiu-medical-%26-pharmaceutical-co.html>

⁷⁹ Company website, accessed March 2017, <http://www.crpharm.cn/EN/acp/au/>

⁸⁰ Ibid.

⁸¹ 'Shan Dong Dong E E Jiao Co Ltd - China (Shandong)', HKTDCC, accessed March 2017, <http://www.hktdc.com/manufacturers-suppliers/Shan-Dong-Dong-E-E-Jiao-Co-Ltd/en/1X05NT8D/>

⁸² 'Chinese Herbs Healing', Accessed March 2017, <http://www.chineseherbshealing.com/e-jiao/>

lung disorders and insomnia.⁸³ In 2013, Shan Dong Dong-E E-Jiao Co., Ltd was reported to have a 70% market share in the domestic market for e jiao products.⁸⁴

Beside e jiao medicines, the company's product portfolio includes dietary supplements, biotech medicines and health food.⁸⁵ The company has subsidiaries in Germany and Malaysia and exports its products to Southeast Asia, North America and Europe.⁸⁶

Xiuzheng Pharmaceutical Group Co., Ltd.

Founded	1995
Headquarters	Tonghua, Jilin
Revenue	US \$ 4.7 billion (2011)
Key Business	<ul style="list-style-type: none">• TCM• Western medicine
Other Businesses	<ul style="list-style-type: none">• Drugstore chain

Source: Company website.

Xiuzheng Pharmaceutical Group manufactures TCM and Western medicines in China. Among Western medicines, it manufactures both chemical and biological drugs.⁸⁷ The company owns about 45 subsidiaries and manufactures about 800 different pharmaceutical products and about 1,000 health care products.⁸⁸ Its pharmaceutical products cover a wide range of indications including nerve-soothing, external use, arthritis and pain relief, cough, digestive health and women's health.⁸⁹ In 2014, the company was reported to be the second largest pharmaceutical enterprise and the largest privately-owned pharmaceutical enterprise in China.⁹⁰ Its flagship brands are 'Sidashu', 'Xiaomishuan', 'Weidaning', and 'Jingyaokang'.⁹¹

8. Comparison with Australia's OTC Medicine Market

Australia's pharmaceutical market includes prescription medicines (which in most cases receive a government subsidy through the Pharmaceutical Benefits Scheme (PBS)) and OTC medicines. In Australia, OTC medicines are defined as excluding prescription and complementary medicines (including vitamin, mineral, herbal, aromatherapy and homoeopathic products).⁹²

OTC medicines are regulated under the Australian Register of Therapeutic Goods (ARTG), and must be included in this register to be sold or imported into Australia. To be included in the ARTG, a sponsoring company needs to provide an application to the Therapeutic Goods Administration (TGA), with registration based on this information in addition to advice from the TGA Scientific Committee and the Advisory Committee on non-Prescription Medicines.

In 2015, the OTC medicines market in Australia was valued at A\$2,197 million (US\$1,693 million).⁹³ This compares to an estimated market size in China of US\$17,000 million in the same year. Hence, per capita consumption of OTC medicines in Australia was approximately US\$72, compared to US\$12 in China in 2015.

83 Ibid.

84 'Overview of Shandong Dong-E E-Jiao in China', 23 February 2013, Daxue Consulting, Accessed March 2017, <http://daxueconsulting.com/market-research-for-shandong-dong-e-e-jiao-in-china/>

85 Ibid.

86 Ibid.

87 'Xiuzheng Pharmaceutical Group Stock Co., Ltd.', Accessed March 2017, <http://www.tradeeasy.com/supplier/701126/xiuzheng-pharmaceutical-stock.html>

88 Ibid.

89 Ibid.

90 'EY Entrepreneur Of The Year 2014 China Country Winners', EY, Accessed March 2017, <http://www.ey.com/cn/en/newsroom/news-releases/ey-2014-xiuzheng-pharmaceutical-group-chairman-xiu-laigui>

91 Ibid.

92 Therapeutic Drugs Administration, Complementary Medicines.

93 Complementary Medicines Australia, Industry Audit, 2014.

03. INDUSTRY OVERVIEW / CONTINUED

Over recent years, despite the relative maturity of the Australian market, there has been strong growth particularly in consumption of alternative medicines, sales of which have grown significantly faster than OTC and prescription medicines. Over the 4 years to 2014-15, expenditure on prescription medicines with PBS subsidies has increased at 2.92% CAGR to reach A\$9,343 million (US\$7,195 million) in 2015-16, inclusive of PBS subsidies and patient contributions,⁹⁴ and over the same period, sales of OTC medicines have increased at a CAGR of 2.69%. Conversely, over the same period, sales of dietary supplements have increased at 11.96% CAGR and herbal medicines at 6.12%.⁹⁵

This reflects growing interest in general health and well-being amongst Australian consumers which is driving interest in dietary supplements and alternative medicines. Conversely, funding pressures are limiting growth in sales of prescription medicines, particularly those that receive PBS subsidies.

9. Conclusion

Haixi is a participant in China's pharmaceutical market, providing medicinal products generally supplied over-the-counter in the Chinese market. Its main products include OTC western medicine creams and ointments. It is also developing other alternative medicines such as TCM products and dietary supplements. Haixi benefits from its significant base of existing regulatory approvals, in a market where obtaining regulatory approval for medicines is time-consuming and expensive, therefore forming a significant barrier to entry.

A number of factors are stimulating growth in consumption of medicines in China, including demographic changes to the population, growing incidence of chronic diseases, rising household wealth, economic growth stimulating increasing healthcare expenditure and extension of health insurance. Consequently, China's overall pharmaceutical market is growing at almost 18% CAGR. However, there is likely to be significant further opportunity for growth, given that per capita pharmaceutical expenditure in China is only one-tenth the level of Japan, and well behind other developed economies. Continued economic growth in China is likely to further stimulate growth in pharmaceutical consumption.

10. Disclosure

This is an independent report prepared by Frost & Sullivan. Save for the preparation of this report and services rendered in connection with this report for which normal professional fees will be received, Frost & Sullivan has no interest in Haixi Pharmaceutical and no interest in the outcome of the IPO. Payment of these fees to Frost & Sullivan is not contingent on the outcome of the IPO. Frost & Sullivan has not and will not receive any other benefits (including any commissions) and there are no factors which may reasonably be assumed to have influenced the contents of this report nor which may be assumed to have provided bias or influence. Frost & Sullivan consents to the inclusion of this report in the Prospectus in the form and context in which it is included. As at the date of this report, this consent has not been withdrawn. Frost & Sullivan does not hold a dealer's licence or Financial Services Licence. This report does not constitute advice in respect of the IPO.

Yours Sincerely



Mark Dougan
Managing Director

Frost & Sullivan Australia Pty Ltd

⁹⁴ PBS, Expenditure and Prescriptions, Twelve Months to June 2016.

⁹⁵ Complementary Medicines Australia, Industry Audit, 2014.

04. COMPANY OVERVIEW



04. COMPANY OVERVIEW

4.1 Introduction

Haixi is incorporated in Victoria, Australia, and is the holding company of the Group. The main operating entity of the Group, Fujian Yong'an Pharmaceutical Co., Ltd (**Haixi China**), was established in December 1995 and is headquartered in Fujian, China. It is engaged in the manufacturing, sales, and R&D of pharmaceutical medicinal products. Its products include over the counter ointment and medicinal creams to treat pain, swelling and itching. It also intends to develop other products such as orally ingestible tablets, capsules and liquids. Haixi China's brand is long-standing, highly recognised and respected in the pharmaceutical industry in China.

Haixi China is recognised by the Chinese Government and has received new national GMP Certification issued by the SFDA. Haixi China also holds product certifications for over 9 types of medicinal products.

Haixi China is committed to producing high quality pharmaceutical products. To do this, Haixi China continuously invests in its own R&D in order to create new products, improve existing products and optimise production processes, techniques and standards. Haixi China supplies its products in wholesale amounts by entering into distribution agreements with intermediaries, agencies or other trusted and highly regarded pharmaceutical companies which hold Good Supply Practices Certification.

Haixi China has a dedicated management team with many years of experience and co-founders who are actively involved in the day-to-day management of the Group. Haixi China operates within a strongly regulated industry sector of significant scale and with access to capital markets. The Group's business is within a market of growing demand, and has significant potential for future growth.

4.2 History

A timeline of some of the significant events and milestones for Haixi China is set out below.

Time	Event
December 1995	Haixi China founded in Fujian, China.
June 2004	GMP Certification issued by the SFDA was obtained.
October 2009	A new factory and production facility was obtained, along with the relevant building usage approvals issued by the Chinese government.
May 2011	As part of the first phase of Haixi China's business expansion plans, a new factory and production facility was constructed.
November 2012	The new factory obtained pharmaceutical medicinal production and manufacturing approvals issued by the SFDA.
November 2013	Haixi China received government approvals from the Yong'an City Planning Bureau for its plan to expand the new factory by 70,000 square metres.
November 2013	Haixi China obtained GMP Certifications for its gel and cream products.
January 2015	Haixi China committed to invest RMB 47 million (approximately A\$9.3 million) into building new building premises for manufacturing its pharmaceutical products, storage and R&D.
December 2015	The Company entered into a legally binding Cooperation Agreement with Rick Carson Partners (Rick Carson) to conduct feasibility studies and determine potential raw material suppliers and cooperative partners in Australia.

4.3 Business Model

Haixi China's business model is a vertically integrated model. An illustrative diagram is set out below:



4.3.1 Product development

Haixi China continuously develops pharmaceutical products, which are high in demand in the consumer market. Drug development is heavily regulated under the PRC laws, which requires a drug registration system. The SFDA will assess the proposed drug product from different aspects including its safeness, effectiveness and quality control before granting it a drug licence.

There are two major steps in a drug registration application under the PRC laws. They are as follows:

- ✓ **Clinical Research:** The first step involves clinical research on the proposed new drug, which includes researching its synthesis process, extraction method, physicochemical property and purity, dosage form, formulation screening, production technology, testing method, specification and pharmacology.
- ✓ **Drug clinical testing:** The second step involves drug clinical testing, which must be approved by SFDA. There are four stages involved in the clinical testing. The first stage is to preliminarily assess the clinical pharmacology of the proposed drug and its safety to be used on the human body. The second stage is to preliminarily assess the clinical effectiveness of the drug, which may include randomised blind controlled trials. The third stage is to confirm the effectiveness of the drug after the trials. The final stage is to study the application of the proposed drug after its market launch for future improvement and development purposes.

For efficiency reasons, Haixi China had performed the majority of its production developments in partnerships, including collaborating with Chang Fu Xing (please see section 10.4.3 for further details). The R&D partners will be responsible for undertaking researching and testing as well as preparing materials for new drug registration applications. For more information regarding Haixi's current R&D projects (please see section 4.3.5).

4.3.2 Procurement

Haixi China procures high quality raw and packaging materials for the production and packaging of its pharmaceutical products. Haixi China is actively involved in the selection, testing and direct procurement of materials to ensure that the quality of its products are consistently manufactured to the highest standards.

Haixi China recognises that the quality of raw and packaging materials are fundamental to the end product quality. It implements a process of careful selection of its suppliers based on two key criteria:

- ✓ the suppliers' materials and processes must be in accordance with the GMP Certification standard of pharmaceutical products; and
- ✓ the suppliers must satisfy internal governance control and supply management procedures, which includes a formal tender process whereby Haixi China analyses and compares the raw and packaging materials offered by suppliers prior to confirmation and entering into a supply agreement.

Given its long operating history and standing in the market, Haixi China has developed long term partnerships with various qualified and trusted suppliers of raw and packaging materials. As of the date of this Prospectus, Haixi China has entered into 12 framework agreements with raw and packaging material suppliers (see section 10.4.1 for further details on the Group's material contracts).

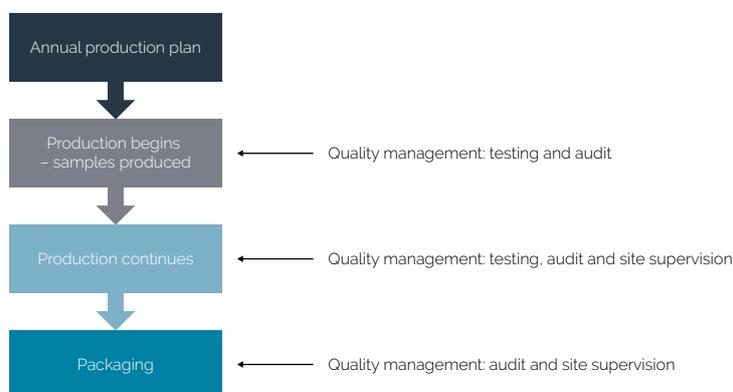
04. COMPANY OVERVIEW / CONTINUED

The following is a list of Haixi China's top suppliers in no particular order. For more information regarding supplier agreements, please section 10.4.

Name	Category of Products Supplied	Products supplied
Puning Runjia Colour Printing Co., Ltd	Packaging material	<ul style="list-style-type: none"> • Small-sized boxes • Medium-sized boxes • Cardboard boxes • Instruction manuals
Zhejiang East Asia Pharmaceutical Co., Ltd	Raw material	<ul style="list-style-type: none"> • Terbinafine hydrochloride (20kg/barrel)
Hubei Xin Ji Pharmaceutical Packaging Co., Ltd	Packaging material	<ul style="list-style-type: none"> • Aluminium tubes
Fujian Jiuhui Packing Co., Ltd	Packaging material	<ul style="list-style-type: none"> • Aluminium tubes
Shanxi Fujie Pharmaceutical Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Glycyrrhetic acid (5kg/box)
Suzhou Youhe Technology Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Camphor (25kg/barrel)
Jinzhou Jiu Tai Pharmaceutical LLC	Raw Material	<ul style="list-style-type: none"> • Chlorine gluconate (20kg/box) • Vitamin ester
Nantong Mint Factory Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Menthol (25kg/barrel)
Chongqing Qingyang Pharmaceutical Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Bifonazole
Nanchang Baiyun Pharmaceutical Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Glycerin (250kg/barrel) • Liquid paraffin (165kg/barrel) • White Vaseline (165kg/barrel)
Jiangsu Qidongdongyue Pharmaceutical Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Diphenhydramine Hydrochloride (25kg/barrel)
Hunan Furong Pharmaceutical Co., Ltd	Raw Material	<ul style="list-style-type: none"> • Stearic Acid (25kg/bag)

4.3.3 Production and quality control systems

Haixi China produces its own pharmaceutical products. The diagram below illustrates Haixi China's general production process.



(a) Production

Haixi China's production department is responsible for ensuring the quality and efficiency of its production processes when producing its pharmaceutical products. To ensure that Haixi China's production processes are operating efficiently and cost-effectively, the production department produces and implements an annual production plan (APP) which is aligned with the sale projections and market conditions for each year.

The APP specifies the quantity and priority of each product that will be produced and also sets out which factories and production lines will be used. The APP may be adjusted at mid-year to reflect any necessary changes, thereby ensuring that Haixi China's production processes are operating in its most efficient and effective state.

(b) Quality management

Haixi China has developed and implemented a uniform code of production, which entails strict management protocols and detailed operating procedures which are compliant with GMP production standards. These codes and policies are enforced by Haixi China's senior management and officers along every step of the production to post-production processes. This ensures and maintains strict product safety standards, quality and standardisation as well as sustainable and efficient production processes. The key areas within the uniform code of production are set out below:

Overview	Quality control system
Supervision and management of product quality	<p>Quality control procedures and quality assurance are managed by the quality control committee, which is headed by the Quality Management Department (QM Department).</p> <p>The QM Department undertakes product testing, auditing and on-site supervision throughout the entire product production process. This begins as soon as sample products are produced. The QM Department will conduct testing and auditing of the samples to ensure product quality, safety and reliability. Once the QM department approves the sample products, large-scale production begins. At this stage, the QM Department conducts on-site supervision, testing and auditing. As part of this audit process, the quality managers will inspect areas such as product sterilisation, product safety and storage temperature control. This entire process ensures that Haixi China's products are consistently produced at the highest quality and standard for its customers.</p>
Factory site management	<p>The QM Department is responsible for ensuring that the factory sites are acting in accordance with the GMP requirements. To do this, the QM Department conducts on-site supervision and audits. Key areas that the QM Department focuses on include factory temperature, safety of machinery, and storage of raw materials.</p>
Inspection and use of raw materials	<p>In order to maintain a high standard of product quality, Haixi China uses premium quality raw materials and packaging materials.</p> <p>All raw material sourced from third parties undergo a thorough inspection process before they are accepted and stored. After the initial quality inspection stage, regular inspections are carried out to ensure that quality levels are maintained.</p>
Packaging and storage policy	<p>All materials used for packaging undergo a thorough inspection process prior to being accepted by Haixi China. All accepted packaging goods adhere to a high level of hygiene standards and must be free of any harmful or poisonous substances. Facilities dedicated to product packaging are maintained at specified temperatures to ensure that the pharmaceutical products are produced optimally and safely.</p> <p>As at the date of this Prospectus, Haixi China has a packaging and storage facility of 2,233.73 square metres. This includes a refrigeration unit of 497.73 square metres, a packaging area of 1,584 square metres and a storage area for dangerous substances, such as ethanol benzoyl peroxide, of 152 square metres.</p> <p>All packaged goods will undergo a final round of inspections before they are delivered to minimise ensure that they are of the highest standards.</p>
Internal review and record keeping	<p>Internal review and record keeping are important parts of a quality control system. Quality control targets are set and used to monitor all production procedures and quality consistency. Failure to meet targets triggers a review of internal protocols, which is important for Haixi China to continuously improve quality standards. It is able to reflect any gaps in roles and responsibilities between all staff members.</p> <p>Records are made for all pharmaceutical products regarding their production cycle, storage, delivery and sales. All data kept are analysed and used to develop more efficient and effective production techniques to maximise product quality.</p>

4.3.4 Distribution and Sales

Haixi China sells its products in wholesale quantities to pharmaceutical agencies and intermediaries in order to reduce sales costs and allow for distribution to a wide range of end users. This allows the Group's products to be distributed to a number of provinces in China, including Hubei, Hunan, Jiangxi, Guangdong, Tianjin, Yunnan, Liaoning and Anhui. Haixi China enters into distribution agreements with intermediaries, agencies or other trusted and highly regarded pharmaceutical companies (**Agents**) which hold Good Supply Practises Certification (for further information on these agreements, please see section 10.4.1). These Agents are responsible for establishing distribution channels and promotional strategies in order to on-sell Haixi China's products to end-consumers, which include hospitals, pharmacies and retailers. The Group's key distributors are as follows:

- Hubei Yierkang Pharmaceutical Co., Ltd;
- Hunan Tiantaihekang Pharmaceutical Co., Ltd;
- Jiangxi Xinhuiyuan Pharmaceutical Co., Ltd;
- Dongguan City HuiRETang Pharmaceutical Co., Ltd;
- Tianjin Boai Pharmaceutical Technology Co., Ltd;
- Yunnan Fan Yi Pharmaceutical Co., Ltd;
- Yunnan Sheng Tian Pharmaceutical Co., Ltd;
- Yunnan Pioneer Pharmaceutical Co., Ltd;
- Liaoning North Pharmaceutical Co., Ltd; and
- Anhui Huayuan Pharmaceutical Co., Ltd.

By entering into distribution agreements, Haixi China is able to access the Agents' well-established distribution and marketing channels, while minimising its sales and marketing costs. Haixi China combines its resources and market knowledge with that of the Agents' in order to effectively maximise product distribution reach and market share.

4.3.5 Research and Development

Haixi China is committed to developing and continuously improving the quality of its pharmaceutical products and the efficiency of its production processes. To do this, Haixi China has employed 4 licensed pharmacists and 1 assistant engineer to lead its R&D team. It has also built meaningful relationships with other companies, institutions and universities, which are well-recognised for their research work in the pharmaceutical industry, to collaboratively develop and improve its pharmaceutical and medicinal products.

The below table outlines recent R&D projects that Haixi China has undertaken.

Product and project scope	Partner	Status	Description
Mupirocin and ibuprofen cream	<ul style="list-style-type: none">Fuzhou Chang Fu Xing New Drug Development Co., Ltd	Ongoing	In 2016, Haixi China entered into an agreement with Fuzhou Chang Fu Xing New Drug Development Co., Ltd to collaboratively develop a mupirocin and ibuprofen cream. See section 10.4.3 for further details.
Terbinafine hydrochloride cream	<ul style="list-style-type: none">Hainan Guodong Pharmaceutical Research Institute Co., LtdXi'an Jiaotong University, School of Pharmacy	Completed (2008)	In 2005, Haixi China collaborated with Hainan Guodong Pharmaceutical Research Institute Co., Ltd and Xi'an Jiaotong University, School of Pharmacy, to produce a terbinafine hydrochloride cream. This received SFDA approval in 2008 and was successfully added to Haixi China's product range.
Compound camphor cream	<ul style="list-style-type: none">Jinan Zerui Technology Co., LtdShandong New Drug Evaluation Centre	Completed (2006)	In 2004, Haixi China collaborated with Jinan Zerui Technology Co., Ltd and Shandong New Drug Evaluation Centre to develop a compound camphor cream. This received SFDA approval in 2006 and was successfully added to Haixi China's product range.

