



# **China Herbal Medicine Limited**

ACN 168 882 648

## **Information Memorandum relating to the Company's application to list its Ordinary Shares on the National Stock Exchange of Australia**

December 2014

## **Important Information and Notices**

### **Issue of this document**

This Information Memorandum has been prepared by China Herbal Medicine Limited (the Company or CHM) in connection with its application to the NSX listing. The Company does not seek to raise capital in connection with its proposed NSX listing, and is therefore proposing compliance listing only.

This document is dated 19 December 2014. A copy of this document was lodged with the NSX on that day. Neither the NSX nor any of its officers takes any responsibility for the content of the document.

### **Purpose of this document**

This document has been prepared solely for information purposes and to assist investors in evaluating the Company. Neither the Company nor any other person (not limited to any person named in this document) has independently verified any of the information or data contained in this document.

This document is not a prospectus or a disclosure document within Chapter 6D of the Corporations Act.

### **No Liability for costs**

Neither the Company nor any other person (not limited to any person named in this Information Memorandum) accepts any responsibility for any costs incurred by any person in relation to that person's evaluation of the Company pursuant to this document or otherwise.

### **Forward looking statements**

This Information Memorandum contains forward-looking statements. Those forward-looking statements reflect views held only as at the date of this Information Memorandum. Any such statement is subject to inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement, and such deviations are both normal and to be expected.

Neither the Company, nor any of its officers or any person named in this document with their consent or any person involved in the preparation of this document, makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement or any events or results expressed or implied in any forward-looking statement. Any intending investor in China Herbal is cautioned not to place undue reliance on any such statement.

### **Exclusion of Liability**

Nothing in this document is a promise or representation as to the future. Any prospective investor must make his or her own investigations and enquiries about the assumptions, uncertainties and contingencies which may affect the Company. Neither the Company nor any other person (not limited to persons named in this document) has authorised the making of any statement not expressly contained in this document.

### **Application for listing**

The Company will apply to the NSX to be admitted to the official list and for quotation of the shares on the NSX. If granted, official quotation will commence as soon as practicable. The fact that NSX may list the securities of the Company is not to be taken in any way as an indication of the merits of the Company or the listed securities. The NSX takes no responsibility for the contents of the Information Memorandum.

### **Currency of information**

All information in this document is, unless otherwise specifically stated, current only as at the date of issue of this document and then only to the extent that relevant information is available at the time of compilation of this document.

The publication of this document does not create any implication that there will be, or has been, no change in the business or affairs of CHM the date of issue of this document. CHM may in its absolute discretion update or supplement this document but is under no obligation to do so.

**Suitability of Investment and Risk Factors**

Before deciding to invest in the Company by purchase of shares on market following admissions of the Company to the official list of the NSX, Prospective investors should read this entire Information Memorandum.

**Defined terms**

Defined terms used below and elsewhere in this document (indicated with initial capital letters) are explained in the glossary in Chapter 13 of this document.

## Table of Contents

### Important Information

Corporate Directory .....	5
Chapter 1 Chairman's Letter .....	6
Chapter 2 Answers to key questions .....	7
Chapter 3 Industry Overview .....	9
Chapter 4 Company and Business Overview .....	11
Chapter 5 Directors and Senior Management .....	20
Chapter 6 Corporate Governance .....	24
Chapter 7 Risk Factors .....	27
Chapter 8 Financial Information .....	31
Chapter 9 Investigating Accountant's Report.....	46
Chapter 10Material Contracts .....	50
Chapter 11Additional Information .....	51
Chapter 12Directors' Responsibility Statement and Consent .....	56
Chapter 13Glossary and Definitions .....	57

# Corporate Directory

## Directors

Mr Li Yanlong

Ms Lei Dan

Ms Li Ruoning

Mr Jiang Ting

## Company Secretary

Mr Jiang Ting

## Registered Office

Level 25, Aurora Place  
88 Phillip Street  
Sydney NSW 2000, Australia  
Phone: +61 2 8211 0688  
Fax: +61 2 8211 0555