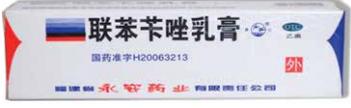
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4.4 Product Range

The Group sells a range of pharmaceutical and medicinal products, including over the counter ointment and medicinal creams to treat pain, swelling and itching. Its key products are outlined in the table below.

Item	Description
<p>Viaminate and Vitamin E Cream</p> 	<p>Ingredients: This product is a compounded drug, each containing 3 mg per gram of viaminate and 5 mg per gram of vitamin E. Other ingredients include glycerol, glyceryl monostearate, stearic acid, stearyl alcohol, liquid paraffin, triethanolamine, preservative (phenacetophenate) and purified water.</p> <p>Traits: Beige coloured cream.</p> <p>Category: Dermatological product and non-prescriptive.</p> <p>Usage: For external use, for acne prone skin. After rinsing your affected skin area with warm water and gently drying it, please apply a thin layer of the cream 1 to 2 times per day. For the best effect, please use the product before sleep.</p> <p>Product effect: The ingredient viaminate is a derivative of Vitamin A which promotes cell rejuvenation and prevents sebum secretion. It also has an anti-inflammatory effect which prohibits acne growth on the skin. The product also contains Vitamin E which has an anti-oxidation effect which protects the skin.</p> <p>Storage: Avoid light, store and seal in a cool dry place (no more than 20°C).</p> <p>Packaging: Medical ointment aluminium tube.</p> <p>Expiration date: 24 months after opening.</p> <p>Executive standard: National Drug Standard WS-10001 – (HD-0994) – 2002.</p> <p>Approval Number: Chinese medicine number – H35021278.</p>

Item	Description
<p>Compound Camphor Cream</p> 	<p>Ingredients: This product is a compounded drug, each containing 40 mg per gram of camphor, 30 mg per gram of menthol, 20 mg per gram of methyl salicylate, 10 mg per gram of diphenhydramine hydrochloride, 2 mg per gram of chlorhexidine gluconate and 3 mg per gram of glycyrrhetic acid. Other ingredients include glyceryl monostearate, glycerol, stearic acid, white petrolatum, sodium dodecyl sulfate, phenoxyethyl ester and purified water.</p> <p>Traits: White coloured cream and provides a cooling sensation.</p> <p>Category: Dermatological product and non-prescriptive.</p> <p>Usage: For the treatment of insect bites, eczema, pruritus, neurodermatitis, allergic dermatitis, papular urticaria etc. This product can also be used for scapular pain, muscle pain and skin pain post scalding. For external use. Apply to the affected area 2-3 times per day.</p> <p>Product effect: This product contains camphor, menthol, and methyl salicylate which relieve swelling and pain and they also have antipruritic effects. It also contains diphenhydramine as antihistamines; chlorhexidine as a preservative antiseptic and licorice acid which has anti-inflammatory and anti-allergy effect.</p> <p>Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p>Packaging: Medical ointment aluminium tube.</p> <p>Expiration date: 18 months after opening.</p> <p>Executive standard: National Drug Standard YB17482006.</p> <p>Approval Number: Chinese medicine number H20065891.</p>
<p>Terbinafine Hydrochloride Cream</p> 	<p>Ingredients: This product contains terbinafine hydrochloride, liquid paraffin, white petrolatum, glyceryl monostearate, sorbitan monostearate, polysorbate, glycerol, phenylethyl ester and purified water.</p> <p>Traits: White coloured cream.</p> <p>Category: Dermatological product and non-prescriptive.</p> <p>Usage: For the treatment of hand ringworm, tinea pedis, tinea corporis, tinea corporis, tinea versicolor and skin candidiasis. For external use. Gently rub the cream onto the affected area twice per day. Continue for 1 to 2 weeks.</p> <p>Product effect: This product is an antifungal agent which inhibits fungal ergot olefine cyclooxygenase, which blocks the formation of fungal cell membrane and interferes with the early biosynthesis of fungal steroids.</p> <p>Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p>Packaging: Medical ointment aluminium tube, packed in either a box or bag.</p> <p>Expiration date: 18 months after opening.</p> <p>Executive standard: Chinese Pharmacopoeia (2015); State Food and Drug Administration standards YBH07032008 (storage item).</p> <p>Approval Number: Chinese medicine number H20083586.</p> <p>Date of revising the instruction manual: 25 January 2016.</p>

Item	Description
<p data-bbox="161 371 344 398">Aciclovir Cream</p> 	<p data-bbox="539 371 1406 495">Ingredients: The main ingredient in this product is acyclovir (30 mg per gram). Other ingredients include stearic acid, glyceryl monostearate, stearyl alcohol, white petrolatum, liquid paraffin, sodium dodecyl sulfate, triethanolamine, glycerol, preservatives (phenoxyethyl) and purified water.</p> <p data-bbox="539 512 871 539">Traits: White coloured cream.</p> <p data-bbox="539 557 1166 584">Category: Dermatological product and non-prescriptive.</p> <p data-bbox="539 602 1426 725">Usage: For the treatment of herpes simplex and herpes zoster infections. For external use. For both adults and children, apply a generous amount of the cream to the affected area during the day for every 2 hours with a maximum of 6 times in total per day. Continue to use this product for no longer than 1 week.</p> <p data-bbox="539 743 1422 837">Product effect: This product is a purine nucleoside antiviral drug which interferes with viral DNA polymerase and inhibits the growth of herpes simplex virus, varicella zoster virus and cytomegalovirus.</p> <p data-bbox="539 855 1273 882">Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p data-bbox="539 900 1390 927">Packaging: Medical ointment aluminium tube, packed in either a box or bag.</p> <p data-bbox="539 945 1002 972">Expiration date: 24 months after opening.</p> <p data-bbox="539 990 1118 1016">Executive standard: Chinese Pharmacopoeia (2015).</p> <p data-bbox="539 1034 1182 1061">Approval Number: Chinese medicine number H35021081.</p> <p data-bbox="539 1079 1190 1106">Date of revising the instruction manual: 1 December 2015.</p>
<p data-bbox="161 1149 363 1176">Bifonazole Cream</p> 	<p data-bbox="539 1149 1426 1272">Ingredients: The main ingredient in this product is bifonazole. Other ingredients include stearic acid, glyceryl monostearate, liquid paraffin, octadecanol, pan 60, glycerol, emulsified silicone oil, dodecyl phosphate potassium, purified water and preservatives (phenoxyethyl).</p> <p data-bbox="539 1290 871 1317">Traits: Beige coloured cream.</p> <p data-bbox="539 1335 1166 1361">Category: Dermatological product and non-prescriptive.</p> <p data-bbox="539 1379 1385 1503">Usage: For the treatment of various skin fungal diseases, such as hand tinea pedis, body tinea corporis and tinea versicolor. For external use. Apply and gently rub a generous amount of the cream onto the affected area for a few minutes once a day for up to 2 to 4 weeks.</p> <p data-bbox="539 1520 1374 1585">Product effect: This product is antifungal agent which inhibits the synthesis of cell membranes, preventing the growth of dermatophytes and candida.</p> <p data-bbox="539 1603 1273 1630">Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p data-bbox="539 1648 1390 1675">Packaging: Medical ointment aluminium tube, packed in either a box or bag.</p> <p data-bbox="539 1693 1002 1720">Expiration date: 24 months after opening.</p> <p data-bbox="539 1738 1118 1765">Executive standard: Chinese Pharmacopoeia (2015).</p> <p data-bbox="539 1783 1182 1809">Approval Number: Chinese medicine number H35021081.</p> <p data-bbox="539 1827 1190 1854">Date of revising the instruction manual: 1 December 2015.</p>

Item	Description
<p data-bbox="161 371 400 398">Ketoconazole Cream</p>  <p>The image shows the packaging for Ketoconazole Cream. It is a white box with a green and red design. The Chinese text '酮康唑乳膏' (Ketoconazole Cream) is prominent. It also includes the OTC logo and the manufacturer's name '永康药业' (Yongkang Pharmaceutical).</p>	<p data-bbox="539 371 1342 495">Ingredients: The main ingredient of this product is ketoconazole. Other ingredients include glycerol, glyceryl monostearate, stearic acid, stearyl alcohol, liquid paraffin, triethanolamine, anhydrous sodium sulphite, preservatives (hydroxybenzoate) and purified water.</p> <p data-bbox="539 512 900 539">Traits: Milky white colour cream.</p> <p data-bbox="539 557 1166 584">Category: Dermatological product and non-prescriptive.</p> <p data-bbox="539 602 1414 792">Usage: For the treatment of hand ringworm, tinea pedis, tinea corporis, tinea versicolor and skin candidiasis. For external use. Apply and gently rub a generous amount of the cream onto the affected area 2 to 3 times per day. For the treatment of tinea corporis, tinea versicolour and skin candidiasis, continue to use for 2 to 4 weeks. For the treatment of hand and foot ringworm, please continue to use for 4 to 6 weeks.</p> <p data-bbox="539 810 1409 871">Side effects: Skin may occasionally suffer from a burning sensation, tingling or experience allergic relations such as rash and itching.</p> <p data-bbox="539 889 1422 949">Product effect: This product is an antifungal agent that prevents dematophytes such as trichophyton, microsporum and yeast.</p> <p data-bbox="539 967 1273 994">Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p data-bbox="539 1012 1386 1039">Packaging: Medical ointment aluminium tube, packed in either a box or bag.</p> <p data-bbox="539 1057 1002 1084">Expiration date: 48 months after opening.</p> <p data-bbox="539 1102 1118 1128">Executive standard: Chinese Pharmacopoeia (2015).</p> <p data-bbox="539 1146 1182 1173">Approval Number: Chinese medicine number H35021146.</p> <p data-bbox="539 1191 1193 1218">Date of revising the instruction manual: 1 December 2015.</p>
<p data-bbox="161 1258 408 1285">Benzoyl Peroxide Gel</p>  <p>The image shows the packaging for Benzoyl Peroxide Gel. It is a white box with a green and blue design. The Chinese text '过氧苯甲酰凝胶' (Benzoyl Peroxide Gel) is prominent. It also includes the OTC logo, the manufacturer's name '永康药业' (Yongkang Pharmaceutical), and the concentration '10克: 0.5克(5%)'.</p>	<p data-bbox="539 1258 1393 1352">Ingredients: The main ingredient in this product is benzoyl peroxide. Other ingredients include carbomer, triethanolamine, preservatives (phenoxyethyl) and purified water.</p> <p data-bbox="539 1370 879 1397">Traits: White milky thick liquid.</p> <p data-bbox="539 1415 1166 1442">Category: Dermatological product and non-prescriptive.</p> <p data-bbox="539 1460 1398 1554">Usage: For the treatment of acne vulgaris. For external use. After rinsing your affected skin area with warm water and gently drying it, please apply a thin layer of the cream to the affected area 1 to 2 times per day.</p> <p data-bbox="539 1572 1393 1632">Product effect: This product is an oxidizing agent, which slowly releases new ecological oxygen, killing acne bacteria causing dry skin and desquamation.</p> <p data-bbox="539 1650 1273 1677">Storage: Store in a cool, sealed and dry place (no more than 20°C).</p> <p data-bbox="539 1695 1386 1722">Packaging: Medical ointment aluminium tube, packed in either a box or bag.</p> <p data-bbox="539 1740 1002 1767">Expiration date: 24 months after opening.</p> <p data-bbox="539 1785 1118 1812">Executive standard: Chinese Pharmacopoeia (2015).</p> <p data-bbox="539 1830 1182 1856">Approval Number: Chinese medicine number H35021145.</p> <p data-bbox="539 1874 1193 1901">Date of revising the instruction manual: 1 December 2015.</p>

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4.5 Approvals and Permits

Haixi China operates in the pharmaceutical manufacture industry which is heavily regulated by the PRC government.

The following table sets forth the key permits, approvals and certifications held by Haixi China in respects of its business and operations.

No.	Permit/Approval/ Licence/Certification	Description/ Purpose	Issuing Authority	Date of Issue	Validity Period
1	Business Licence (Code: 913504811581962266)	For incorporation and conducting business in PRC	Yong'an Administration for Industry and Commerce	23 March 2014	From 21 December 1995 onwards until revoked
2	Licence of Opening Bank Account (No. 3910-01104465)	Grant an enterprise to open an basic savings account by People's Bank of China	Yong'an City Sub-branch of People's Bank of China	25 October 2010	N/A
3	Institutional Credit Reference Code Certificate (Code: G10350481000003905)	N/A	Credit Reference Centre, The People's Bank of China	9 July 2012	8 July 2017
4	Discharge permit (No. 35481-2014-000003)	For pollution discharge	Yong'an Environmental Protection Bureau	28 October 2014	From 28 October 2014 to 27 October 2019
5	Drug Production Licence of the People's Republic of China (No. Min 20128004)	Permit to produce ointment, cream and gel	Yong'an Food and Drug Administration	19 November 2012	From 19 November 2012 to 18 November 2017
6	Certificate of Good Manufacturing Practice for Drugs of the People's Republic of China	Approval to produce cream and gel	Fujian Food and Drug Administration	22 November 2013	From 22 November 2013 to 21 November 2018

In addition to the above, Haixi China has obtained 9 drug registrations from SFDA and 26 additional drug registrations are pending approval from SFDA. Please see section 4.10 for further details.

4.6 Registered trademarks and logos

The Group has the below registered trademarks under Haixi China.

Trademark	Registration Number	Product and/or service category	Registration Date
	4095689 ¹	Mineral water, mineral water (beverages), fruit extracts, water (drink), soda water, aerated water, fruit nectars (non-alcoholic), distilled water for drink, pure water (drink), vegetable drink.	21 July 2016
	11130666 ¹	Safety glass, stone, concrete or marble.	14 November 2015
	11130561 ¹	Common metals, unwrought or semi-wrought, movable metal building, building materials of metal, gold accessories for construction safes (strong boxes), storage and transportation of metal containers, works of art of common metal, ores of metal.	7 April 2015
	11130735 ¹	Transporting, transport brokerage, marine transport, car transport, railway transport, air transport, storage of goods, distribution of energy, express service (letter or merchandise), sightseeing (tourism).	28 July 2014
	11130695 ¹	CLASS 36: insurance, capital investments, art appraisal, leasing of real estate, brokerage, guarantees, charitable fund raising, fiduciary, pawn.	28 July 2014
	6591574 ¹	CLASS 37: building construction supervision, building structure supervision, construction information, construction, demolition of buildings, mining extraction, upholstery, roofing services.	7 February 2012
	177648	Western medicine.	30 May 2013
	325863	Vitamin C tablets and another 6 products.	10 October 2008
	6534631	CLASS 5: medical preparation, drugs for medical purposes, gelatine for medical purposes, capsules for pharmaceutical purposes, troche, ointment, raw material drug, Chinese medicine nostrum, biochemical drug, medicines for human purposes.	7 May 2011
	1258322	CLASS 5: medicine for human purposes, medicinal preparation, medicinal drinks, Chinese medicinal nostrum, medicinal herbs.	28 March 2009

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Trademark	Registration Number	Product and/or service category	Registration Date
	1202334	Dietetic beverages adapted for medical purposes, dietetic foods adapted for medical purposes, medicine health bag, dressings (medical), cotton for medical purposes, adhesive bands for medical purposes, first-aid kit.	28 August 2008
	1178286	Medicinal drinks, cachets for pharmaceutical purposes, ointments, Chinese medicine nostrum, western medicine pills, dietetic beverages adapted for medical purposes, dietetic foods adapted for medical purposes, oil liquid.	28 May 2008

1. These trademarks (registration numbers 4095689, 11130666, 11130561, 11130735, 11130695 and 6591574) are defensive trademarks only, serving the purpose of reducing the possibility of other traders and businesses using Haixi China's trademarks for unrelated goods or services.

The above trademarks have a validity period of 10 years before they must be renewed.

4.7 Strengths and competitive advantages

4.7.1 Long-standing brand recognition

Haixi China has been established since 1995 and has long-standing brand recognition in the Chinese pharmaceutical products market. Even prior to establishing Haixi China, the Group manufactured and sold pharmaceutical products under the brand names, "Yanjiang" (registration number 4095689) and "Haixi" (registration number 6534631). These brands were well-received in the Chinese market and have since been adopted and acquired by Haixi China. Over the years, Haixi's products have remained reliable, safe and of the highest quality. Accordingly, Haixi China has high levels of brand loyalty and awareness as consumers trust and are confident in the quality of its products. This brand loyalty provides predictability and security of demand for the Group.

4.7.2 Effective vertically integrated model

The Group is vertically integrated model in which it is able to control the entire value chain, including product development, manufacturing sales and marketing. This operating model not only gives the Group better control over its brand image and products quality, but helps it to react quickly to market trends and changes. The Group's products are manufactured in GMP-compliant certified manufacturing facilities. Its in-house manufacturing operations help to maintain strict quality control standards throughout the production process to ensure high quality of its products. The production, manufacturing, and distribution teams are able to work effectively together to integrate feedback from distributors and customers into further product development and R&D.

4.7.3 Manufacturer of high quality products

Haixi China is dedicated to the production of high quality products that are tailored to the customer's requirements and needs. It has obtained GMP Certification and has strict quality management systems to ensure that it is consistently providing products of the highest standard to consumers. Over the years, Haixi China has received no significant complaints from consumers or regulatory authorities regarding the quality and reliability of its products. This has ensured the competitiveness of Haixi China as consumers can trust and are confident in its products.

4.7.4 R&D

Haixi China furthers its competitiveness through focusing on the R&D of pharmaceutical products and its production processes. This improves its efficiency and expands product variety. Through their R&D efforts, Haixi China has been recognised for its expertise and market leadership in its pharmaceutical product development and production techniques. For more information on Haixi's current and previous R&D projects, see section 4.3.5.

4.7.5 High barriers to entry by competitors

The Group has already established itself in an industry with high-barriers to entry. New entrants face high barriers to entry, including the below obstacles:

- **Regulatory barriers:** Operating in a heavily regulated market, Haixi China has obtained 9 drug certifications from the SFDA. Other entrants to the market will need the relevant drug approvals and permits in order to enter this market, which may be difficult to obtain for inexperienced or unskilled entrants.
- **Technical know-how:** Haixi China's products are based on high-level technical and scientific know-how and cannot be easily replicated. To maintain this advantage, Haixi China continues to strive for advancements in its products;
- **High start-up costs:** Due to the complexity of the production process, the costs to obtain the raw materials, equipment and facilities required to produce Haixi China's products are quite high. Therefore, it is difficult for smaller businesses to enter into the market and pose any significant competition to Haixi China, particularly in light of the current production scale of Haixi China, and the investment that has already been made to set up its production facilities;
- **Trusted brand:** Haixi China has good relationships with all of its customers, and has a well developed brand. Its brand is well established and its products are trusted.

4.8 Facilities and Assets

Haixi China operates on approximately 33,689 square metres of land, which has 17,270 square metres of offices and factories in Yong'an City, Fujian, China. As part of this, it has a packaging and storage facility of 2,233.73 square metres. This includes a refrigeration unit of 497.73 square metres, a packaging area of 1,584 square metres and a storage area for dangerous substances, such as ethanol benzoyl peroxide, of 152 square metres. The total value of property, plant and equipment amounts to approximately \$7 million.

In November 2013, Haixi China received government approvals from the Yong'an City Planning Bureau to expand its factory complex by 70,000 square metres. In 2015, Haixi China has begun construction of a new factory building. As at 31 December 2016, Haixi China has paid 30.54 million RMB (approximately A\$6 million) out of the total 47 million (A\$9.3 million) committed, to build the new factory premises under its construction agreement. The premises include two buildings, one of which is of an area of 11,500 square meters and the construction of this building is due to be fully completed in 2018. Construction of the second building is yet to begin and construction of this second building is currently planned to commence once the first building is fully completed and operational, although the construction of the second building will be subject to the Group's actual production demands.

Any factory construction and any further renovation costs will not be financed by the funds raised from IPO. The Group intends that future capital requirements be sourced from Haixi China's cash and working capital. Please see section 10.4.5 for further information on the factory construction agreement.

4.9 Head Office and employees

As of the date of this Prospectus, Haixi China has 99 employees, including 14 senior management officers and 85 production and operational staff.

Haixi China adopts strong management systems and operates fully in accordance with its Articles of Association. The board of directors are selected by the shareholders and possess a skills matrix that is crucial to Haixi China's development. The management team, who are accountable to the board, are responsible for the day to day operations and communication with each of Haixi China's departments. Clear communication channels have been established between each department to ensure efficiency in production processes and high quality products.

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4.10 Strategies for growth

Strategic Initiative	Description
New factory and factory expansion	<p>In 2015, the Company has committed to invest 47 million RMB (approximately A\$9.3 million) to build new factory premises for manufacturing its pharmaceutical products. The factory's construction is yet to be completed. The Company anticipates that the factory will be completed in 2018 to house its new production lines.</p> <p>Haixi China has obtained 35 SFDA drug licences, however due to the construction of its new factory, Haixi China has had to update the licence registrations. Haixi China currently has 9 drug licences from SFDA. In December 2016, under the new drug regulation schemes in PRC, Haixi China has received a confirmation letter from Fujian Food and Drug Administration in relation to its pending 26 SFDA drug licences for its pharmaceutical products, including tablets, granules and liquid mixtures. These 26 SFDA licences are pending completion of the construction of and obtaining GMP production approval for its new factory. Otherwise Haixi China may assign production to a third party which does hold the relevant production approval. Once either of these conditions are fulfilled, Haixi China may report to SFDA and obtain unconditional drug licences.</p>
Upgrade to production capabilities and launch of new products	<p>The Group expects to launch new production lines for its new products, including ingestible liquids and capsules, as a complement to its existing products and house these production lines in its new factory.</p> <p>Prior to completion of the new factory, the Group plans to commission a suitable third-party drug manufacturer who holds the relevant production approval and GMP certification facilities, to produce some of the registered mixture and solid dosage form products, such as blue stilbene lipid lowering mixture, hericium erinacus granules and fuyang granules. The Group hopes to increase revenue via the launch of these new products.</p> <p>The Group plans that, by 2020, it will have obtained full manufacturing capacity for liquid mixture and solid dosage forms, and to launch all of its new registered products into the market.</p>
Further development and production of Chinese medicine products	<p>In accordance with the Independent Market Report produced by Frost & Sullivan (see section 3), traditional Chinese medicine is a widely practiced and sought after medicine practice in China. Traditional Chinese medicine is integrated and supported by the national health policy of China. One of key growth strategies of Haixi is to strengthen the development and production of traditional Chinese medicine products. Haixi China holds SFDA drug registrations for seven products that contain Chinese medicinal materials. The Group plans to gradually launch these products and begin distribution of these products over the next three years.</p> <p>Haixi plans to increase level of investments in developing series of Anoectochilus Lotus products including capsules and oral liquids. Anoectochilus Lotus is a rare medicinal herb and has high medicinal value. Currently, there has been no drug registration in PRC for Anoectochilus Lotus products. The Group believes that launching of these new products will fill market gaps and help generate a new income stream.</p>

Strategic Initiative	Description
New procurement and R&D avenues in Australia	<p>Haixi is in the process to identify opportunities in Australia to improve its raw material supplies as well as R&D capabilities. Australia maintains a relatively pollution-free natural environment with vast areas of land which may have the potential to be converted to plantation sites for herbs with medicinal value. The Company is seeking opportunities to build a raw material plantation and development base in Australia to ensure the high quality of its raw materials of its end products.</p> <p>Australia has a well-established and advanced medical and biotechnological industry. The Company is currently attempting to identify opportunities to cooperate with established pharmaceutical research institutions to strengthen its research and development capacities. It has engaged an agent in Australia to assist the Company to identify the abovementioned opportunities. Please see section 10.4.4 for further details of this engagement.</p>
Access to international markets	<p>Haixi seeks to leverage the Australian capital market to provide capital required to improve the core competencies of the Group. Further, Haixi seeks to participate in equity funding or mergers and acquisitions opportunities, and strives to obtain a stable, long-term return to reduce and control business risks. Haixi further seeks to on-board high-end professionals to enrich the management team, and strives to quickly grow the Group into a good multinational-brand enterprise.</p>

4.11 Future funding use

The Company expects to receive proceeds of A\$25,000,000 at Minimum Subscription and of A\$30,000,000 at Maximum Subscription from the issue of Shares at the Offer Price of A\$0.50 per Share.

Use of funds	Minimum Subscription		Maximum Subscription	
	Amount (A\$)	% of Total Funds	Amount (A\$)	% of Total Funds
Investment in a production line for oral liquids, tablets and capsules	3,750,000	15.0	4,800,000	16.0
R&D investments into Anoectochilus Lotus and other medicinal products	5,000,000	20.0	6,000,000	20.0
Business expansion and development opportunities in Australia	4,000,000	16.0	4,800,000	16.0
New Product launch and distribution costs	6,751,000	27.0	8,100,000	27.0
Marketing and sales costs	1,967,000	7.9%	2,147,000	7.2%
Costs of the offer to be paid out of proceeds raised ¹	3,532,000	14.1%	4,153,000	13.8%
Total	25,000,000	100%	30,000,000	100%

1. The actual costs of the offer differs from the cost of offer to be paid from cash proceeds as the Company, prior to the IPO, has paid approximately \$800,000 of the actual costs. It is anticipated that balance of the costs of the offer will be paid from the cash proceeds. Refer to Section 5.2.2 for more information about the amounts and other expenses to be paid by the Company (or one of its subsidiaries) out of funds raised under the Offer. Further information on the costs of the Offer is set out in Section 10.9.

04. COMPANY OVERVIEW / CONTINUED

4.11.1 Investment in production capabilities for oral liquids, tablets and capsules

Haixi China is committed to increasing its production capacity by establishing additional production lines for oral liquid, tablet and capsule medicinal products. These additional production lines are planned to be housed in its new factory. Haixi China also plans to renovate its air-cleansing equipment to ensure that its products are produced in quality controlled environments.

4.11.2 R&D investment into Anoectochilus Lotus and other medicinal products

Haixi China plans to develop new medicinal products, including a Chinese traditional medicine using raw and natural materials extracts from Anoectochilus Lotus. This will include oral liquid, tablet and capsule products. Haixi China plans to invest in its own testing and sampling of these products from the funds raised in the IPO. Further, Haixi China is also collaborating with another pharmaceutical company in developing a mupirocin and ibuprofen cream. With the funds raised in the IPO, Haixi China will conduct further research and development into the Anoectochilus Lotus product series and the mupirocin and ibuprofen cream to ensure product safety, effectiveness and quality in preparation for large scale production.

4.11.3 Business expansion and development opportunities in Australia

Haixi China plans to set aside funds raised from the IPO to be used in Australia for business expansion or development opportunities in Australia, which may include development costs of plantation sites for medicinal herbs or acquisitions and/or invest in other companies which have strong market potential in their pharmaceutical medicinal product varieties. A main risk for pharmaceutical R&D activities is the monetary and resource losses incurred from unsuccessful projects. As such, acquiring and/or investing in other successful pharmaceutical companies will allow Haixi China to more efficiently develop its business. Through Haixi China's strong R&D abilities, the target company's existing product varieties can be adapted and developed into Haixi China's own products, thereby expanding Haixi China's product offerings while minimising the costs and risks involved with R&D.

4.11.4 New product launch and distribution costs

Haixi China is planning to launch 20 new products over the course of the next three years, including Chinese medicine and ingestible liquids and capsules. To ensure the successful operation of the launch, additional capital will be required to procure raw and packaging materials as well as to hire new staff to monitor and support the launch. Following the launch, the roll out of the new products will result in an increase in day-to-day factory expenses and operational costs including ongoing staffing and administrative costs.

4.11.5 Marketing and sales costs of products

As the Company is planning to launch new products over the course of the next three years, Haixi China plans to invest additional capital in expanding its marketing and promotional capabilities for these new products. The marketing goal is to increase sales by improving product and branding awareness. To do this, Haixi China will establish regional and provincial marketing teams and offices, allowing Haixi China to use targeted strategies that are tailored to localised areas. Via its marketing investment, Haixi China seeks to maximise its overall competitive advantage, market share and profitability.

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS



05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

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

5.1 Board of Directors and Management Team

At Listing, the Board will comprise five members, consisting of 3 Executive Directors and 2 Independent, Non-Executive Directors. The following table provides information regarding the Directors and the management team, including their positions and expertise.

Experience	
	<p>Mr Wang has been working in the pharmaceuticals industry for over 20 years. He joined Haixi China in 1996 as the Section Chief for Supply and Marketing. He became a director and later the Chairman and General Manager of the Company. As Chairman, Mr Wang is dedicated to the long-term development, growth and innovation of the Company.</p> <p>Mr Wang has extensive experience in corporate management and has previously served as Vice Chairman of Sanming City Mingyi Logistics Co., Ltd, Executive Director of Fujian Wanbo Real Estate Development Co., Ltd, and General Manager of Fujian Minxin Investment and Development Co., Ltd.</p> <p>Mr Wang is passionate about improving trade and commerce conditions in Fujian, China, and has been a member of various organisations that assist the government in communicating with and managing the private sector. Between 2011 to 2016, Mr Wang served as the Supervisor of Sanming City Anxi Chamber of Commerce and, in 2016, was promoted to Honorary President.</p> <p>Mr Wang has also served as the Vice President of Yong'an City's Young Entrepreneurs Association. He was named Yong'an city's Outstanding Young Entrepreneur for 2009 and was also recognised as one of the Top 10 Young Entrepreneurs for 2010.</p>
Role	Executive Director, Chairman and General Manager
Expertise/Qualifications	Bachelor of Business Management
Location	China
Independence or affiliations	Not independent
Legal or disciplinary action	Nil
Insolvent companies	Nil

Jack Wang

Experience



Fook Weng (Phillip) Au

Mr Au is the principal consultant of Phillip Au & Associates, a firm that specialises in accounting, taxation, real estate and business management consulting services. He has more than 15 years of experience in business consultancy and has offices in Australia, Singapore, Malaysia, Jakarta and China.

Mr Au is an experienced non-executive director. He is currently a non-executive director of OneAll International Limited, an Australian public listed company. OneAll is a leading premium outdoor furniture designer, manufacturer and distributor. The company's products are sold within China and internationally.

Mr Au also served as a non-executive director of Novarise Renewable Resources International Ltd, an Australian public listed company, from 2010 to 2011. Novarise is a leading producer of polypropylene filament yarn in China. The company's products are sold within China and internationally.

In 2002, Mr Au became the economic consultant to the government of the Republic of Nauru. He advised cabinet ministers of the Republic of Nauru on issues of infrastructure and the economic development of the nation.

In 1986, he was appointed by the NSW governor to become a justice of the peace and now holds an official licence as a business agent, which was granted by the Office of Fair Trading. He is also a NSW-registered property consultant.

In addition, Mr Au had worked in the ATO for a number of years at a senior management level in the audit and fringe benefit tax section.

Mr Au graduated from Macquarie University in Sydney with a degree in arts, majoring in accounting and economics. He is a certified practising accountant (CPA).

Role	Non-executive Director
Expertise/Qualifications	<ul style="list-style-type: none"> • Bachelor of Arts • Certified Practising Accountant
Location	Sydney, Australia
Independence or affiliations	Independent
Legal or disciplinary action	Nil
Insolvent companies	Nil

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

Experience



**Chen Chik
(Nicholas) Ong**

Mr Ong was a Principal Adviser at the Australian Securities Exchange in Perth and brings 12 years' experience in listing rules compliance and corporate governance. He has overseen the admission of over 100 companies to the official list of the ASX. Mr Ong is currently a director of Tianmei Beverage Group Corporation Limited (TB8), Jiajiafu Modern Agriculture Limited (JJF), Global Gold Holdings Limited, Segue Resources Limited and CoAssets Limited and is company secretary to TB8, JJF, Blackgold International Holdings Limited, and Sagalio Energy Limited.

Mr Ong was a director of Excelsior Gold Limited, Auroch Minerals NL, Minerals Corporation Limited, and Fraser Range Metals Group Limited.

Mr Ong now runs a boutique corporate advisory firm in Perth, Western Australia. He is a member of the Governance Institute of Australia and holds a Bachelor of Commerce and a Master of Business Administration from the University of Western Australia.

Mr Ong is currently a director of Excelsior Gold Limited, Segue Resources Limited and Co Assets Limited and is company secretary to three listed companies

Role	Non-executive Director and Company Secretary
Expertise/Qualifications	<ul style="list-style-type: none"> • Bachelor of Commerce • Graduate Diploma of Applied Finance • Graduate Diploma of Applied Corporate Governance • Member of ACIS (Institute of Chartered Secretaries and Administrators) • Member of AICD (Australian Institute of Company Directors) • AGIA (Associate of Government Institute of Australia) • Master of Business Administration
Location	Australia
Independence or affiliations	Independent
Legal or disciplinary action	Nil
Insolvent companies	Nil

Experience



Yanqun Li

Ms Li has served as the Executive Supervisor of Haixi China since 2005 and has extensive experience in corporate finance, capital raising and corporate management.

Ms Li also served as the a Director of Sales for over 10 years in the Agricultural Bank of China. During her time at the Agricultural Bank of China, she developed strong data analytics, technical accounting and strategic planning skills.

Role	Executive Director
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Expertise/Qualifications	Bachelor of Finance
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Location	China
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Independence or affiliations	Not independent
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Legal or disciplinary action	Nil
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Insolvent companies	Nil
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Experience



Xuelan Wang

Ms Wang is currently the manager of Yong'an City Tongheng Logistics Co., Ltd and has also worked within the Department of Shipping of Dexun (China) Freight Forwarders Co., Ltd.

Ms Wang has gained extensive experience within the logistics and shipping industry, allowing her to lay groundwork for the future international expansion of the Company's operations and product distribution.

Ms Wang graduated from Huaqiao University, Xiamen, China, with a degree in International Economics and Trade. She has also attained Level 6 Certification in Business English.

Role	Executive Director
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Expertise/Qualifications	<ul style="list-style-type: none"> • Bachelor of International Economics and Trade • Business English Certification Level 6
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Location	China
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Independence or affiliations	Not independent
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Legal or disciplinary action	Nil
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Insolvent companies	Nil
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05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

Experience



Mr Peng has extensive experience in corporate financial management, accounting, administration and capital raising. He is currently the board director of several private companies, including DSM Sinochem Pharmaceuticals Ltd., Singapore, and has also held various financial management positions with multinational companies in China, the United Kingdom and Singapore.

Mr Peng holds a Executive Masters of Professional Accountancy from the Chinese University of Hong Kong and a Masters of Management from the Central University of Finance, China.

Mr Peng is a member of CPA Australia and is also a Certified Management Accountant of the United States.

Da Peng

Role	Chief Financial Officer
Expertise/Qualifications	Executive Masters of Professional Accountancy, Masters of Management, Certified Practising Accountant (Australia), Certified Management Accountant (United States of America)
Location	Singapore
Independence or affiliations	Not independent
Legal or disciplinary action	Nil
Insolvent companies	Nil

5.2 Interests and benefits

This Section sets out the extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- financial services licensee involved in the Offer; or
- promoter of the Company,

holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the property acquired or proposed to be acquired by Haixi in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of Haixi.

5.2.1 Directors' and managements' interests and remuneration

(a) Executive Chairman and General Manager – Jack Wang

Jack Wang is Executive Chairman and General Manager of the Group. From 9 January 2017, Jack Wang will receive an annual fixed remuneration of A\$120,000. Pursuant to Jack Wang's labour contract, Jack Wang may resign from his position by giving 6 months' notice in writing. Jack Wang's employment may be terminated by his employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Jack Wang's employment contract may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Jack Wang's labour contract (whether by resignation or termination), Jack Wang will be subject to a restraint of trade period of up to 12 months. The restraint of trade period may be reduced or eliminated in its entirety at the discretion of the Company.

(b) Executive Director remuneration – Yanqun Li and Xuelan Wang

Yanqun Li and Xuelan Wang are Executive Directors of the Group. From 9 January 2017, Yanqun Li and Xuelan Wang will receive an annual fixed remuneration of A\$115,000 and A\$110,000 respectively. Pursuant to Yanqun Li and Xuelan Wang's executive agreements, Yanqun Li and Xuelan Wang may resign from her position by giving 6 months' notice in writing. Yanqun Li and Xuelan Wang's employment may be terminated by their employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Yanqun Li and Xuelan Wang's employment contract may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Yanqun Li and Xuelan Wang's executive agreements (whether by resignation or termination), Yanqun Li and Xuelan Wang will be subject to a restraint of trade period of up to 12 months. The restraint of trade period may be reduced or eliminated in its entirety at the discretion of the Company.

(c) Non-Executive Directors' remuneration – Fook Weng (Phillip) Au

Phillip Au is the Non-Executive Director of the Company commencing from 8 February 2017. Under ASX Listing Rules the total amount paid to all Non-Executive Directors must not exceed in total in any financial year the amount fixed in a general meeting of the company. Annual fees agreed to be paid to each Non-Executive Director is A\$100,000 per annum. All Directors fees include superannuation at the statutory rate.

Non-Executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as a Director of the company.

There are no retirement benefit schemes for Directors other than statutory superannuation contributions.

(d) Non-Executive Director and Company Secretary remuneration – Chen Chik (Nicholas) Ong

Chen Chik (Nicholas) Ong is a Non-Executive Director and Company Secretary of the Group. From 21 February 2017, Chen Chik (Nicholas) Ong will receive an annual fixed remuneration of A\$100,000. Pursuant to Chen Chik (Nicholas) Ong's labour contract, Chen Chik (Nicholas) Ong may resign from his position by giving 6 months' notice in writing. Chen Chik (Nicholas) Ong's employment may be terminated by his employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Chen Chik (Nicholas) Ong's employment contract may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Chen Chik (Nicholas) Ong's labour contract (whether by resignation or termination), Chen Chik (Nicholas) Ong will be subject to a restraint of trade period of up to 12 months. The restraint of trade period may be reduced or eliminated in its entirety at the discretion of the Company.

(e) Chief Financial Officer remuneration – Da Peng

Da Peng is the CFO of the Group and employed on a part-time basis. From 10 February 2017, Da Peng will receive an annual fixed remuneration of A\$100,000. Pursuant to Da Peng's labour contract, Da Peng may resign from his position by giving 6 months' notice in writing. Da Peng's employment may be terminated by his employer (a member of the Group) by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Da Peng's employment contract may be terminated immediately by notice in writing and without payment in lieu of notice. Upon the termination of Da Peng's labour contract (whether by resignation or termination), Da Peng will be subject to a restraint of trade period of up to 12 months. The restraint of trade period may be reduced or eliminated in its entirety at the discretion of the Company.

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

(f) Directors' and managements' interest in Shares and other securities

Directors and the Company Secretary's interests' at the date of this Prospectus are as follows.

Name	Role	Shares
Jack Wang	Chairman and General Manager	118,000,000 ¹
Yanqun Li	Executive Director	Nil
Xuelan Wang	Executive Director	Nil
Fook Weng (Phillip) Au	Non-Executive Director	Nil
Chen Chik (Nicholas) Ong	Non-Executive Director and Company Secretary	Nil

1. Jack Wang's Shares are indirectly owned through Bizoe Investment Limited, a company of which Jack Wang is the sole shareholder.

Senior management interests' at the date of this Prospectus are as follows.

Name	Role	Shares
Da Peng	CFO	Nil

5.2.2 Interests of advisers

The following entities have been engaged as professional advisers to various members of the Group for the purposes of the Offer. The details of work provided and the fees payable are summarised below.

Adviser	Role	Fee (inclusive of tax) ²
China Australia Capital Ltd	Corporate Adviser to the Company	A\$967,600 ¹
BlueMount Capital (Sydney) Pty Ltd	Lead Manager for the Offer	A\$2,698,210 ¹
Baker & McKenzie	Australian legal adviser to the Company in connection with the Offer and has performed work in relation to due diligence enquiries on Australian legal matters	A\$250,000
AllBright Law Offices	Chinese legal adviser to the Company in connection with the Offer and has performed work in relation to due diligence enquiries on Chinese legal matters	A\$155,113 (RMB 780,000) (at exchange rate AUD\$ 1: RMB 5.0286)
Patrick Mak & Tse	Hong Kong legal adviser to the Company and has performed the work in relation to due diligence enquiries on Hong Kong legal matters	A\$4,237 (HK\$25,000) (at exchange rate AUD\$ 1: HKD 5.9)
BDO Corporate Finance (East Coast) Pty Ltd	Investigating Accountant to the Company and has prepared the Investigating Accountant's Report in Section 7	A\$52,000
BDO East Coast Partnership	Australian tax advisers to the Company and has prepared the Taxation Report for the Company	A\$3,000
Frost & Sullivan	Independent expert to the Group and has prepared the Independent Market Report in Section 3	A\$37,400

1. Amount is based on the assumption that the Maximum Subscription is raised under the Offer.

2. These amounts and other expenses of the Offer will be paid by the Company (or one of its subsidiaries) out of funds raised under the Offer. Further information on the use of proceeds from the Offer and costs of the Offer are set out in Sections 1.7 and 10.9 respectively.

5.3 Corporate governance

The Board of Haixi is cognizant of the need for a well-articulated and robust corporate governance framework and believes that good corporate governance is essential to the preservation and enhancement of Shareholder value. The Board believes that the success of the business is strengthened by implementing clearly articulated policies to enhance accountability, efficiency and the reliable measurement of performance.

The Board has adopted a *Board Charter (Charter)*, which sets out the key corporate governance principles and procedures of Haixi. The Charter and other corporate governance documents are available on the Company's website at www.haixipharmaceutical.com/investor/prospectus. These key documents will be kept under review by the Board and amended from time to time.

The Charter and the other governance measures adopted reflect the Board's endorsement of the recommendations contained in the ASX Corporate Governance Council's Principles and Recommendations, 3rd edition, 2014 (**Principles**). Those Principles marked with a ⊕ either have not been fully implemented or are to be addressed during the FY2016 reporting year. The commentary addresses the reasons for the departure from the requirements.