## Principal Place of Business

3 Dinglin Road, Anding District,  
Dingxi City, Gansu Province, PRC, 743099

## Auditor and Investigating Accountant

Grant Thornton Audit Pty Ltd  
Level 1, 67 Greenhill Road  
Wayville SA 5034

## Australian Legal and Nominated Adviser

Connell Lawyers  
242 Angas Street  
Adelaide, South Australia 5000

## Chinese Legal Advisor

Beijing Dacheng Lawyers (Shenzhen Office)  
10/F & 17/F, Gongjiao Building  
1001 Lianhua Branch Road, Futian District,  
Shenzhen, PRC, 518036

## Share Registrar

Boardroom Pty Limited  
7/207 Kent St, Sydney NSW 2000

## Website

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

# Chapter 1 Chairman's Letter

Dear Shareholders

On behalf of the Directors of China Herbal Medicine Limited (the 'Company' or 'CHM'), I am pleased to present this Information Memorandum in connection with our application for a compliance listing of the Company's 68,744,700 issued ordinary shares on the NSX.

CHM was incorporated on 7 April 2014 as a vehicle to list on the NSX. It holds 99% equity interest of a subsidiary, a China based operating company Gansu Dahe Herbal Medicine Development Company Limited ('Gansu Dahe') which plants, grows and sells Traditional Chinese Medicine (TCM) including seeds, seedlings and mature raw plants. Quality seeds, seedlings and raw plants are the foundation for stability and growth of TCM. We have implemented a traceable quality assurance system and safety management system at our production bases.

CHM has established and operates 3 TCM herb production bases of approximately 1.2 million square meters (sq.m) in total in Dingxi City of Gansu Province PRC, of which 82,004 sq.m are presently under cover in greenhouses. We focus on three types of TCM herbs – Angelicae Sinensis, Astragalus Root and Radix Codonopsis Pilosulae (RCP) as they are Daodi or superior quality TCM herbs of Gansu Province. CHM intends to expand its present planting capacity at its three production bases and develop its product range through R & D. 60 varieties of TCM seeds are presently under testing for commercial development.

The TCM industry has experienced stable growth in the past few years thanks to strong Chinese government support documented in the Country's 12th 5-year plan and increasing demand for TCM products from domestic and overseas markets. It is expected that the industry will continue to grow for the foreseeable future.

The company whilst relatively new posted a profit in the first full year of trading. We are earning ourselves a name in China for quality and safe products.

This Information Memorandum explains our products, operations and financial position. The successful listing of the Company on the NSX will provide us with a solid foundation for future growth, and help us to improve corporate governance and to raise the company and products profile.

I encourage you to read this document closely and hope you will consider investing in CHM in the future.

Yours faithfully



Li Yanlong

Chairman

## Chapter 2      Answers to Key Questions

Question	Response	More information
Who is issuing this Information Memorandum?	China Herbal Medicine Limited ACN 168 882 648 (the Company or CHM)	Chapter 4
Who is CHM and what does it do	<ul style="list-style-type: none"> <li>• CHM is a public company incorporated in Australia on 7 April 2014. The Company holds 99% equity interest of Gansu Dahe Herbal Medicine Development Company Limited (Gansu Dahe). Gansu Dahe is a limited liability company incorporated in PRC on 27 November 2012. Together with the Company, they make up the Group.</li> <li>• The Group operates in the upstream of TCM industry. The Group plants, grows and sells TCM herbs including seeds, seedlings and mature raw plants in Gansu Province of PRC.</li> <li>• The Group currently focuses on three types of TCM herbs – Angelicae Sinensis, Astragalus Root and RCP. Our products comprise of seeds, seedlings and mature raw plants.</li> </ul>	Chapter 4
How does CHM generate income?	CHM generates revenue from the sale of TCM herb seeds, seedlings and mature raw plants to customers in Gansu Province. Customers consist of farmers, farmers' cooperatives, agriculture companies and TCM companies.	Chapter 4
What are CHM's business strategies?	<ul style="list-style-type: none"> <li>• Expand planting area and increase <i>Daodi</i> TCM herb varieties</li> <li>• Strengthen R&amp;D activities in new varieties of seeds breeding</li> <li>• Continue to leverage on "Company + farmer + technology + base" operation model</li> <li>• Broaden sales channel and develop an e-commerce platform</li> <li>• Extend the value chain downwards to include TCM raw herb processing business once it is prudent to financially do so.</li> </ul>	Chapter 4
What are CHM's competitive strengths?	<ul style="list-style-type: none"> <li>• Operating in favourable locations</li> <li>• Operating in an attractive industry with increasing government support and consumer consumption</li> <li>• A leading position in the field of TCM herb plantation</li> </ul>	Chapter 4