Principle 1 – Lay solid foundations for management and oversight

1.1	The Board has outlined in its Charter, its roles and responsibilities and has established a clear distinction between its functions and those delegated to management.	✓
1.2	Appropriate checks including criminal record checks have been carried out on all Board members prior to their appointment. The Company will provide Shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director at future general meetings	✓
1.3	All Directors and senior executives have a written agreement with the Company or a member of the Haixi Group setting out the terms of their appointment.	✓
1.4	The Company Secretary is accountable directly to the Board, through the Chairman on all matters to do with the proper functioning of the Board.	✓
1.5	The Board has adopted a Diversity Policy (a copy of which is on the Company's website). The Diversity Policy requires the Board to set measurable objectives for obtaining gender diversity. The Board has not yet set measurable objectives but intends to review the diversity statistics within the Company and use those measures to formulate measurable objectives.	⊕
1.6	At least once per year the Board will, with the advice and assistance of the Nomination and Remuneration Committee (NRC), review and evaluate the performance of the Board, each Board committee and each individual Director against the relevant charters, corporate governance policies, and agreed goals and objectives.	✓
1.7	Performance reviews for Executive Directors and Senior Management will take place at least annually. The NRC has accountability in its Charter to oversee these reviews and report to the Board on their outcomes. The Company intends to ensure the appropriate disclosures in the remuneration report are made in relation to each reporting period as to the performance evaluations that were undertaken and the process that was followed.	✓

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

Principle 2 – Structure the Board to add value		
2.1	The Board has formed a Nomination and Remuneration Committee. The charter for the Nomination and Remuneration Committee is available on the Company's website. Membership of the Nomination and Remuneration Committee is Jack Wang, Phillip Au and Nicholas Ong.	✓
2.2	In establishing the Board of Haixi, regard was had to the skills and expertise required of the Directors relevant to Haixi's business, its Listing in Australia and operations in China and its franchising network. Directors with the desired skills and expertise were carefully selected for appointment to the Board.	✓
2.3 & 2.4	The Board Charter sets out the criteria adopted by the Board for considering if a Director is independent. The Board is comprised of five members, two of whom are independent. Fook Weng (Phillip) Au and Chen Chik (Nicholas) Ong are considered independent as none of them has a material shareholding in the Company or is an adviser or supplier to the Company or has any other material contractual relationship with the Company other than their position as a Director. The Company has considered the recommendation of having a majority of the Board as independent Directors. However, the Board considers the Company's immediate requirements as it transits to an ASX-listed company and is satisfied that the composition of the Board reflects an appropriate range of independence and skill and experience in the period immediately after Listing on the ASX. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company.	⊙
2.5	The Board recognises the recommendation that the chairman should be an independent Non-Executive Director. However, the Board believes that Jack Wang is the most appropriate person to act as Chairman and lead the Board given his extensive experience and application of sound judgment to issues falling within the scope of the role of Chairman. Further, Jack Wang has unmatched and extensive knowledge of the Group's operations and important business relationships that the Group as a whole benefits from.	⊙
2.6	All Non-Executive Directors have had an extensive induction into the business of the Company prior to accepting their appointment and have received continuing information on the Company and its operations since being appointed. The induction process has included site visits in China and presentations by management. Directors are also given access to continuing education in relation to the Company extending to its business, the industry in which it operates, and other information required by them to discharge the responsibilities of their office.	✓
Principle 3 – Act ethically and responsibly		
3.1	The Board has adopted a code of conduct applicable to all Directors, senior executives and employees, a copy of which is disclosed on the Company's website.	✓

Principle 4 – Safeguard integrity in financial reporting

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| 4.1 | The Board has established an audit and risk committee (ARC). The audit and risk committee is comprised a majority of Non-Executive Directors. Its composition being Xuelan Wang, Phillip Au and Nicholas Ong. The qualifications of the members of the audit and risk committee are set out in the Prospectus in Section 5.1.

A copy of the audit and risk committee's charter is on the Company's website. | ✓ |
| 4.2 | The Board of Haixi has not yet had to approve the entity's financial statements for a financial period and accordingly has not been required to receive relevant declarations from the CEO and CFO in respect of the financial records of the Haixi Group. It is the intention of the Board that these declarations will be required for both the half-year and full-year results and this fact has been communicated to both the CEO and CFO. | ⊙ |
| 4.3 | Haixi has not yet held an Annual General Meeting (AGM) but it is the intention of the Board to ensure that its external auditor attends the AGM and is available to answer questions from security holders relevant to the audit. | ⊙ |

Principle 5 – Make timely and balanced disclosure

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| 5.1 | The Board has established a written continuous disclosure policy to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability for compliance. Each Board meeting considers whether any continuous disclosure issues arose during the course of the meeting. The continuous disclosure policy is on the Company's website. | ✓ |
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Principle 6 – Respect the rights of Shareholders

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| 6.1 | Haixi has established an English website which provides information about the Haixi Group, Directors and executives, key governance policies and other information relevant to its investors. The website will be a key communication tool between the Company and the Shareholders. | ✓ |
| 6.2 | Haixi has not yet designed and implemented an investor relations program to facilitate effective two-way communication with investors, however, the Board recognises its importance and will put in place a tailored program following the Completion. | ⊙ |
| 6.3 | The Board has adopted a Shareholder Communication Policy and will provide Shareholders with opportunities to have questions addressed at Shareholder meetings, irrespective of whether the Shareholder is able to attend. A copy of the Shareholder Communication Policy is on the Company's website. | ✓ |
| 6.4 | All Shareholders of Haixi will be able to communicate with the Company and its share registry electronically and in fact this method of communication is encouraged. | ✓ |

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS / CONTINUED

Principle 7 – Recognise and manage risk		
7.1	<p>The Board has established a combined audit and risk committee. The audit and risk committee is comprised a majority of Non-Executive Directors. Its composition being Xuelan Wang, Phillip Au and Nicholas Ong. The qualifications of the members of the audit and risk committee are set out in the Prospectus in Section 5.1.</p> <p>A copy of the audit and risk committee's charter is on the Company's website.</p>	✓
7.2	<p>The risk management framework for the Haixi Group has not yet been formally reviewed by the Board. The Board has appointed the ARC to assist it with discharging its oversight function in respect of material business risks and to determine if the system of risk management is sound. Outcomes of those reviews will be reported in the corporate governance statement annually.</p>	⊙
7.3	<p>The Haixi Group has various quality assurance functions throughout the business but not a dedicated internal audit function. It is the Board's intention that the ARC reviews the need for an internal audit function, the scope of any function should one be required and whether it will be insourced or outsourced. The outcome of the review will be reported in the Company's annual report.</p>	⊙
7.4	<p>As mentioned under Principle 7.2, the Board expects a report on the risk management framework in December 2017 and has requested that management address economic, environmental and sustainability risks. The outcome of that review will be reported in the Company's annual report.</p>	⊙
Principle 8 – Remunerate fairly and responsibly		
8.1	<p>The Board has formed a combined Nomination and Remuneration Committee. Membership of the Nomination and Remuneration Committee is: Jack Wang, Phillip Au and Nicholas Ong. A copy of the charter for the NRC is provided on the company's website. The qualifications of the members of the nomination and remuneration committee are set out in the Prospectus in Section 5.1.</p> <p>A copy of the charter for the NRC is provided on the Company's website.</p>	✓
8.2	<p>The Board has adopted a remuneration policy for Non-Executive Directors. A remuneration policy for Executive Directors and other senior executives will be developed post Completion. A copy of the Non-Executive Director remuneration policy is provided on the Company's website.</p>	✓
8.3	<p>The Company's Securities Trading Policy prohibits participants of any equity-based remuneration scheme entering into transactions which limits the economic risk of a participant.</p>	✓

06. FINANCIAL INFORMATION



06. FINANCIAL INFORMATION

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6.1 Introduction

This Section contains a summary of the historical financial information of Fujian Yong'an Pharmaceutical Co., Ltd ('**Haixi China**') and pro forma historical financial information of Haixi Pharmaceutical International Holdings Limited and its controlled entities ('**Haixi**' or '**the Company**') (collectively the '**Financial information**'), which has been prepared by the Directors of Haixi.

The Historical Financial Information comprises the:

- Haixi China historical Statements of Profit or Loss and Other Comprehensive Income for the financial years ended 31 December 2014 ('**FY2014**'), 31 December 2015 ('**FY2015**') and 31 December 2016 ('FY2016') ('**Historical Statements of Profit or Loss and Other Comprehensive Income**'); and
- Haixi China historical Statements of Cash Flows for FY2014, FY2015 and FY2016 ('**Historical Statements of Cash Flows**').

The Pro Forma Historical Financial Information comprises the:

- Haixi pro forma historical consolidated Statement of Financial Position as at 31 December 2016 ('**Pro forma historical consolidated Statement of Financial Position**').

The Historical Financial Information has been audited by BDO East Coast Partnership ('**BDO**'), and the Pro Forma Historical Financial Information has been reviewed by BDO Corporate Finance (East Coast) Pty Ltd ('**BDO Corporate Finance**'). BDO Corporate Finance's Investigating Accountant's Report on the Pro Forma Historical Financial Information is contained in Section 7. Investors should note the scope and limitations of that report (refer to Section 7). BDO has provided consent to being named as the Auditor of Haixi China and the inclusion of the audited financial information of Haixi China for FY2014, FY2015 and FY2016 in this prospectus (refer Section 6.2.2 and Section 10).

Also summarised in this Section are:

Table 1: Overview of Financial Information

Section	Heading
6.2	Basis of Preparation and Presentation of the Financial Information
6.3	Historical consolidated Statements of Profit or Loss and Other Comprehensive Income
6.4	Historical consolidated Statements of Cash Flows
6.5	Pro Forma historical consolidated Statement of Financial Position
6.6	Management Discussion and Analysis of the Financial Information
6.7	Debt facilities
6.8	Capital commitments
6.9	Liquidity and Capital Resources
6.10	Dividend Policy
6.11	Significant Accounting Policies
6.12	Critical accounting judgements, estimates and assumptions

The information in this Section 6 should be read in conjunction with the risk factors set out in Section 9 and other information contained in this Prospectus.

All amounts disclosed in the tables are presented in Australian dollars, and unless otherwise noted, are rounded to the nearest thousand dollars.

6.2 Basis of Preparation and Presentation of the Financial Information

6.2.1 Overview

The Directors of Haixi are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Section 6 has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards ('AAS') adopted by the Australian Accounting Standards Board ('AASB'), which are consistent with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board, and the accounting policies of Haixi. The Financial Information and accompanying commentary presented in this Section has also been disclosed with consideration to regulatory guidance issued by ASIC.

The Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures, statements or comparative information as required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

In preparing the Financial Information, the accounting policies of Haixi have been applied consistently throughout the periods presented. The significant accounting policies of Haixi relevant to the Financial Information are set out in Section 6.11.

The Directors have considered ASIC Regulatory Guide 170, and having regard to the requirements of this Regulatory Guide, note any prospective financial information would contain a broad range of potential outcomes and possibilities such that the Directors have concluded Haixi cannot include prospective financial information in this Prospectus.

6.2.2 Preparation of Historical Financial Information

The Historical Financial Information has been extracted from the financial statements of Haixi China for FY2014, FY2015 and FY2016.

The financial statements of Haixi China for FY2014, FY2015 and FY2016 were each audited by BDO. BDO issued qualified audit opinions in respect of FY2014, FY2015 and FY2016 because BDO were not appointed as auditor until October 2016 and hence were not able to observe the counting of the physical inventories at each reporting period prior to 31 December 2016. As the opening and closing inventory balances affect the determination of the results of operations, BDO were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for each of FY2014, FY2015 and FY2016. BDO's audit opinions on the financial reports in respect of each of these years were modified accordingly. There was no modification to the BDO audit opinion for the year ended 31 December 2016 in respect of the closing inventory balance as at 31 December 2016.

In each of FY2014, FY2015 and FY2016, BDO's audit report included an emphasis of matter paragraph in respect of the financial reports having been prepared as special purpose financial reports in accordance with the measurement and recognition requirements of AAS issued by the AASB but not all disclosure requirements of AAS, in connection with the disclosure of Haixi China's financial information in a prospectus. As a result, the financial reports may not be suitable for another purpose. BDO's audit opinions were not modified in respect of this matter.

6.2.3 Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been prepared solely for the purposes of inclusion in this Prospectus, and has been extracted from the financial statements of Haixi China with adjustments applied to reflect the Haixi's capital structure that will be in place following completion of the Offer. Refer to Section 6.5 for a reconciliation between the Pro Forma Historical Financial Information and the statutory equivalent financial information.

In April 2017 an internal restructure was completed resulting in a newly incorporated company, Haixi, becoming the legal parent of Haixi China.

The Directors have elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure.

As such, the consolidated financial statements of Haixi will be presented as a continuation of the pre-existing accounting values of assets and liabilities in the Haixi China financial statements with Haixi China deemed to be the acquirer for accounting purposes.

The Pro Forma Historical Financial Information presented in this Prospectus has been reviewed by BDO Corporate Finance. Investors should note the scope and limitations of BDO Corporate Finance's Investigating Accountant's Report (refer to Section 7).

6.2.4 Explanation of certain non-IFRS and other financial measures

Haixi uses certain measures to manage and report on its business that are not recognised under AAS or IFRS. These measures are collectively referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with IFRS and not as a substitute for those measures. As non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that Haixi calculates them may be different to the way that other companies calculate similarly titled measures. Readers should therefore not place undue reliance on non-IFRS financial information.

In the disclosures in this Prospectus, Haixi uses the following non-IFRS measures of performance to assist prospective investors with understanding the trends in financial performance and profitability.

- **Gross profit** is calculated as revenue less costs of sales;
- **EBITDA** is earnings before interest, tax, depreciation and amortisation expenses; and
- **EBIT** is earnings before interest and tax expenses.

6.3 Historical Statements of Profit or Loss and Other Comprehensive Income

Set out below is a summary of Haixi China's historical Statements of Profit or Loss and Other Comprehensive Income for FY2014, FY2015 and FY2016.

Table 2: Haixi China historical Statements of Profit or Loss and Other Comprehensive Income

\$000	Historical		
	FY2014 Audited	FY2015 Audited	FY2016 Audited
Revenue	12,926	19,586	23,339
Cost of Sales	(4,476)	(6,637)	(7,711)
Gross profit	8,450	12,949	15,628
Sales and marketing	(277)	(384)	(430)
Administration	(466)	(572)	(643)
Research and development	-	-	(125)
EBITDA	7,707	11,992	14,430
Depreciation	(153)	(181)	(171)
EBIT	7,554	11,812	14,259
Interest expense	(184)	(186)	(154)
Net profit before tax	7,369	11,625	14,105
Taxation expense	(1,845)	(2,908)	(3,527)
Net profit after tax	5,524	8,718	10,578
Other comprehensive income	444	488	(591)
Total comprehensive income	5,968	9,205	9,987

Notes:

1. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.

06. FINANCIAL INFORMATION / CONTINUED

6.4 Historical Statements of Cash Flows

Set out below is a summary of Haixi China's historical Statements of Cash Flows for FY2014, FY2015 and FY2016.

Table 3: Haixi China historical Statements of Cash Flows

\$000	Historical		
	FY2014 Audited	FY2015 Audited	FY2016 Audited
Receipts from customers	13,114	19,097	21,931
Payments to suppliers	(4,569)	(6,904)	(9,833)
Net cash flow from operating activities before investing activities, financing activities and tax	8,545	12,193	12,099
Purchase of property, plant and equipment	(13)	(1,058)	(4,660)
Net cash flow before interest, tax and financing activities	8,532	11,135	7,438
Net Proceeds/(repayment) of borrowings	(90)	(11)	(4)
Net interest	(172)	(167)	(138)
Taxation paid	(1,684)	(2,735)	(3,322)
Dividends paid	(4,494)	(7,403)	(4,449)
Net cash flow	2,093	819	(475)

Notes:

1. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.

6.5 Pro Forma historical consolidated Statement of Financial Position

6.5.1 Overview

Set out in the table below are the adjustments that have been made to the audited Statement of Financial Position of Haixi China as at 31 December 2016 to present the pro forma consolidated Statement of Financial Position of Haixi. The adjustments include the impact of the change in capital structure that will be in place immediately following completion of the Offer, as if the Offer had occurred as at 31 December 2016. These adjustments include assumptions relating to matters that are known as at the date of the Prospectus.

Table 4: Haixi pro forma historical consolidated Statement of Financial Position as at 31 December 2016

As at 31 December 2016	Haixi China		Minimum subscription		Maximum subscription	
	Audited	Notes	Pro forma adjustments	Haixi Pro forma	Pro forma adjustments	Haixi Pro forma
Current assets						
Cash and cash equivalents	5,290	1	21,140	26,431	25,519	30,810
Trade and other receivables	4,306	2	(470)	3,837	(470)	3,837
Inventories	1,018		-	1,018	-	1,018
Total current assets	10,615		20,671	31,287	25,050	35,666
Non-current assets						
Property, plant and equipment	7,129		-	7,129	-	7,129
Prepaid lease assets	1,163		-	1,163	-	1,163
Investment	22		-	22	-	22
Deferred tax asset	-	3	1,298	1,298	1,485	1,485
Total non-current assets	8,315		1,298	9,613	1,485	9,800
Total assets	18,930		21,970	40,900	26,536	45,466
Current liabilities						
Trade and other payables	1,478		-	1,478	-	1,478
Borrowings	2,472		-	2,472	-	2,472
Current tax liabilities	802		-	802	-	802
Total current liabilities	4,751		-	4,751	-	4,751
Total liabilities	4,751		-	4,751	-	4,751
Net assets	14,179		21,970	36,149	26,536	40,714
Equity						
Share capital	2,477	4	23,108	25,585	27,776	30,252
Other reserves	1,150		-	1,150	-	1,150
Retained earnings	10,552	5	(1,138)	9,415	(1,240)	9,312
Total equity	14,179		21,970	36,149	26,536	40,714

Notes:

- All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.

06. FINANCIAL INFORMATION / CONTINUED

6.5.2 Pro forma adjustments to Statement of Financial Position

Note 1 – Cash and cash equivalents

CASH AND CASH EQUIVALENTS	Pro forma after Offer	
	Minimum	Maximum
\$000		
Audited balance of Haixi China as at 31 December 2016	5,290	5,290
<i>Pro forma adjustments:</i>		
Cash costs paid up to date of the Offer	(328)	(328)
Proceeds from shares issued under the Offer	25,000	30,000
Offer costs to be settled from Offer proceeds	(3,532)	(4,153)
	21,140	25,519
Pro forma Balance	26,431	30,810

Subsequent to 31 December 2016, Haixi China has paid A\$0.3 million towards offer related costs. The Offer is expected to raise a minimum of A\$25.0 million and a maximum of A\$30.0 million before repayment of Offer costs. Offer costs to be paid from the offer proceeds are expected to total approximately A\$3.5 million (minimum) and A\$4.2 million (maximum) being inclusive of non-recoverable GST, where applicable.

Note 2 – Trade and other receivables

TRADE AND OTHER RECEIVABLES	Pro forma after Offer	
	Minimum	Maximum
\$000		
Audited balance of Haixi China as at 31 December 2016	4,306	4,306
<i>Pro forma adjustments:</i>		
Prepaid assets relating to Offer costs	(470)	(470)
	(470)	(470)
Pro forma Balance	3,837	3,837

Haixi China has prepaid \$0.5 million relating to Offer costs as at 31 December 2016 which has been adjusted against the Trade and Other Receivables balance.

Note 3 – Deferred tax asset

DEFERRED TAX ASSET	Pro forma after Offer	
	Minimum	Maximum
\$000		
Audited balance of Haixi China as at 31 December 2016	–	–
<i>Pro forma adjustments:</i>		
Deferred tax asset relating to capital raising costs	1,298	1,485
	1,298	1,485
Pro forma Balance	1,298	1,485

Offer costs are expected to total between approximately A\$4.3 million (minimum) to A\$5.0 million (maximum). It is assumed the Offer costs are deductible to the Company for tax purposes over five years, resulting in deferred tax assets of A\$1.3 million (minimum) and A\$1.5 million (maximum).

Note 4 – Share capital

SHARE CAPITAL	Pro forma after Offer	
	Minimum	Maximum
\$000		
Audited balance of Haixi China as at 31 December 2016	2,477	2,477
<i>Pro forma adjustments:</i>		
Proceeds from shares issued under the Offer	25,000	30,000
Offer costs in relation to new equity raised	(1,892)	(2,224)
	23,108	27,776
Pro forma Balance	25,585	30,252

Prior to the Offer, Haixi China had a paid up capital of A\$2.5 million. Under the Offer, the Company will raise a minimum of A\$25.0 million and a maximum of A\$30.0 million. Offer costs directly attributable to the new equity raised are booked against share capital.

Note 5 – Retained earnings

RETAINED EARNINGS	Pro forma after Offer	
	Minimum	Maximum
\$000		
Audited balance of Haixi China as at 31 December 2016	10,552	10,552
<i>Pro forma adjustments:</i>		
Offer costs in relation to listing of existing equity	(1,138)	(1,240)
	(1,138)	(1,240)
Pro forma Balance	9,415	9,312

Offer costs in relation to listing of existing equity are booked against retained earnings totalling A\$1.1 million (minimum) and A\$1.2 million (maximum) respectively.

6.6 Management Discussion and Analysis of the Financial Information

The management discussion and analysis (MD&A) below relates to the Haixi China historical Statements of Profit or Loss and Other Comprehensive Income and Statements of Cash Flows and should be read in conjunction with the description of the basis upon which the information has been prepared.

The MD&A provides a brief discussion of the general factors which affected Haixi China's historical operating and financial performance between FY2014 and FY2016. The discussion of these general factors is intended to provide a summary only and does not detail all the factors that affected Haixi China's historical operating and financial performance.

The information in this Section should also be read in conjunction with the risk factors set out in Section 9 and other information contained in this Prospectus.

06. FINANCIAL INFORMATION / CONTINUED

6.6.1 Year on year management discussion and analysis

6.6.1.1 FY2014 compared to FY2015

Table 5: Selected financial performance items

\$000	Historical		Change (%)
	FY2014 Audited	FY2015 Audited	
Revenue	12,926	19,586	51.5%
Costs of Sales	(4,476)	(6,637)	48.3%
Gross profit	8,478	12,949	53.2%
Gross profit %	65.4%	66.1%	-
Operating expenses	(743)	(957)	28.7%
EBITDA	7,707	11,992	55.6%
EBITDA %	59.6%	61.2%	-
EBIT	7,554	11,812	56.4%
EBIT %	58.4%	60.3%	-

Revenue

Increase in revenues during FY2015 of 51.5% was primarily attributable to an increase in sales of Camphor and Terbinafine Hydrochloride creams, which were the two highest selling products in both periods.

Gross profit %

GP margins remained comparable across both periods.

Operating expenses

Operating expenses increased by \$214,000 primarily as a result of higher freight expenses driven by a growth in sales volumes and an increase in salary expenses.

EBITDA margins

EBITDA margins increased by 1.6%, driven by the increase in gross profit during the year exceeding the increase in operating expenses.

6.6.1.2 FY2015 compared to FY2016

Table 6: Selected financial performance items

\$'000	Historical		Change (%)
	FY2015 Audited	FY2016 Audited	
Revenue	19,586	23,339	19.2%
Cost of sales	(6,637)	(7,711)	16.2%
Gross profit	12,949	15,628	20.7%
Gross profit %	66.1%	67.0%	-
Operating expenses	(957)	(1,198)	25.2%
EBITDA	11,992	14,430	20.3%
EBITDA %	61.2%	61.8%	-
EBIT	11,812	14,259	20.7%
EBIT %	60.3%	61.1%	-

Revenue

Increase in revenues during FY2016 of 19.2% was primarily attributable to an increase in sales of Camphor and Terbinafine Hydrochloride creams, which were the two highest selling products in both periods.

Gross profit %

Improvement in gross profit margins during the year was attributable to a decrease in fixed cost per unit driven by an increase in production volumes.

Operating expenses

Operating expenses increased by \$241,000 primarily as a result of research and development expenses of \$125,000 in FY2016 (nil in FY2015), in addition to an increase in freight and salary expenses.

EBITDA margins

EBITDA margins remained comparable across periods.

6.7 Debt facilities

Haixi has not entered into any bank debt arrangements or other financing arrangements with third parties immediately following completion of the Offer.

6.8 Capital commitments

On 13 January 2015, Haixi China entered into a construction contract to build two buildings for a consideration of RMB 47,000,000 (A\$9,346,538). As at the date of the audit report for the year ended 31 December 2016 (ie, 26 June 2017), Haixi China has paid a sum of RMB 30,540,000 (A\$6,073,261), representing 65% of the purchase consideration. Settlement of the balance sum is currently pending fulfilment of certain key conditions.

6.9 Liquidity and Capital Resources

Following Completion of the Offer, Haixi's principal sources of funds will be cash flow from operations and proceeds from the Offer.

6.10 Dividend Policy

Depending on available profits and the financial position of the Company, it is the current intention of the Company to pay dividend twice a year. The Directors intend to pay out approximately 50% of the Company's audited NPAT as dividends. The payment of dividends by the Company, if any, is at the complete discretion of the Directors. The decision as to whether or not a dividend will be paid is subject to a number of considerations including the general business environment, the operating results, financial position of the Company, tax considerations (including the level of franking credits available), and any other factors the Director may consider relevant. The Directors provide no assurance as to the future dividend policy, the payment of future dividends and the level of franking or imputation of such dividends, as these will depend upon the future profits of the Company, the Company's financial position, tax considerations and other factors from time to time.

The Company generates the majority of its profits through the business operations of Haixi China, its operating entity in China which is a wholly foreign-owned enterprise (WFOE) under Chinese law. Under the PRC Company Law, a WFOE may remit profits generated in China overseas only if the relevant restrictions are complied with. This includes the rule requiring a WFOE to set aside 10% of its annual post-tax profits to a statutory common reserve fund each year before distribution of any profit, until the aggregate balance of the statutory common reserve fund reaches 50% of the WFOE's registered capital. As a result, the Company will need to set aside part of its annual after-tax profit to the statutory common reserve fund every year in the short run. This may reduce the pool of funds that is available to be distributed as dividends to investors in their first few years of investing in the Company.

6.11 Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

6.11.1 New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

6.11.2 Basis of preparation

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in section 6.12.

6.11.3 Foreign currency translation

The financial statements are presented in Australian dollars. The Company's functional currency is Chinese Yuan, as the Company operates in the People's Republic of China. The financial statements have been translated to Australian dollars in accordance with methods set out in AASB 121 "The Effects of Changes in Foreign Exchange Rates".

Foreign currency transactions

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation to presentation currency

Financial results and position of the Company are translated from the functional currency into the presentation currency of Australian dollars as follows:

- Assets and liabilities are translated at year end exchange rates;
- Income and expenses are translated at average rates for the period; and
- Contributed equity and retained earnings are translated at historical rates.

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

6.11.4 Revenue Recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

6.11.5 Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

6.11.6 Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

6.11.7 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6.11.8 Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 90 days.

Other receivables are recognised at amortised cost, less any provision for impairment.

6.11.9 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes and an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

6.11.10 Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Building	20 years
Machinery	10 years
Office Equipment	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

6.11.11 Prepaid Lease assets

The company prepaid rental to lease a building located in Yongan, a city in China. The land use right is being amortised using the straight-line method over the lease term, which is 50 years according to the contract.

6.11.12 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Statements of Financial Position when the company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the Statements of Financial Position when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method.
- (b) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost less any impairment write-downs together with derivatives that are linked to and must be settled by the delivery of such investments.

All financial liabilities are measured at amortised cost using the effective interest rate method.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

6.11.13 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 90 days of recognition.

6.11.14 Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

6.11.15 Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

6.11.16 Contributed Capital

Contributed capital relates to capital contribution from investors.

6.11.17 Chinese Value Added Tax ("VAT")

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

6.12 Critical accounting judgements, estimates and assumptions

The preparation of the financial information requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial information. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events; management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

6.12.1 Estimation of useful lives

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where useful lives are determined to be less than previously estimated, or if technically obsolete or non-strategic assets are abandoned, sold or written down.

07. INVESTIGATING ACCOUNTANT'S REPORT



07. INVESTIGATING ACCOUNTANT'S REPORT



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AUSTRALIA

The Directors
Haixi Pharmaceutical International Holdings Limited
Level 27, 50 Bridge Street
Sydney NSW 2000

5 July 2017

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT

Introduction

BDO Corporate Finance (East Coast) Pty Ltd ("**BDO Corporate Finance**") has been engaged by Haixi Pharmaceutical International Holdings Limited ("**Haixi**" or "**the Company**") to prepare this Investigating Accountant's Report ("**Report**") in relation to certain financial information of the Company, for the initial public offering of shares in the Company which wholly owns Fujian Yong'an Pharmaceutical Co., Ltd ("**Haixi China**"), for inclusion in a prospectus proposed to be issued on or about 5 July 2017 ("**Prospectus**").

Unless stated otherwise in this Report, expressions defined in the Prospectus have the same meaning in this Report.

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

Scope

You have requested BDO Corporate Finance to perform a limited assurance engagement in relation to the pro forma historical financial information described below and disclosed in the Prospectus.

The pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdiction other than Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Pro Forma Historical Financial Information

You have requested BDO Corporate Finance to review the following pro forma historical financial information (the "**Pro Forma Historical Financial Information**") of the Company included in the Prospectus:

- the pro forma historical consolidated Statement of Financial Position as at 31 December 2016.

BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFS Licence No. 247 420 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (East Coast) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.



The Pro Forma Historical Financial Information has been derived from the historical financial information of Haixi China, after adjusting for the effects of pro forma adjustments described in section 6.5 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 6.2.3 of the Prospectus, as if those event(s) or transaction(s) had occurred as at the date of the historical financial information. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

The Pro Forma Historical Financial Information has been compiled by the Company to illustrate the impact of the event(s) or transaction(s) described in Section 6.5 of the Prospectus on the Company's financial position as at 31 December 2016. As part of this process, information about Haixi China's financial position has been extracted by the Company from the financial report of Haixi China for the year ended 31 December 2016.

The financial report of Haixi China for the year ended 31 December 2016 was audited by BDO East Coast Partnership ("BDO") in accordance with the Australian Auditing Standards. BDO issued a qualified audit opinion in respect of this financial report as they were not appointed as auditors until October 2016 and hence did not observe the counting of the physical inventories at the beginning of the year and were unable to satisfy themselves by alternative means concerning inventory quantities held at 31 December 2015. Since opening inventories enter into the determination of the financial performance and cash flows, BDO were unable to determine whether adjustments might have been necessary in respect of the results for the year ended 31 December 2016 reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the statement of cash flows. The audit report also contained an emphasis of matter regarding the financial report having been prepared as a special purpose financial report for use by the members of the Company in connection with the disclosure of its financial information in a prospectus to be issued by the Company and hence the financial report may not be suitable for another purpose.

Directors' Responsibility

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

Our Responsibility

Our responsibility is to express limited assurance conclusions on the Pro Forma Historical Financial Information, based on our limited assurance engagement. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.



Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

Conclusions

Pro Forma Historical Financial information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in section 6.5 of the Prospectus, and comprising:

- the pro forma historical consolidated Statement of Financial Position of the Company as at 31 December 2016;

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 6.2.3 of the Prospectus.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction or event outside of the ordinary business of the Company not described in the Prospectus, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence

BDO Corporate Finance is a member of BDO International Ltd. BDO Corporate Finance does not have any interest in the outcome of the proposed IPO other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received.

General Advice Warning

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO Corporate Finance has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn.



However, BDO Corporate Finance has not authorised the issue of the Prospectus. Accordingly, BDO Corporate Finance makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

Financial Services Guide

Our Financial Services Guide follows this Report. This guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'G. Ellis', is written above the printed name.

Greg Ellis
Director and Representative



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Financial Services Guide

This Financial Services Guide is issued in relation to an investigating accountant's report ("Report") prepared by BDO Corporate Finance (East Coast) Pty Limited (ABN 70 050 038 170) ("BDO Corporate Finance") at the request of the directors ("Directors") of Haixi Pharmaceutical International Holdings Limited ("Company") to provide general financial product advice in the form of a Report in relation to the initial public offering of shares in the Company ("Proposal"). The Report is intended to accompany a Prospectus ("Document") that is to be provided by the Directors to help potential investors make an information decision in relation to the financial product.

Engagement

BDO Corporate Finance has been engaged by the Directors to prepare the Report expressing our opinion in respect of the financial information to be included in the Document to be issued in connection with the Proposal.

Financial Services Guide

BDO Corporate Finance holds an Australian Financial Services Licence (Licence No: 247420) ("Licence"). As a result of our Report being provided to you BDO Corporate Finance is required to issue to you, as a retail client, a Financial Services Guide ("FSG"). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of a Licence.

Financial services BDO Corporate Finance is licensed to provide

The Licence authorises BDO Corporate Finance to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives to retail and wholesale clients.

BDO Corporate Finance provides financial product advice by virtue of an engagement to issue the Report in connection with the issue of securities of another person.

Our Report includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our Report (as a retail client) because of your connection with the matters on which our Report has been issued.

Our Report is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

General financial product advice

Our Report provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to the Proposal described in the Document may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDO Corporate Finance may receive

BDO Corporate Finance has charged fees for providing our Report. The basis on which our fees will be determined has

been agreed with, and our fees will be paid by, the person who engaged us to provide the Report. Our fees have been agreed on either a fixed fee or time cost basis.

BDO Corporate Finance will receive a fee of approximately \$52,000 (plus GST and disbursements) in relation to the preparation of the Report. The fee is not contingent upon the outcome of the Proposal, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposal.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDO Corporate Finance or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our Report was provided.

Referrals

BDO Corporate Finance does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that BDO Corporate Finance is Licenced to provide.

Associations and relationships

BDO Corporate Finance is a member of a national association of independent entities which are all members of BDO (Australia) Ltd, an Australian company limited by guarantee. BDO Corporate Finance and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms.

BDO Corporate Finance's contact details are as set out on our letterhead.

Complaints resolution

As the holder of a Licence, we are required to have a process for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Limited, Level 10, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ("FOS"). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDO Corporate Finance is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
 GPO Box 3
 Melbourne VIC 3001

Toll free: 1300 78 08 08
 Email: info@fos.org.au

08. INVESTING IN PRC BASED BUSINESSES



08. INVESTING IN PRC BASED BUSINESSES

8.1 Overview Of The Market

PRC is currently the second largest economy in the world with a high growth in GDP. Notwithstanding its size and growth, it continues to be a developing country with major economic divisions between urban and rural areas. PRC is also a member of the World Trade Organisation and is developing an increasingly open economy.

Since 1979, the PRC's legislative bodies have passed laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. The legislative tendency since then has been to grant increased protection to foreign investors. In this way, significant progress has been made in the legal system of the PRC.

Despite significant improvement in developing its legal system, there remain uncertainties and/or inconsistencies in the enforcement of existing laws and regulations. Most current PRC legislation has been passed relatively recently. As a result, there is a lack of established practice regarding the implementation, interpretation and enforcement of these laws. For this reason, the interpretation of these laws and regulations may be more volatile and less predictable.

8.2 PRC Legal System

The PRC legal system is based on the Constitution of PRC and comprises of written laws, administrative regulations and directives. Decided cases do not constitute binding precedents.

The National People's Congress of China (**NPC**) and Standing Committee of NPC (**SCNPC**) are authorized by the Constitution of PRC to exercise the legislative power of the state to modify the Constitution of PRC and to pass and modify laws.

The State Council is the highest authority of state administration and has the power to pass administrative rules and regulations.

At the regional level, the standing committees of the people's congresses of provinces and municipalities may pass local rules and regulations and the people's government may publicize administrative rules and directives applicable to their own administrative areas. Rules, regulations or directives may be passed or issued at the provincial or municipal level.

8.3 Judicial System

The People's Courts are the judicial structures of PRC and comprise of the local people's courts, military courts and other special courts, and the Supreme People's Court. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and high people's courts.

A foreign individual or foreign enterprise is conferred the same litigation rights and obligations as a citizen or legal person of PRC, except where the courts of a foreign country impose restrictions on the civil litigation rights of the citizens, legal persons or other organizations, the People's Courts of PRC shall follow the principle of reciprocity regarding the civil litigation rights of the citizens, enterprises and organizations of that foreign country.

8.4 Dispute Resolution

Arbitration is the most traditional and well-known form used in the dispute resolution out of court. Arbitration is characterized by flexibility and mutual acceptance of means of conflict resolution. Recently, commercial parties often seek less formal and more efficient means to settle their disputes, such as mediation.

Mediation is a process in which disputing parties are aided by a neutral third party to attempt to settle their dispute. Mediation, unlike arbitration, is not generally binding. The parties may, however, agree to enter into a settlement agreement. Mediation is voluntary and non-binding and its process is under the control of the parties themselves. Settlement will be reached only if it is acceptable to all the parties. If mediation fails, the dispute usually will go on to arbitration or litigation.

Under the Arbitration Law, an arbitral award is final and binding on parties and if a party fails to comply with the award, the other party to the award may apply to the people's court for enforcement.

Whereas the award is cancelled or void under a rule by the People's Court, the parties concerned may reach another agreement for arbitration and apply for arbitration or bring a suit in the people's court.

8.5 Foreign Exchange

The main law governing foreign currency exchange in PRC is the Regulations of the PRC on Foreign Exchange Control. PRC's national currency, Renminbi, is commonly freely convertible for payments of current account items, such as trade and service related foreign exchange transactions and dividend payments but not freely convertible for capital account items such as capital transfer, direct investment, investment in securities, derivative services or loan unless prior approval of State Administration of Foreign Exchange (**SAFE**) or its local counterparts is obtained.

8.6 Dividend Distribution

Profits of the Group are generated in China and under the PRC Company Law, a WFOE may remit profits generated in China to overseas only if the relevant restrictions are complied with. Pursuant to Article 166 of Company Law of the People's Republic of China, companies shall contribute 10% of the profits into their statutory common reserve upon distribution of their after-tax profits of the current year, until the aggregate balance of the statutory common reserve fund reaches 50% of the WFOE's registered capital. As a result, the Company will need to set aside part of its annual after-tax profit to the statutory common reserve fund every year in the short run. This may reduce the pool of funds that is available to be distributed as dividends to investors in their first few years of investing in the Company.

Tax Law prescribes a withholding tax rate of 10% on dividends and other PRC sourced passive income of non-resident enterprise, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with PRC that provides for a preferential withholding arrangement. Pursuant to the Arrangement between mainland PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income signed on August 21, 2006 (the Hong Kong Tax Treaty), a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiary if it holds a 25% or more interest in that particular PRC subsidiary, or 10% if it holds less than a 25% interest in that subsidiary. In addition, the State Administrative of Taxation of China (**SAT**) promulgated a tax notice on 27 October 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

As a result, the dividend income received by Haixi HK from the WFOE is likely to be subject to a 5% withholding tax in accordance with the Hong Kong Tax Treaty. This is on the basis that Haixi HK (a company incorporated in Hong Kong) will receive dividends from WFOE (a company in which it holds a 100% interest). This however is subject to confirmation from the competent tax authority as it is not automatically applied. Should confirmation not be provided, then the dividends paid by WFOE will be subject to a 10% withholding tax.

8.7 Taxation

(a) General

There are numerous taxes imposed on PRC entities, many of which may impact the Company and its subsidiaries. The Company notes that PRC Companies are subject to the following taxes in PRC:

No	Description of Tax	Basic Rate
1	Enterprise Income Tax	25%
2	Value-added Tax	17%
3	Construction Tax	7%
4	Educational Tax	3%
5	Local Educational Surcharges	2%
6	Stamp Tax	0.03%

Set out below is a summary of these taxes.

08. INVESTING IN PRC BASED BUSINESSES / CONTINUED

(b) Value Added Tax

The sale of goods, repairs and replacement services and the provision of labour services in relation to the processing of goods and import of goods within PRC are subject to value added tax (VAT) and the VAT rate is generally 17% unless otherwise stipulated by laws.

(c) Additional Education Tax and the Local Additional Education Tax

Certain PRC institutions and individuals are required to pay the Additional Education Tax and the Local Additional Education Tax to promote the development of local education and expanding the funding sources for local education. PRC institutions and individuals are required to pay these taxes if they pay consumption tax, value-added tax or business tax.

As the PRC Companies pay value-added tax, they are required to pay:

- (i) the Additional Education Tax at a rate of 3% of the VAT paid;
- (ii) the Local Additional Education Tax at a rate of 2% of the VAT paid; and

(d) Urban Maintenance and Construction Tax.

Certain PRC institutions and individuals are required to pay the Urban Maintenance and Construction Tax to promote maintenance and construction of urban public institutions and infrastructure. The PRC institutions and individuals are required to pay these taxes if they pay consumption tax, value-added tax or business tax. The rate of the Urban Maintenance and Construction Tax rate payable by the relevant PRC institutions and individuals depends on where that institution or individual is located.

As the PRC Companies pay value-added tax and is located in a place other than a city, county town or town, they are required to pay the Urban Maintenance and Construction Tax at the rate of 1% of the amount of the value-added tax paid by the PRC Companies.

(e) Stamp duty

Stamp duty is imposed on the execution or receipt in PRC of certain documents including contracts for purchases and sales, the undertaking of processing work, the contracting of construction and engineering projects, leases, commodity transport, warehousing, loans, property insurance, and technology. Stamp duty is also imposed on documentation affecting the transfer of property/shares, business account books and certificates evidencing rights and licences and other documents that are taxable as determined by the Ministry of Finance in PRC. Stamp duty rates vary for example, the transfer of shares in a PRC enterprise is 0.05% of the contract value for each party, and the purchase and sale contract is a 0.03% of the contract value.