	<p>with economies of scale</p> <ul style="list-style-type: none"> <li>Experienced management team</li> </ul>	
Who are the Directors of the Company?	<p>Mr. Li Yanlong, Chairman and CEO Ms. Lei Dan, Non-Executive Director Ms. Li Ruoning, Non-Executive Director Mr. Jiang Ting, Non-Executive Director</p>	Chapter 5
Do the Directors have any interests in the issued share capital of CHM?	<p>As at the date of this Information Memorandum, Mr. Li Yanlong holds 51,421,100 shares (74.81%) of CHM indirectly through Hailong Investment Co. Ltd.</p>	Chapter 5
What are CHM's material contracts?	<p>CHM's material contracts consist of:</p> <ul style="list-style-type: none"> <li>25% equity transfer agreement</li> <li>74% equity transfer agreement</li> <li>Director service agreements</li> </ul>	Chapter 10
What is the capital structure of CHM	<ul style="list-style-type: none"> <li>CHM has 68,744,700 shares on issue as at the date of this Information Memorandum. All of the Shares are fully paid ordinary shares.</li> <li>CHM does not have any options or convertible debt securities issued.</li> </ul>	
Purpose of Listing on NSX	<p>CHM is seeking admission to the official list of the NSX:</p> <ul style="list-style-type: none"> <li>to provide a liquid market for shareholders of the Company;</li> <li>to strengthen corporate governance and improve transparency to clients and key stakeholders; and</li> <li>to provide the company ongoing access to capital markets through a respected stock exchange in a similar time zone to pursue growth opportunities.</li> </ul>	
Restricted shares	<p>51,421,100 shares held by Hailong Investment Co., Ltd will be escrowed for 18 months.</p>	Chapter 11
How can I obtain further information?	<p>By speaking to your accountant, lawyer, stockbroker or other professional advisor. If you require assistance or require additional copies of the Information Memorandum, you should contact the Company at +61 2 8211 0688.</p>	
Contact details	<p>For further contact details, see the Corporate Directory at the start of this Information Memorandum</p>	Corporate Directory



## Chapter 3      Industry Overview

Traditional Chinese Medicine (TCM) is China's national treasure and has been used in China for several thousand years. TCM products are considered alternative remedies to Western medicine products in China. For example, TCM products are believed to be better for curing the root cause of the illness and strengthening the immune system while Western medicine is considered to focus on eliminating symptoms. Western medicine is usually more expensive than TCM, making TCM a cost-effective alternative. TCM Products are typically made with natural herbs and animals, which are believed by Chinese people to be easier for the body to take than Western medicine.

TCM market consists of three principal product segments, namely, raw TCM herbs, TCM decoction pieces (processed herbs), and Chinese proprietary medicines (CPM). Raw TCM herbs are raw material and not for direct consumption. TCM decoction pieces are processed herbs which are processed according to traditional Chinese medicine theory, such as: steaming, boiling, frying, chopping, slicing, removal of hair, etc. They generally need to be cooked by consumers before consumption. Chinese Medicines are medicines developed by using TCM raw materials. They have been investigated, observed in studies and through clinical experiences, have received general approval in PRC as being safe for consumption. Chinese Medicines can take a variety of forms, such as: capsules, pellets, powders, granules, pastes, and pills.

The TCM industry has been growing at a rapid pace over recent years, with the industry sales revenue increasing from RMB 142 billion<sup>1</sup> in 2008 to RMB 360 billion in 2012 at a CAGR of 26.2%. Over the same period, the total profit maintained a CAGR of 26.6%, and the gross margin remained higher than the average level of the overall pharmaceutical industry. The contribution of TCM to China's gross domestic product ("GDP") has also been increasing over the past few years, and reached approximately 1% in 2012. The growth is driven by both the growing domestic and international demand.

It is expected that the TCM industry will continue to grow for the foreseeable future. According to estimates from the China Association of Traditional Chinese Medicine, the TCM industry output is likely to exceed RMB1trillion by 2015. We believe such growth has been, and will continue to be, driven by the improving recognition of the TCM industry as a result of the following key factors:

- Improving regulation and supervision of the TCM industry;
- Modernisation and globalisation of the TCM industry; and
- Chinese government support for the development of the TCM industry.