(f) Individual income tax

Individual income tax (IIT) is imposed on all individuals, including both PRC and foreign nationals, residing in or deriving income from PRC. PRC residents are generally subject to tax on their worldwide income while non-residents are taxed on their PRC sourced income. IIT is imposed on income from wages and salaries from 3% to 45%, capital gains at 20% and interest, dividends, royalties at 20%.

(g) Other Taxes

Other taxes in PRC include customs duties for exports and imports, land appreciation tax, deed tax, real estate taxes, vehicle and vessel taxes and resource tax.

(h) Enterprise income tax

A resident enterprise is an enterprise that is established in PRC or which is established under the law of a foreign country (region) but whose actual institution of management is inside PRC. The PRC Companies are classified as a PRC resident enterprise. As a result, the PRC Companies are required to pay tax on income derived both outside and inside PRC at a rate of 25%.

A non-resident enterprise is an enterprise established under the law of a foreign country, whose actual institution of management is not inside PRC but which has offices or establishments inside PRC, or which does not have any offices or establishments inside PRC but has income sourced in PRC.

Based on information concerning relevant PRC laws and regulations provided by PRC advisors, the Directors have formed the view that the holding companies that are established outside of PRC are non-resident PRC enterprises. As non-resident PRC enterprises, they will be required to pay a 10% enterprise income tax on any income that is generated by these companies that is derived from PRC.

(i) Other Taxes

Other taxes in PRC include without limitation customs duties for exports and imports, land appreciation tax, deed tax, real estate taxes, vehicle and vessel taxes.

8.8 Labour And Social Insurance

Major concerns for foreign invested enterprises operating in PRC are problems in hiring appropriately skilled labour, navigating many new and often vague labour and social safety net laws, limitations on the mobility of workers, and the shortage of independent trade unions as independent trade unions are illegal in PRC.

While worker protests and work stoppages occur frequently, the right to strike is not protected by law. Despite this, PRC labour laws largely meet international labour standards. However, implementation of existing labour regulations is poor.

Pursuant to the Labour Contract Law of the PRC, where an employer fails to conclude a written labour contract with an employee after the lapse of more than one month but less than one year as of the day when it begins to work, it shall pay to the employee his monthly wages at double amount. Where in violation of this Law, an employer fails to conclude with an employee a labour contract without fixed term, it shall pay to the employee his monthly wage at double amount, starting from the date on which a labour contract without fixed term should have been concluded. Meanwhile, according to the Regulation on the Implementation of the Labour Contract Law of the PRC, where an employer fails to conclude a written employment contract with an employee after the lapse of one full year from the day when the employee begins to work, under the Labour Contract Law, the employer shall pay his monthly wages in double amount from the day next to the lapse of a full month to the day before it is a full year since the employee's employment, and it shall be deemed that the employer has concluded an employment contract without a fixed term with the employee on the day when it is a full year since the employee's employment, and a written employment contract without a fixed term shall be concluded with the employee immediately.

Accordingly, wages paid in double amount is supported at the most for 11 month due to failing to conclude a written employment contract with an employee.

An employer and employee may, through negotiations, conclude a labour contract without a fixed term. Under any of the following circumstances, if the employee proposes or agrees to renew or conclude a labour contract, a labour contract without a fixed term shall be concluded unless the employee proposes to conclude a fixed-term labour contract.

- (a) The employee has already worked for the employer for 10 full years consecutively;
- (b) When the employer initially adopts the labour contract system or when a state-owned enterprise re-concludes the labour contract due to restructuring, the employee has already worked for this employer for 10 full years consecutively and the employee attains the age which is less than 10 years up to the statutory retirement age; or
- (c) The labour contract is to be renewed after two fixed-term labour contracts have been concluded consecutively, unless otherwise provided for by law.

An employer shall pay social insurance contributions including basic pension insurance, basic medical insurance, work-related injury insurance, underemployment insurance and maternity insurance and housing fund for the employees.

8.9 Environmental Laws

Haixi China's business operations must be carried out in compliance with all environmental legislation and regulations including the Environmental Protection Law. An environmental impact assessment report must be filed when applying for the establishment of Haixi China. A violation of PRC's Environmental Protection Law may result in fines, suspension of operation, closedown or criminal liabilities.

08. INVESTING IN PRC BASED BUSINESSES / CONTINUED

8.10 Regulatory

There are many laws and regulations which are applicable to the Group's operations in the PRC. Further information regarding these regulations are set out below:

Name of applicable law and regulation	Scope of the law and regulation
Drug Administration Law of the People's Republic of China	<p>This law is formulated to enhance the supervision and control of pharmaceuticals, ensure the quality, guarantee safety in medication, and safeguard the health and legal rights and interests of the people.</p> <p>This law shall be applicable to any units or individuals engaged in research, production, trade, use, supervision and management of pharmaceuticals within the territory of the People's Republic of China.</p>
Regulation for the Implementation of the Drug Administration Law of the People's Republic of China	<p>This regulation is formulated in accordance with the <i>Drug Administration Law of the People's Republic of China</i>. The food and drug supervision and administration departments may, when necessary, designate any testing institute fulfilling the requirements for drug testing to undertake drug testing.</p>
Good Manufacturing Practice for Pharmaceutical Products	<p>To control good manufacturing for pharmaceutical products, this regulation is enacted in accordance with <i>Drug Administration Law of the People's Republic of China</i> and <i>Regulation for the Implementation of the Drug Administration Law of the People's Republic of China</i>. This regulation is part of quality control system. This regulation aims to reduce the risk in pharmaceutical product's manufacturing process at its maximum.</p>
Measures for the Supervision over and Administration of Pharmaceutical Production	<p>This regulation refers to the activities of the food and drug supervision and administration departments who make examination, licensing, supervision and inspection on pharmaceutical production conditions and process and other administrative activities.</p>
Provisions for Drug Registration	<p>This regulation refers to the process of review and approval on which the food and drug supervision and administration departments, in accordance with the official procedures, evaluates the safety, efficacy and quality of the drugs applied for marketing, and decides whether to approve such an application.</p>
Administrative Regulation for Technology Transfer Registration of Drugs	<p>This regulation is formulated in accordance with <i>Provisions for Drug Registration</i> for speeding up the transformation of achievements in new drug development, promoting rational transfer of production technologies, encouraging industrial restructuring, optimizing product mix, and assuring the safety, effectiveness and quality controllability of drugs.</p>
Trademark Law of the People's Republic of China	<p>This law is formulated for the purposes of strengthening trademark administration, protecting the right to exclusively use a trademark, urging producers and dealers to guarantee the quality of products and services, maintaining the reputation of trademarks, protecting the interests of consumers, producers and dealers, and promoting the development of the socialist market economy.</p>

09. RISKS FACTORS



09. RISKS FACTORS

9.1 Introduction

Haixi is subject to various risks. Some of these are specific to its business activities. Others could affect the whole industry or are more general in nature. Individually or in combination, these risks may affect the future operating and financial performance of Haixi and the value of its Shares. There can be no guarantee that Haixi will achieve or realise its stated business strategy or any of its forward-looking statements contained in this Prospectus. Investors should note that past performance is not a reliable indicator of future performance.

This Section describes potential risks associated with Haixi's business and risks associated with an investment in the Shares. It does not purport to list every risk that may be associated with Haixi's business or with an investment in the Shares now or in the future. The occurrence or consequences of some of the risks described in this section are partially or completely outside the control of Haixi, its Directors and its senior management.

The risks described in this section have been grouped into the following:

- Risks that relate specifically to Haixi and the way it operates its businesses;
- PRC related risks; and
- General risks that relate to investing in Haixi Shares.

Before applying for Shares, investors should satisfy themselves that they have sufficient understanding of the risks of investing in Haixi, of investing in the industry and of investing in shares in general, with regard to their own investment objectives, financial circumstances and taxation position. Investors should read this Prospectus in its entirety and should consider consulting their professional advisers before deciding on whether or not to apply for the Shares.

9.2 Risks specific to the Company

9.2.1 Innovation

Generally speaking, at present, China's drug research market is at its initial development stage. Compared with other countries with a more advanced pharmaceutical industry, there remains a considerable gap in drugs research. This may be attributed to several factors:

- (i) The innovation environment in China's drug industry is currently not strong;
- (ii) Investment into drugs research and development is not at its full potential; and
- (iii) The need for, but lack of, a consistent team of professional personnel in the research and development team may affect the development, trial productions, and commercialization of the new drugs. The failure is caused by uncertainties due to factors including the various difficulty of the projects that may require specific skills, and the restrictions to innovation generally.

The gap in research and innovation in the field of medical science and pharmaceutical industry may impact the rate at which new products are developed and may impact the growth of the Company.

9.2.2 Managing growth

As Haixi and its operations expand, it will be required to improve and upscale its operational and financial systems, procedures and controls. This may require further expansions to Haixi's factory and production capabilities. Employees will also need to be retained, managed and trained. If Haixi undertakes any acquisitions of businesses or products, it may face challenges in integrating them into its current operations and systems. There is a risk of a material adverse effect on Haixi's financial performance if it is not able to manage its expansion and growth efficiently and effectively.

9.2.3 New product risks

As a key part of Haixi's growth strategy, it plans to develop and market new pharmaceutical products. There is no assurance that the Company will successfully develop and commercialise new products. There is no assurance that the requisite production approvals and product registrations can be successfully obtained.

It cannot be guaranteed that Haixi's research and development activities will be successful, the required regulatory approvals will be obtained, its new products will be capable of being produced in commercial quantities at an acceptable cost, or that the products will be positively accepted by the market. The market's acceptance of new products is uncertain due to factors such as price, the availability of competitive or substitute products, and consumers' perceptions on the products' reliability and effectiveness. In addition, research and development of these products may be subject to evidence of the desired result over a prolonged period of time.

9.2.4 Pharmaceutical regulatory risk

The manufacture and trade of pharmaceutical goods in China is regulated by the SFDA, which carries out regular audits of manufacturing facilities. Although Haixi holds numerous GMP Certifications, the SFDA has the power to suspend licences or place conditions on them if there are any breaches of the GMP or other manufacturing requirements. An adverse SFDA finding may have a material adverse effect on the financial performance, financial position and prospects of the Company. Further, there is no guarantee that the SFDA will not impose new or additional requirements on pharmaceutical manufacturing. If this occurs, there may be significant unanticipated costs of compliance which may impact the Company's financial performance and position.

9.2.5 Product liability risk

As a manufacturer and distributor of products designed for human use and application, the Group could be subject to product liability claims if the use of its products is allegedly to have caused injury. The Group has strict production and quality control policies, however events outside of the Group's control could occur which could adversely affect the financial and operating performance of the Group.

The Group takes all reasonable precautions to ensure that its products are free from allergens and contaminants. However in the event of contamination or otherwise which results in a defective product, it may lead to business interruption, product recalls or liability to customers.

9.2.6 Competition risks

Haixi is subject to competition from domestic producers of pharmaceutical products.

Certain market conditions may cause an increase in competition. For instance, an increase in demand may present the opportunity for competitors to expand their operations and markets. Increase competition may reduce the volume and price of the products that Haixi is able to sell, which may have a material and adverse effect on the Company's revenue and profitability and, in particular, its growth. Haixi maintains a competitive advantage through its supply of high quality products under its well recognised brand. In addition, Haixi is party to and renews contracts with large pharmacies and wholesalers to ensure adequate supply channels.

Haixi maintains a competitive advantage through its supply of high quality products under its well recognised brand. In addition, Haixi is party to and renews contracts with large pharmacies and wholesalers to ensure adequate supply channels.

9.2.7 Relationship with suppliers

Haixi has long-term partnerships with numerous key suppliers. Any loss of or changes to these key suppliers may have a material and adverse affect on Haixi's production, sales and terms of trade. Material increases in the suppliers' costs could lead to higher procurement costs for Haixi. This could impact Haixi's margins or require it to source raw materials from other locations. If this occurs, existing gross margins may not be able to be maintained. Further, any delays in lead times on orders from suppliers could impact Haixi's production plans and sales.

9.2.8 Relationship with agents

Haixi has a number of distribution agreements with intermediaries, agents and other pharmaceutical companies (**Agents**). These Agents are critical to Haixi's sales strategy and are responsible for establishing distribution channels and promotional strategies to on-sell Haixi's products to end-consumers. If any of these Agents are lost and not replaced, this may be disruptive to the availability of Haixi's products in the market and could have a material adverse effect on Haixi's sales and financial performance.

9.2.9 Reliance on key personnel

Haixi's business is reliant upon the provision of high quality operational services by its senior personnel. It is also dependent on its skilled training staff and technical personnel for the successful and ongoing manufacture of pharmaceutical products and business activities. Any change in the quality or quantity of these services, or an inability to attract qualified and motivated personnel to provide these services, could affect Haixi's pharmaceutical products or business activities and financial performance. Haixi's original founders also retain substantial operations roles with the company and have substantial influence over the day to day affairs and strategic direction of the company. Without these founders acting in conjunction with other management personnel, the Group may not be able to continue its manufacture, development or production of pharmaceutical products or business activities successfully or deliver its long-term strategic objectives.

9.2.10 Intellectual property protection risk

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

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

9.2.11 Business approvals, permits and licences

Haixi requires certain licences and approvals to conduct their business. These licences are granted at the discretion of the relevant PRC authorities, and the criteria for eligibility may change. The business activities of Haixi and its subsidiaries are subject to the supervision of these authorities which have the power to revoke previously granted licences or approvals or reject applications for new or extended licences or approvals.

If any activity carried out by the Group fails to meet the requirements of applicable rules or regulations, the Group may incur legal liabilities. In particular, if any entity in the Group fails to obtain the grant or renewal of any required licences or approvals, the business activities of the affected entity and the Group as a whole may be interrupted, or, if the affected entity continues to operate without the necessary licences and approvals, it may be liable to penalties. Any interruption to the Group's business activities or potential penalties may have a material and adverse effect on Haixi and its subsidiaries' business, net assets, financial condition and operational results.

9.2.12 Acquisitions and investments

As part of its growth strategy, Haixi plans to acquire and/or invest in other businesses which have strong market potential in their pharmaceutical medicinal product varieties. Haixi's growth strategy may be adversely impacted if it is unable to find suitable targets for acquisitions and investments. Further, if Haixi acquires or invests in an asset or business, its due diligence process may not be successful in identifying all the risks associated with that acquisition or investment and it may not perform to the level expected.

9.2.13 Risk of significant control by Existing Shareholders

Immediately after the Offer, the Existing Shareholders will beneficially own approximately 76.92% of Haixi's issued capital assuming 60,000,000 New Shares are issued under the Offer. As a result, these Existing Shareholders, if they act together, would be able to exert a significant degree of influence over Haixi's management affairs and over matters requiring Shareholder approval.

9.2.14 Emerging market issuer status

Pursuant to ASIC's Report 368, 'Emerging Market Issuers,' (Report 368), the Company may be classified as an emerging market issuer, being an entity which has:

- (i) material assets located in, or a revenue stream derived from operations in, an emerging market;
- (ii) subsidiaries incorporated in and/or listed in an emerging market; and
- (iii) directors and senior management based offshore in an emerging market.

In Report 368, ASIC identified risks associated with identification as an emerging market issuer, including implementation of good corporate governance in light of a geographically scattered board of directors and implementing effective internal controls and risk management systems where operations are geographically diverse.

ASIC also noted that reliance on a small number of key individuals located outside Australia may raise the risk of substantial transactions benefiting those individuals. Finally, ASIC noted that it may be difficult for external professionals, such as auditors, to verify information or opinions provided by experts or professionals in an overseas jurisdiction. While the Company intends to verify and robustly test the reliability of information, it may be difficult to fully assess the sufficiency and appropriateness of information provided.

While the Company is in the process of implementing best-practice corporate governance, internal controls and risk management systems, some members of the Board of Directors are based in China, while others are based in Australia. While the Company anticipates that it will tailor its compliance arrangements to take this into account, the geographical diversity of the Company's Board may render compliance with such systems more difficult.

9.3 PRC related risks

9.3.1 Chinese regulatory environment risks

Haixi's operations are subject to PRC Drug Administration laws and other regulations. The PRC's legal system is largely based on legislation and prior case law has limited precedential value. However, the PRC is still in the process of developing a comprehensive statutory framework. Its legal system is still considered to be underdeveloped in comparison with the legal systems in some western countries.

Since 1979, the PRC's legislative bodies have passed laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. The legislative tendency since that time has been to grant increased protection to foreign investors. In this way, significant progress has been made in the legal system of the PRC.

Despite significant improvement in developing its legal system, there remain uncertainties and/or inconsistencies in the enforcement of existing laws and regulations. Most current PRC legislation has been passed relatively recently. As a result, there is a lack of established practice regarding the implementation, interpretation and enforcement of these laws. For this reason, the interpretation of these laws and regulations may be more volatile and less predictable. These uncertainties in the legal system may cause delays in any potential litigation, and limit the legal protection that is offered to potential litigants. Any litigation in the PRC may be protracted and result in substantial legal costs and/or significant diversions of resources and management attention. The occurrence of one or several of these risks could have material and adverse effects on the Group's business, net assets, financial condition and operational results.

9.3.2 Repatriation of dividends

As the Group generates the majority of its profits through the business operations of Haixi China, the ability of the Company to pay dividends to shareholders will be dependent upon the PRC subsidiary's ability to distribute profits from China. Although the Group's operating entity is in China, the Group has a WFOE entity. As such, under Chinese law, it may remit profits generated in China to overseas if the relevant restrictions are complied with. However, these laws and processes are subject to the discretion of the Chinese government. Any tightening of this process inhibiting the ability of the WFOE to remit profits out of China may adversely affect the Company's ability to pay dividends to shareholders.

9.3.3 Government control of currency conversion

The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. The Group receives all of its revenue in RMB. Under existing PRC foreign exchange regulations, payment of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without approval from the PRC State Administration of Foreign Exchange (SAFE), by complying with certain procedural requirements. Approval from or registration with appropriate government authorities is required where RMB are to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its foreign currency demands, it may not be able to pay dividends in foreign currencies to the Company's shareholders and may limit its ability to finance future activities in Australia.

9.3.4 Land-title risk

According to the relevant PRC Law, all lands in the PRC are either state-owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state-owned while all land in the rural areas of a city or town and all rural land is collectively owned, unless otherwise specified by law. Individuals, businesses and other organisations can possess land by being granted land-use rights from the local government for limited time periods.

According to the Urban Real Estate Administration Law of the People's Republic of China, the land user that has maintained continuous use of the land has the right to apply to the land administration department for an extension of the term at least one year before the expiration of the term. The Application would be approved except when the tract of land needs to be taken back in consideration of public interest.

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

9.3.5 Lack of insurance coverage

In the PRC it is not customary for businesses to take out extensive insurance protection. Aside from comprehensive property insurance for its real property, Haixi has not taken out any other insurance policies. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material and adverse effect on the Company or its subsidiaries' business, net assets, financial condition, and operational results.

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

9.4 General investment risks

9.4.1 Potential fluctuations in prices of Shares

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade below the Offer Price. There is no assurance that the price for the Shares will increase following quotation on the ASX, even if the Company's earnings increase.

The market price and demand for shares quoted on ASX could be volatile or fluctuate due to numerous factors including (i) fluctuations in the domestic and international market for listed stocks; (ii) general economic conditions, including interest rates, inflation rates, exchange rates, commodity prices and oil prices; (iii) changes to government fiscal, monetary or regulatory policies; legislation or regulation; inclusion in or removal from market indices; (iv) the nature of the markets in which the Company operates and general operational and business risks.

9.4.2 Liquidity of Shares

There is currently no public market through which the Shares of the Company may be sold. On Completion of the Offer, there can be no guarantee that an active market will develop or that the price of the Shares will increase. There may be relatively few or many potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer. It may also affect the prevailing market price at which the Shareholders can sell their Shares. This may result in Shareholders who acquire Shares under the Offer receiving a market price for their Shares that is less or more than the Offer Price.

9.4.3 Exposure to general economic conditions

The operating and financial performance of Haixi is influenced by a variety of general domestic and global economic and business conditions that are outside the control of the Company. Prolonged deterioration in general economic conditions may affect the demand for the Company's services and may have a material adverse effect on the financial performance, financial position, cash flows, dividends, growth prospects and share price of the Company.

9.4.4 Risk of Shareholder dilution

In the future, the Company may elect to issue shares to raise funds for the Company's business operations or additional acquisitions that the Company may decide to make. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it can issue within a 12-month period (other than where exceptions apply), Shareholders may be diluted as a result of such issuance of shares and fundraisings.

9.4.5 Accounting standards

Any changes in accounting standards or how they are applied and interpreted may have an adverse impact on Haixi's financial performance and position.

9.4.6 Taxation reform

Any changes to the current rate of the Company's income tax in Australia or abroad (i.e., China) may affect Shareholder returns. Any changes to relevant tax laws, the way they are interpreted and applied or to the current rate of taxes could have an adverse effect on Haixi's financial performance or results. In addition, any change in tax rules and tax arrangements could also have an adverse effect on the level of dividend imputation or franking and Shareholder returns.

9.4.7 Litigation and regulatory inquiries

The Company may be subject to litigation, complaints and other claims or disputes, regulatory inquiries or investigations and other enforcement action initiated by customers, employees, regulators or other third parties in the course of its business. Such matters may have a materially adverse effect on the Company's financial performance and position. Even if such matters are successfully defended or settled without financial consequences, they may have a material adverse effect on the Company's reputation.

9.4.8 Dividends may not be fully franked

Given the proportion of Haixi's earnings from Chinese operations, it is unlikely that Haixi will have sufficient franking credits in the future to fully frank dividends. There is likewise no guarantee that the franking system will not be varied or abolished. In addition, as the proportion of Haixi's earnings from Chinese operations increases, it may not be possible to fully frank dividends.

The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or as a refund claim after the end of the income year, will depend on the individual tax position of each Shareholder.

9.4.9 Force majeure events

Force majeure events, or events beyond the control of the Company, may occur within or outside Australia that could affect the world economy, the operations of the Company and the price of the Shares. These events include war, acts of terrorism, civil disturbance, political intervention and natural events such as earthquakes, floods, fires and severe weather conditions.

10. ADDITIONAL INFORMATION



10. ADDITIONAL INFORMATION

10.1 Registration

The Company was incorporated in Victoria as a public company limited by shares on 13 January 2017. On Completion of the Offer, the Company will have

- 250,000,000 Shares on issue including 50,000,000 Shares issued under this Prospectus in case of the Minimum Subscription; or
- 260,000,000 Shares on issue including 60,000,000 Shares issued under this Prospectus in case of the Maximum Subscription.

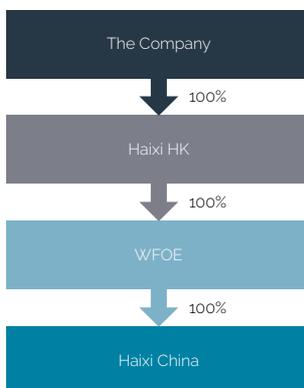
Haixi (on a standalone basis) is and will be subject to tax at the Australian corporate tax rate. Its subsidiaries will be subject to tax in the jurisdictions in which they operate. Profits repatriated to Haixi from Haixi HK will not be subject to Australian income tax.

10.2 Corporate Structure

The Company was incorporated in Victoria on 13 January 2017. A group restructure, commencing in January 2017, and completing in April 2017, resulted in:

- the Company having 100% shareholding in Yong'an Pharmaceutical Investment Co., Ltd (**Haixi HK**), which is a company incorporated in Hong Kong;
- Haixi HK having 100% shareholding in the wholly foreign-owned enterprise, Yong'an Tongtai Pharmaceutical Co., Ltd (**WFOE**); and
- the acquisition by WFOE of 100% of the capital in Haixi China.

The Group structure at the date of this Prospectus is shown in the diagram below.



10.3 Summary of rights and liabilities attaching to shares and other material provisions of the Company's constitution

10.3.1 General

The rights and liabilities attaching to ownership of the Shares are:

- detailed in the Constitution of the Company which may be inspected during normal business hours at the registered office of the Company; and
- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not intended to be exhaustive and is qualified by the fuller terms of the Constitution. This summary does not constitute a definitive statement of the rights and liabilities of Shareholders. This summary assumes the Company is admitted to the official list of ASX.

10.3.2 Voting

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each fully paid Share held. On a poll, partly paid Shares confer a fraction of a vote pro-rata to the amount paid up on the Share.

10.3.3 Dividends

Subject to any special terms and conditions of issue, the amount which the Directors from time to time determine to distribute by way of dividend are divisible among the members in proportion to the amounts paid up on the Shares held by them.

10.3.4 Issue of shares

Subject to the Constitution, the Listing Rules and the ASX Settlement Operating Rules, the Directors have the right to issue shares or grant options over unissued shares to any person and they may do so at such times as they think fit and on the conditions and the issue price they think fit. Such shares may have preferred, deferred or other special rights or special restrictions about dividends, voting, return of capital or otherwise, as the Directors think fit.

10.3.5 Variation of class rights

Subject to the Corporations Act and the Listing Rules, the rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

10.3.6 Transfer of Shares

Subject to the Constitution, the Corporations Act, the Listing Rules and to the rights or restrictions attached to any shares or class of shares, holders of Shares may transfer them by a proper transfer effected in accordance with the ASX Settlement Operating Rules or an instrument in writing in any usual form or in any other form that the Directors approve.

The Directors may decline to register a transfer of Shares for reasons including where the transfer is not in registrable form or where the refusal to register the transfer is permitted under the Listing Rules or the ASX Settlement Operating Rules. If the Directors decline to register a transfer, the Company must give the party lodging the transfer written notice of the refusal and the reason for refusal.

10.3.7 Small holdings

The Directors may sell the Shares of a Shareholder if that Shareholder holds less than a marketable parcel of Shares, provided that the procedures set out in the Constitution are followed. A non-marketable parcel of Shares is defined in the Listing Rules and is, generally, a holding of shares with a market value of less than A\$500.

10. ADDITIONAL INFORMATION / CONTINUED

10.3.8 General meetings and notices

Subject to the Constitution and to the rights or restrictions attached to any shares or class of shares, each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of the Company and receive all financial statements, notices and other documents required to be sent to members under the Constitution or the Corporations Act.

10.3.9 Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, the Constitution, the Corporations Act and the Listing Rules, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.

10.3.10 Directors – appointment and removal

The minimum number of Directors is three and the maximum is to be fixed by the Directors but may not be more than 10 unless the Company passes a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that any Director who has held office for three or more years or three or more annual general meetings (excluding any managing Director) retires at each annual general meeting of the Company. The Directors may also appoint a Director to fill a casual vacancy on the Board in addition to the Directors who will then hold office until the next annual general meeting of the Company.

10.3.11 Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the Chairman has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

10.3.12 Directors' remuneration

The Directors, other than the Executive Directors, are entitled to be paid by such Directors' fees for their services as the Directors decide, provided that the total fees do not exceed the maximum aggregate sum as may be approved from time to time by Shareholders in general meeting. The Constitution also makes provision for the Company to pay all expenses of Directors in attending meetings and carrying out their duties and for the payment of additional fees for extra services or special exertions. Any change to that maximum aggregate sum needs to be approved by Shareholders.

10.3.13 Alteration of share capital

Subject to the Listing Rules, the Constitution and the Corporations Act, the Company may alter its share capital.

10.3.14 Preference shares

The Company may issue preference shares including preference shares which are liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution.

10.3.15 Variation of the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of the Company. The Company must give at least 28 days' written notice of its intention to propose a resolution as a special resolution.

10.3.16 Share buy-backs

The Company may buy back shares in accordance with the provisions of the Corporations Act.

10.3.17 Dividend plan

The Constitution contains a provision allowing Directors to implement a dividend reinvestment plan.

10.4 Material contracts

The Directors consider that there are a number of contracts which are significant or material to the Group or of such nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. The main provisions of these contracts are summarised below, or elsewhere in this Prospectus. These summaries do not purport to be complete and are qualified by the text of the contracts themselves.

10.4.1 Agreements associated with Company's business

As set out in Section 4 of this Prospectus, Haixi China enters into two key types of agreements associated with its business: procurement agreements with suppliers to procure raw and packaging materials (**Procurement Agreements**) and distribution agreements with distributors and agents who on-sell Haixi China's products to end-consumers (**Distribution Agreements**). These transactions are conducted by executing framework agreements. The specifics of an order, including quantity, type and price of the products to be procured or sold, are determined by a supply or sales order form. The framework agreements with respect to each type of contract are set out below.

(a) Procurement Agreements

As of the date of this Prospectus, Haixi China has entered into material framework Procurement Agreements with its key suppliers for the procurement of packaging and raw materials. Under the framework agreements, specific orders are made. As of the date of this prospectus, there are no orders which are currently on foot. The key terms of the framework Procurement Agreement are set out below:

Term	Details
Scope	<p>The supplier will supply and deliver raw and packaging materials to Haixi China in accordance with signed supply order forms. The supplier bears the costs of delivery and must guarantee that the quality of the products provided are in accordance with the requirements of both Haixi China and the SFDA's Drug Administration Regulations.</p> <p>Haixi China must ensure that the products meet the requisite requirements within 10 days of receipt. No refunds will be accepted by the supplier after this period.</p>
Term	1 year. Parties may enter into a new framework agreement at the end of the term if they wish.
Price and rebate	The price is set out in each supply order form and is determined by the type and quantity of materials ordered.
Payment	Haixi China must pay 70% of the total payment due within 7 days of signing a supply order form. The remaining balance must then be paid within 90 days after the receipt and acceptance of the products.

10. ADDITIONAL INFORMATION / CONTINUED

(b) Distribution Agreements

As of the date of this Prospectus, Haixi China has entered into material framework Distributions Agreements with 12 distributors. Under the framework agreements, specific orders are made. As of the date of this prospectus, there are no orders which are currently on foot. The key terms of the framework Procurement Agreement are set out below:

Term	Details
Scope	<p>The distributor will distribute Haixi China's products to end-consumers. The distributor places orders through sales order forms, specifying the product type and quantity to be ordered.</p> <p>Haixi China must dispatch the products using land freight within 7 days of receiving the order and bear the costs of delivery, unless the distributor requests a freight method other than land freight. Haixi China must also guarantee that the quality of the products provided are in accordance with the requirements of the SFDA's Drug Administration Regulations.</p> <p>The distributor must ensure that the products meet the requisite requirements within 7 days of receipt. No refunds or exchanges will be accepted by Haixi China after this period.</p>
Term	2-6 years (varies between different parties). Parties may enter into a new framework agreement at the end of the term if they wish.
Price and rebate	The price is set out in each sales order form and is determined by the type and quantity of products ordered. The price can be adjusted through consultation between Haixi China and the distributor based on market factors, such as cost of raw materials and cost of labour.
Payment	The distributor must pay 70% of the total payment due within 7 days of signing a sales order form. The remaining balance must then be paid within 7 days after the receipt and acceptance of the products.

10.4.2 Loan agreements with China Construction Bank Co., Ltd Yong'an Sub-branch

On 14 December 2016, Haixi China entered into a loan agreement with China Construction Bank Co., Ltd Yong'an Sub-branch (**China Construction Bank**), whereby Haixi China borrowed A\$1,477,548 with a fixed interest rate of 6.09% per annum from China Construction Bank. The term of this loan is 1 year and is payable on 14 December 2017. The purpose of this loan agreement is to replay the debt owned by Haixi China under the 'Renminbi Working Capital Loans Contract' (Year 2015 Jianmingyongliudaizi No. 146).

On 21 December 2016, Haixi China entered into a loan agreement with China Construction Bank Co., Ltd Yong'an Sub-branch, whereby Haixi China borrowed A\$994,313 with a fixed interest rate of 6.09% per annum from China Construction Bank. The term of this loan is 1 year and is payable on 21 December 2017. The purpose of this loan agreement is to replay the debt owned by Haixi China under the 'Renminbi Working Capital Loans Contract' (Year 2015 Jianmingyongliudaizi No. 147).

10.4.3 Research and Development

On 5 January 2016, Haixi China entered into a technology development agreement (**R&D Agreement**) with Fuzhou Chang Fu Xing New Drug Development Pty Ltd (**Chang Fu Xing**). Under the R&D Agreement, Chang Fu Xing will perform research and development work for Haixi China. The objective of this R&D work is to enable Haixi China to improve and further enhance its mupirocin and ibuprofen cream products. The scope of the R&D work that will be performed by Chang Fu Xing includes developing a R&D plan, undertaking relevant skin test research, and preparing submissions for generic new drug applications. Haixi China will pay Chang Fu Xing A\$994,312.53 as remuneration and the R&D Agreement has a term of 3 years.

10.4.4 Rick Carson agreement

On 1 December 2015, the Company entered into a legally binding Cooperation Agreement with Rick Carson Partners (**Rick Carson**) to conduct feasibility studies and determine potential raw material suppliers and cooperative partners in Australia. Rick Carson will effectively act as the Company's agent in Australia to conduct market research and feasibility analysis for the Company's proposed establishment of a Chinese herbal medicine plantation base in Australia and to liaise with Chinese medicine research institutions and other pharmaceutical institutions already established in Australia on behalf of the Company for potential future cooperation. The contracted term is for the period beginning on 1 December 2015 to 30 November 2018.

10.4.5 Construction agreements for factory building

Haixi China has entered into a Construction and Building agreement with Quanzhou Xiangheng Construction Co., Ltd on 13 January 2015 in relation to construction of two buildings for logistics, production and R&D of the Group's pharmaceutical products. The estimated contract price is 47 million RMB subject to actual construction progress. Total construction area is 22,800 square metres including basements. This includes two buildings, one being 11,500 square meters and the second building being 11,300 square meters. Please see section 4.8 for further details on the progress of the performance of this agreement.

10.4.6 Lead arranger and corporate advisory agreements

(a) Lead Manager Agreement

The Company has entered into an agreement with BlueMount Capital (Sydney) Pty Ltd (**BlueMount**) on 26 June 2017 to appoint BlueMount as the sole lead manager in connection with the investment banking transactions related to the proposed listing of the Company on the ASX. The scope of services provided under this agreement includes due diligence, investor and stockbroker briefings, capital raising for the IPO, preparation of any investor documentation as part of the road show, marketing arrangements and coordination with the Company's advisers to the listing. Please see section 5.2.2 for details of the fees payable pursuant to this agreement.

(b) Corporate Advisory Agreement

The Company has entered into an agreement with China Australia Capital Ltd (**CAC**) on 27 March 2017 to appoint CAC as the listing project coordinator for preparation for the listing application and proposed listing of the Company on ASX. The scope of services provided under this agreement includes identification and appointment of advisers to the proposed listing, coordinating advice from the Company's financial and legal advisers, participating in due diligence of the Group, advising the Company on key commercial issues, assist with preparation of the disclosure document and project logistics, assist with any communication with ASX and ASIC in conjunction with the Company's legal advisers and any other such assistance as may be required and agreed. Please see section 5.2.2 for details of the fees payable pursuant to this agreement.

10.4.7 Deeds of access, insurance and indemnity for Directors

- **Access**

The Company has entered into deeds of access, insurance and indemnity with each Director which contain rights of access to certain books and records of Haixi.

- **Indemnification**

Under the Constitution, Haixi is required to indemnify all Directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, insurance and indemnity, Haixi indemnifies parties against all liabilities to another person that may arise from their position as an officer of Haixi or its subsidiaries to the extent permitted by law. The deed stipulates that Haixi will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

- **Insurance**

Under the Constitution, Haixi may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law and under the deed of access, insurance and indemnity, Haixi must maintain insurance cover for each Director for the duration of the access period.

10. ADDITIONAL INFORMATION / CONTINUED

10.5 Related party contracts

Related party transactions (that is, transactions between a public company and a director, an entity controlled by a director, or a parent company of the public company) are regulated in Australia under the Corporations Act by a requirement for disinterested shareholder approval, unless the transaction is on "arm's length terms", represents no more than reasonable remuneration, or complies with other limited exemptions.

As at the date of this Prospectus, Haixi has not entered into any related party transactions.

10.6 Existing Shareholder interests

The table below sets out the interests of Shareholders as at the date of this Prospectus and immediately following the Offer:

Shareholders	Minimum Subscriptions		Maximum Subscriptions	
	Number of Shares	%	Number of Shares	%
Bizoe Investment Limited ¹	118,000,000	47.2	118,000,000	45.38
Fast Team International (HK) Limited ²	30,000,000	12	30,000,000	11.54
Gold Dynasty Company Limited	10,000,000	4	10,000,000	3.85
Chio Fai U	10,000,000	4	10,000,000	3.85
Season Best International Limited	11,000,000	4.4	11,000,000	4.23
Best Scenery Investments Limited	10,000,000	4	10,000,000	3.85
So Wah Hun	7,000,000	2.8	7,000,000	2.69
Win Source Group Limited	4,000,000	1.6	4,000,000	1.54
Shares on issue at date of Prospectus	200,000,000	80	200,000,000	76.92
Shares offered under this Prospectus	50,000,000	20	60,000,000	23.08
Total	250,000,000	100.00	260,000,000	100.00

1. Jack Wang, who is a director of the Company, holds 100% of the ordinary shares in Bizoe Investment Limited.

2. Fast Team International (HK) Limited is 100% held by Yang Xiao Bin and is not a related party of Haixi.

10.7 Escrow arrangement

Bizoe Investment Limited, being the largest shareholder of the Company, whose shares are indirectly held by Jack Wang, Chairman and director of the Company, has agreed to enter into a voluntary escrow arrangement with the Company under which it will be restricted in dealing in 100% of its Shares (being 118,000,000 Shares) in the Company for a period of 24 months from the date of the admission of the Company to the Official List of the ASX.

This voluntary escrow arrangements do not preclude participation in a takeover where:

- the takeover bid is for all of the securities;
- holders of at least half of the securities that are not subject to restriction (including those Shares that are subject to the voluntary escrow arrangements) to which the takeover bid relates have accepted; and
- if the takeover bid is conditional, the Shareholder agrees in writing that a holding lock will be re-applied to each Share that is subject to the voluntary escrow arrangements that is not unconditionally bought by the bidder under the takeover bid.

Additionally, the holder's restricted securities may be transferred or cancelled in accordance with a merger if the shareholder agrees in writing that a holding lock will be re-applied if the merger does not take effect.

Furthermore, the escrowed Shareholder will not be precluded from transferring their securities where the consent of the Company is sought and provided the transferee agrees to be subject to the escrow restrictions.

10.8 Consents to be named and disclaimers of responsibility

Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- China Australia Capital Ltd has given and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Corporate Adviser to the Company in the form and context it is so named;
- BlueMount Capital (Sydney) Pty Ltd has given and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Lead Manager for the Offer in the form and context it is so named;
- BDO Corporate Finance (East Coast) Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in the form and context it is so named and to the inclusion of its Investigating Accountant's Report on the Historical Financial Information in Section 7;
- BDO East Coast Partnership has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the auditor and Australian tax advisers of the Company in the form and context it is so named;
- Baker McKenzie has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser to the Company in relation to the Offer in the form and context in which it is named;
- AllBright Law Offices has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Chinese legal adviser to the Company in relation to the Offer in the form and context in which it is named;
- Patrick Mak & Tse has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Company's which has performed the work in relation to due diligence enquiries on Hong Kong legal matters Hong Kong legal adviser in the form and context it is so named;
- Boardroom Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Registry in the form and context it is so named; and
- Frost & Sullivan has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the independent expert in the form and context it is so named.

No entity or person referred to above in Section 10.8 has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to above in this Section 10.8 has not authorised or caused the issue of this Prospectus, does not make any offer of New Shares and expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus except as stated above in this Section 10.8.

In addition, as permitted by ASIC Class Order 2016/72 this Prospectus may include or be accompanied by certain statements fairly representing a statement by an official person, or from a public official document or a published book, journal or comparable publication.

10. ADDITIONAL INFORMATION / CONTINUED

10.9 Costs of the Offer

If the Offer proceeds, the estimated costs of the Offer (inclusive of taxes), by type of cost, are shown in the table below:

Estimated expenses (A\$(exclusive of non-recoverable GST, where applicable)	Minimum Subscription (A\$)	Maximum Subscription (A\$)
Broker Fees	2,339,460	2,698,210
Corporate advisory	817,600	967,600
Legal fees	409,350	409,350
ASX and ASIC fees	174,900	177,238
Audit, investigating accountant and taxation fees	329,431	329,431
Independent Market Report	37,400	37,400
Printing, marketing and other costs	220,000	330,000
Total estimated expenses¹	4,328,141	4,949,229

1. Final expenses may be higher due to tax impacts.

10.10 Working capital statement

The Directors believe that, on Completion of the Offer, the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.

10.11 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in New South Wales and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales.

10.12 Legal proceedings

So far as the Company is aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material in which the Group is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Group.

10.13 Tax considerations

Set out below is a general overview of the Australian taxation implications for investors who acquire the New Shares on capital account. This Section 10.13 is based on legislation applicable at the time of its preparation. Given the complexity of taxation laws, it does not cover all possible implications for particular investors.

As the tax position of each investor may vary depending on their individual circumstances, this Section 10.13 should not be considered advice specific to any particular investor. Before lodging an Application, each investor should seek independent professional advice with respect to the tax consequences applicable to their individual circumstances.

10.13.1 Taxation of dividends

The treatment of the dividends which are paid to investors will vary depending on whether or not the investor is an Australian resident or foreign resident. The taxation treatment will also vary depending on the extent to which any dividends carry a franking credit.

Dividends received by Australian resident Shareholders

For Australian resident individuals and complying superannuation entities, dividends on the New Shares will be assessable income of the Shareholder in the income year in which they are paid (or deemed to be paid) to the Shareholder. If the dividend carries a franking credit (for imputed Australian corporate tax paid by Haixi) then the dividend paid (or deemed to be paid) plus the franking credit will be included in the Shareholder's taxable income and subject to tax at the Shareholder's marginal tax rate. The Shareholder will be entitled to offset the franking credit against tax payable by the Shareholder if the Shareholder is a qualified person. A qualified person is a Shareholder who satisfies the holding period rule (by holding shares on which the dividend is "at risk" for at least 45 days continuously from the day after the Shareholder acquires the shares to the 45th day after the shares become ex-dividend) and the related payments rule.

Individuals and complying superannuation funds are entitled to a refund of any part of the franking credits that exceed their tax payable.

Australian resident companies can convert excess franking credits to tax losses that can potentially be deductible against income in future years.

Unfranked dividends received by Australian resident Shareholders will be taxable at the Shareholder's marginal tax rate. For individuals, this tax rate may be up to 49% (including Medicare levy and temporary Budget Repair levy). For companies and complying superannuation funds, rates of tax are generally 30% and 15% respectively.

Dividends received by non-resident Shareholders

Dividend withholding tax is not imposed on fully franked dividends paid to foreign Shareholders.

It may be necessary for Haixi to withhold tax from unfranked dividends paid to foreign Shareholders and remit the tax to the Australian Taxation Office.

Where unfranked dividends are paid to non-resident Shareholders, and the unfranked dividend is not declared to be "conduit foreign income", dividend withholding taxes must be deducted from the gross dividends paid. If the Shareholder is a resident of a country that does not have a Double Tax Agreement (DTA) with Australia then a 30% withholding tax rate will be applied to dividends paid to the non-resident Shareholder. If the Shareholder is a resident of a country that does have a DTA with Australia then the DTA will determine the maximum amount of withholding tax that can be imposed. DTA dividend withholding tax rates generally range from 0% to 15%.

10.13.2 Disposal of Shares

As noted above, the following overview of Australian tax implications associated with disposal of New Shares is confined to investors who hold their shares on capital account. Australian income tax laws impose tax on capital gains (CGT).

Persons who acquire New Shares on revenue account or for a share trading purpose should seek independent professional advice as the issues are complex and the tax implications depend heavily on individual circumstances.

Disposal of Shares by Australian resident Shareholders

Disposal of some or all of the New Shares held on capital account by Australian resident investors will give rise to a CGT event and investors may become liable to pay CGT if they make a capital gain on disposal, or another CGT event occurs in respect of the New Shares.

An investor will be taken to have acquired New Shares when these are issued or transferred to the investor and to have disposed of the New Shares when the investor transfers (or agree to transfer) the New Shares to another person. Taxation law also deems a disposal to have occurred in some other circumstances as well.

To calculate the capital gain that is subject to tax initially requires the cost base of shares to be subtracted from the consideration (money or property) received from their disposal. If the calculation results in a negative number, then a capital loss has been incurred.

10. ADDITIONAL INFORMATION / CONTINUED

The market value of shares at the time of their disposal may be substituted as consideration if the disposal is for nil or not undertaken on an arm's length dealing basis. In the case of New Shares acquired pursuant to the Prospectus, the cost base for CGT purposes will generally be the amount paid for the New Shares (A\$0.50 per Share), plus incidental transaction costs (such as brokerage fees) incurred in selling the shares.

If the Shareholder has also derived capital losses in the income year, or has accumulated capital losses that are deductible, then those losses may be offset against the capital gain derived from the disposal of the shares. A capital loss cannot be offset against ordinary taxable income but may be carried forward and offset against future capital gains. However, utilisation of carried forward capital losses is subject to various loss integrity tests. Consideration of these loss provisions is beyond the scope of this Section.

For those investors that are companies, a net capital gain made on the disposal of New Shares (after any capital losses are offset) must be included in the company's taxable income and subject to tax at the prevailing general corporate tax rate (30%).

Investors who are either individuals or complying superannuation funds (or another similar form of qualifying entity), and dispose of New Shares held for at least 12 months, may be entitled to a CGT discount of 50% and 33 $\frac{1}{3}$ % respectively. Companies are not entitled to any discount and special rules apply for trusts.

The net capital gain remaining after permitted offsets and discounts, is added to the investor's other taxable income, and the total amount is then subject to tax at the investor's marginal tax rate.

Where shares are held by a trust (and the trust is not taxed as a company for Australian tax purposes) then a CGT discount of 50% is generally available. When the capital gain is distributed to the beneficiary by the trustee of the trust, the capital gain needs to be grossed up and the relevant beneficiary(s) will need to determine for themselves whether or not they are able to access the CGT discount provisions.

Disposal of Shares by non-Australian resident Shareholders

Foreign residents are only subject to CGT on the disposal of taxable Australian property. For tax purposes, New Shares will generally only be considered taxable Australian property where the following conditions are satisfied:

- the investor owns an interest of 10% or more in Haixi; and
- more than 50% of the value of Haixi relates to assets that are taxable Australian real property such as land and buildings or interests in land and buildings. For example, leasehold rights over land situated in Australia are considered to be taxable Australian real property.

Based on information contained in the Prospectus regarding the planned operation of the business, Haixi shares are unlikely to be taxable Australian property. As such, foreign residents that dispose of their shares are unlikely to be subject to CGT on any gains made in Australia. However, the circumstances of the company should be reviewed by investors as at the time they dispose of some or all New Shares.

10.13.3 Tax File Numbers quotation

It is not compulsory for Australian resident Shareholders to provide Haixi with details of their Tax File Number (TFN) or Australian Business Number (ACN). However, a failure to quote a TFN or ACN to Haixi will result in Haixi being required to withhold and remit tax of 49% (47% for years ended following 30 June 2017 based on current legislation) from unfranked dividends paid to the relevant Shareholder. The amount withheld in these circumstances should be available as a credit against the investor's tax liability.

10.13.4 GST and transfer duty

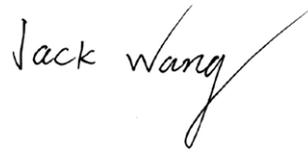
No GST is applicable to the issue or transfer of the New Shares given that, under current law, shares in a company are a financial supply for GST purposes. Shareholders may not be entitled to claim full input tax credits in respect of GST paid on costs incurred in connection with the acquisition of shares.

Transfer duty will not be payable on New Shares issued pursuant to the Prospectus.

10.14 Statement of Directors

Each Director has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC in accordance with section 720 of the Corporations Act.

This Prospectus is signed by a Director of Haixi Pharmaceutical International Holdings Limited in accordance with section 351 of the Corporations Act.

A handwritten signature in black ink that reads "Jack Wang". The signature is written in a cursive style with a long, sweeping flourish at the end.

Chairman
Jack Wang

GLOSSARY



GLOSSARY

A\$, AUD or AUD\$	Australian dollars, the lawful currency of the Commonwealth of Australia.
ABN	Australian Business Number.
ACN	Australian Company Number.
AEST	Australian Eastern Standard Time.
Applicant	A person who has applied to subscribe for Shares under the Offer.
Application	A valid application for Shares made under this Prospectus.
Application Form	The form accompanying or attached to this Prospectus by which an Applicant may apply for Shares.
Application Money or Application Amount	Money payable for Shares applied for by an Applicant.
ASIC	Australian Securities and Investment Commission.
ASX or Australian Securities Exchange	ASX Limited (ACN 98 008 624 691), or the securities market it operates, as the context requires.
ASX Listing Rules or Listing Rules	The official listing rules of the ASX.
ASX Settlement	ASX Settlement Pty Limited (ACN 49 008 504 532).
ASX Settlement Operating Rules	The settlement rules of the settlement facility provided by ASX Settlement.
Board	The Board of Directors of the Company.
BPAY®	BPAY Pty Ltd (ACN 69 079 137 518)
CEO	Chief Executive Officer of the Company.
CFO	Chief Financial Officer of the Company.
China or PRC	The People's Republic of China.
Closing Date	5:00pm (AEST) on 22 September 2017 or such other date as the Board may decide, and is the date on which the Offer closes.
Company or Haixi	Haixi Pharmaceutical International Holdings Limited (ACN 616 806 574), the Group's holding company incorporated in Victoria.

GLOSSARY / CONTINUED

Completion	The issue of the Shares to Successful Applicants.
Corporate Adviser	China Australia Capital Ltd.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Directors	The directors of the Company, and Director means any one of them.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Executive Director	A Director appointed as an executive director of the Company.
Existing Shareholders	Those persons or entities who are holders of Shares of the Company as at the date of this Prospectus.
Exposure Period	Has the meaning given in "Important Information" Section.
Financial Information	Has the meaning given in Section 6.
FY	Financial year, ending on 31 December of any year, and the two digits following FY indicate which year (for example FY2016 means the financial year ending 31 December 2016).
GMP	Goods Manufacturing Practices.
Group	The consolidated group comprising the Company and its subsidiaries.
GST	The meaning given in section 195-1 of the <i>A New Tax System (Goods and Services) Tax Act 1999</i> (Cth).
Haixi China	Fujian Yong'an Pharmaceutical Co., Ltd, a company incorporated in the PRC, being the main operating entity of the Group.
Haixi HK	Yong'an Pharmaceutical Investment Co., Ltd, a company incorporated in Hong Kong.
Historical Financial Information	has the meaning given in Section 6.
HK\$ or HKD	Hong Kong dollars, the lawful currency of Hong Kong.
Holding Statement	A holding statement of Shares.
Hong Kong or HK	The Hong Kong Special Administrative Region of China.

Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended from time to time.
IFRS	International Financial Reporting Standards.
Investigating Accountant	BDO Corporate Finance (East Coast) Pty Ltd.
Lead Manager	BlueMount Capital (Sydney) Pty Ltd (authorised representative of AFSL No. 456663).
Listing	The admission of the Company to the Official List of ASX.
Listing Date	The date that the Company is admitted to the Official List of ASX.
Maximum Subscription	The maximum subscription amount under the Offer, being A\$30,000,000.
Minimum Subscription	The minimum subscription amount under the Offer, being A\$25,000,000.
New Share(s)	Share(s) to be issued under the Offer.
Non-Executive Director	A Director appointed as a Non-Executive director of the Company.
NPAT	Net profit after taxes.
Offer	The invitation in this Prospectus to subscribe for Shares.
Offer Information Line	The Offer Information Line being 1300 737 760 (within Australia) within Australia and +61 2 9290 9600 outside Australia.
Offer Price	A\$0.50 per Share.
Official List	The official list of entities that ASX has admitted and not removed.
Official Quotation	The quotation of the Shares on ASX.
Opening Date	8:30am (AEST) on 21 July 2017.
Prospectus	This document and any supplementary or replacement prospectus in relation to this document.
R&D	Research and development.
Registry	Boardroom Pty Limited
RMB, Renminbi or ¥	Chinese Yuan, the lawful currency of the PRC.
Section	A section of this Prospectus.

10. GLOSSARY / CONTINUED

SFDA	State Food and Drug Administration. China.
SFO	The Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong, as amended from time to time.
Share(s)	Ordinary fully paid share(s) in the Company.
Shareholder	A holder of Share(s).
Successful Applicant	An Applicant who is issued Shares under the Offer.
TFN	Tax file number.
US or United States	United States of America
US Securities Act	US Securities Act of 1933, as amended.
US\$ or USD	US dollars, the lawful currency of the United States of America.
WFOE	Yong'an Tongtai Pharmaceutical Co. Ltd, a wholly foreign owned enterprise incorporated in China.

Haixi Pharmaceutical International Holdings Limited

ACN 616 806 574

General Offer Application Form

This is an Application Form for Shares in Haixi Pharmaceutical International Holdings Limited (**Company**) on the terms set out in the Prospectus dated 19 July 2017 (Prospectus). Defined terms in the Prospectus have the same meaning in this Application Form. You may apply for a minimum of 4,000 Shares. This Application Form and your cheque or bank draft must be received by **5.00pm (Sydney Time) on the Closing Date.** Alternatively, you can apply online at www.haixipharmaceutical.com and pay by BPAY. **Completed Application Forms and Application Monies must be received by the Company by 5.00pm (Sydney time) on the Closing Date.**

This Application Form is important. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus dated 19 July 2017 contains information relevant to a decision to invest in the Shares of the Company and you should read the entire Prospectus carefully before applying for Shares.

The Share Registry's Privacy Policy (**Privacy Policy**) also sets out important information relating to the collection, use and disclosure of all personal information that you provide to the Company. Please ensure that you and all relevant individuals have read the Privacy Policy carefully before submitting this Application Form. The Privacy Policy can be found on the website <http://www.boardroomlimited.com.au/Privacy.html>

To meet the requirements of the *Corporations Act 2001* (Cth), this Application Form must not be distributed to another person unless included in, or accompanied by the Prospectus. A person who gives another person access to this Application Form must, at the same time and by the same means, give the other person access to the Prospectus. During the Offer period the Company will send you a free paper copy of the Prospectus if you have received an electronic Prospectus and you ask for a paper copy before the Prospectus expires on 19 August 2018.

PLEASE FOLLOW THE INSTRUCTIONS TO COMPLETE THIS APPLICATION FORM (SEE REVERSE) AND PRINT CLEARLY IN CAPITAL LETTERS USING BLACK OR BLUE PEN.

A Number of Shares you are applying for	B Total amount payable
<input type="text"/> Minimum of 4,000 Shares to be applied for	<input type="text"/>
x \$0.50 per Share =	\$ <input type="text"/>

C Write the name(s) you wish to register the Shares in (see reverse for instructions)
Applicant #1 <input type="text"/>
Name of Applicant #2 or <Account Designation> <input type="text"/>
Name of Applicant #3 or <Account Designation> <input type="text"/>

D Write your postal address here
Number/Street <input type="text"/> <input type="text"/>
Suburb/Town <input type="text"/>
State <input type="text"/>
Postcode <input type="text"/>

E CHESS participant – Holder Identification Number (HIN)	<i>Important please note if the name and address details above in sections C and D do not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.</i>
<input type="checkbox"/> <input type="text"/>	

F Enter your Tax File Number(s), ABN, or exemption category	
Applicant #1 <input type="text"/>	Applicant #2 <input type="text"/>
Applicant #3 <input type="text"/>	

G Cheque payment details – PIN CHEQUE(S) HERE. Cheque to be made payable to "Haixi Pharmaceutical International Holdings Limited" and crossed Not Negotiable. Enter cheque details below.	Alternatively you can apply online at www.haixipharmaceutical.com and pay by BPAY. If you apply online, you do not need to complete a paper Application Form. See details on reverse.			
Name of drawer of cheque <input type="text"/>	Cheque no. <input type="text"/>	BSB no. <input type="text"/>	Account no. <input type="text"/>	Cheque Amount A\$ <input type="text"/>

H Contact telephone number (daytime/work/mobile)	Contact Name
<input type="text"/>	<input type="text"/>
E-mail Address	<input type="text"/>

Declaration By submitting this Application Form with your Application Monies, I/we declare that I/we:

- ✓ have received a copy of, and read, the Prospectus in full;
- ✓ have received this Application Form in accordance with the Prospectus; and
- ✓ have completed the Application Form in accordance with the instructions on the form and in the Prospectus;
- ✓ declare that all details and statements made by me/us are complete and accurate;
- ✓ agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus;
- ✓ where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- ✓ acknowledge my/our Application Form may not be withdrawn;
- ✓ apply for the number of Shares set out in this Application (or a lower number allocated in a manner allowed under the Prospectus);
- ✓ acknowledge that my/our Application may be rejected by the Company in its absolute discretion;
- ✓ authorise the Company and their respective officers and agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated to me/us;
- ✓ am/are over 18 years of age;
- ✓ agree to be bound by the constitution of the Company;
- ✓ acknowledge that neither the Company nor any person or entity guarantees any particular rate of return on the Shares, nor do they guarantee the repayment of capital;
- ✓ represent, warrant and agree that I/we am/are not in the United States or a US Person and am/are not acting for the account or benefit of a US Person; and
- ✓ represent, warrant and agree that I/we have not received this Prospectus outside Australia or New Zealand and am/are not acting on behalf of a person resident outside Australia or New Zealand.

Guide to the Application Form

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the appropriate Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form.

Instructions

- A** If applying for Shares insert the **number** of Shares for which you wish to subscribe at Item **A** (not less than 4,000 Shares representing a minimum investment of \$2,000.00). Multiply by A\$0.50 to calculate the total Application Monies for Shares and enter the **A\$amount** at Item **B**.
- C** Write your **full name**. Initials are not acceptable for first names.
- D** Enter your **postal address** for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- E** If you are sponsored in CHESSE by a stockbroker or other CHESSE participant you may enter your CHESSE HIN if you would like the allocation to be directed to your HIN. **NB: your registration details provided must match your CHESSE account exactly.**
- F** Enter your Australian tax file number ("TFN") or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN/ABN of each joint Applicant. Collection of TFNs is authorised by taxation laws.

Quotation of your TFN is not compulsory and will not affect your Application Form. However, if no TFN is quoted your dividends and distributions may be taxed at the highest marginal tax rate plus medicare levy

- G** Complete **cheque details** as requested. Make your cheque payable to "Haixi Pharmaceutical International Holdings Limited". Cross it and mark it 'Not negotiable'. Cheques must be in Australian currency, and must be drawn on a bank or financial institution in Australia. **Alternatively you can apply online at www.haixipharmaceutical.com and pay by BPAY. If you apply online, you do not need to complete a paper Application Form. See below.**
- H** Enter your **contact details**, including name, phone number and e-mail address, so we may contact you regarding your Application Form or Application Monies.

By providing an e-mail address you are electing to receive notices of meetings, annual reports and other communications from the Company electronically to the provided e-mail address.

Payment by BPAY

You may apply for shares online and pay your Application Monies by BPAY. Applicants wishing to pay by BPAY should complete the online Application Form accompanying the electronic version of the Prospectus available at www.haixipharmaceutical.com and follow the instructions on the online Application Form. When completing your BPAY payment please ensure you use the specific Biller Code and Unique CRN provided in the online Application Form and confirmation e-mail. If you do not use the correct Biller Code and CRN, your Application will not be recognised as valid. It is your responsibility to ensure payment is received by 5:00pm (Sydney time) on the Closing Date. Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment and should therefore take this into consideration when making payment. Neither Boardroom Pty Limited nor VGI Partners Global Investments Limited accepts any responsibility for loss incurred through incorrectly completed BPAY payments.

Correct Form of Registrable Title

Note that ONLY legal entities can hold the Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Individual	Mr John David Smith	J D Smith
Company	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings	Mr John David Smith & Mrs Mary Jane Smith	John David & Mary Jane Smith
Trusts	Mr John David Smith <J D Smith Family A/C>	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith <Est Lte John Smith A/C>	John Smith (deceased)
Partnerships	Mr John David Smith & Mr Ian Lee Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith <Smith Investment A/C>	Smith Investment Club
Superannuation Funds	John Smith Pty Limited <J Smith Super Fund A/C>	John Smith Superannuation Fund

Lodgment

Mail or deliver your completed Application Form with your cheque(s) or bank draft attached to one of the following addresses:

Mailing address:

Haixi Pharmaceutical International Holdings Limited
C/-Boardroom Pty Limited
GPO Box 3993
SYDNEY NSW 2001

Delivery address:

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Level 12, 225 George Street
SYDNEY NSW 2000

The Offer closes at 5:00 p.m. (Sydney Time) on 22 September 2017, unless varied in accordance with the Corporations Act and ASX Listing Rules.

It is not necessary to sign or otherwise execute the Application Form.

If you have any questions as to how to complete the Application Form, please contact Boardroom Pty Limited on 1300 737 760 within Australia and +61 2 9290 9600 outside Australia.

Privacy Statement

Haixi Pharmaceutical International Holdings Limited advises that Chapter 2C of the Corporations Act requires information about its shareholders (including names, addresses and details of Shares held) to be included in the Company's share register. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the Company. To obtain access to your personal information or more information on how the Company collects, stores, uses and disclosures your information please contact the Company at the address or telephone number shown in the Prospectus.

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CORPORATE DIRECTORY

Haixi Pharmaceutical International Holdings Limited

Registered Office

Level 27, 50 Bridge Street
Sydney NSW 2000

Proposed ASX Code: HXP

Corporate Adviser

China Australia Capital Ltd
Level 36, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Lead Manager

BlueMount Capital (Sydney) Pty Ltd
Level 22 Grosvenor Place
225 George Street
Sydney NSW 2000 Australia

Australian Legal Adviser

Baker & McKenzie
Level 27, 50 Bridge Street
Sydney NSW 2000 Australia

Chinese Legal Adviser

AllBright Law Offices
37/F International Financial Centre
No. 1 Wanglong 2nd Avenue
Taijiang District, Fuzhou
Fujian 350009 China

Hong Kong Legal Adviser

Patrick Mak & Tse
21/F, United Centre
95 Queensway, Hong Kong

Offer website:

www.haixipharmaceutical.com/investor/prospectus

Haixi Share Offer Information Line

Within Australia: 1300 70 70 10
Outside Australia: +61 2 9252 2122
Open 8:30am to 5:00pm AEST Monday to Friday

Investigating Accountant

BDO Corporate Finance (East Coast) Pty Ltd
Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008

Auditor and Tax Adviser

BDO East Coast Partnership
Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008

Registry

Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000

Independent Expert

Frost & Sullivan
Suite 1, Level 9, 189 Kent Street
Sydney NSW 2000



HAIXI

haixipharmaceutical.com