The improving TCM industry standards in China contributed to the increasing confidence and acceptance of Chinese medicine treatment and products, and as a result, an enlarged customer base. Counterfeit medicines and poor-quality medicines in the market have long caused consumers to refrain from adopting Chinese medicine treatment and products. More stringent regulation and supervision of quality control was imposed by the Chinese government in recent years in an attempt to solve the problem. Relevant regulations

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<sup>1</sup> Data is from National Development and Reform Commission of PRC

included “Drug Administration Law of the PRC”, “Regulations of the PRC on Traditional Chinese Medicine”, “Proposal on Implementation of National Essential Drug System” and “Notice on Strengthening Supervision and Administration of Chinese herbs”.

The modernisation and globalisation of the TCM industry have been the prominent trends of recent industry development. Modernization of the TCM industry is primarily reflected by more modern scientific technologies being applied to develop and produce TCM products that are safe, effective, viable for bulk production and easy for intake,. More stringent regulation and supervision of quality control imposed on the TCM industry in recent years contributed to the modernisation of TCM products. To expand into overseas markets, more TCM Products manufacturers register their products according to relevant regulations in overseas countries and regions where applicable. Since the 12th Five-Year Plan has highlighted the importance of expanding the export of TCM products, it is anticipated that modernisation and globalisation of TCM Products will continue in the future.

The Chinese government support is another primary driver of the TCM industry. The Chinese government assists the development of the industry through direct investments and creating favourable policies for the industry. In April of 2009, the government proposed an RMB850 billion three-year spending plan to improve the healthcare infrastructure and expand insurance coverage in China. These types of investments into the healthcare sector gave a direct boost to the growth of the entire healthcare industry, of which the Chinese medicine industry forms an important part. The Chinese government also reinforced a series of TCM industry favouring policies, some of which provided support for the construction of Chinese medicine hospitals, which increased the number of TCM prescriptions and consequently contributed to the growth of demand of TCM products. In early 2012, Proposal on Promoting the Development of Traditional Chinese Medicine Trade in Services was established and issued by 14 Ministries of China which contained a package of measures, including financial investment, taxation support, financial subsidy and measures to improve international recognition, to be introduced to support the development of the Chinese medicine industry. We believe that with the implementation of such favouring and promoting policies, the TCM industry will continue to grow in the foreseeable future.

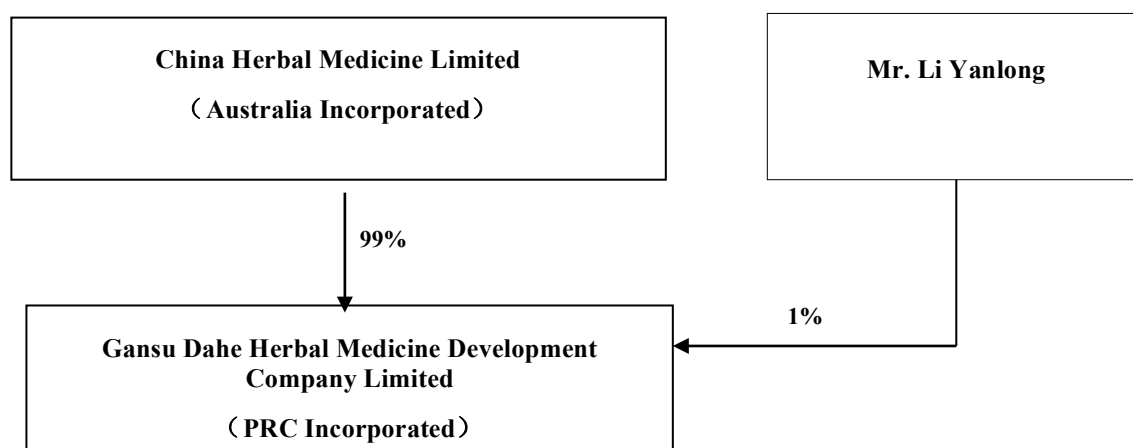
The Company operates in the upstream of the TCM industry, providing TCM herb seeds, seedlings and mature raw plants to downstream players. The growing consumption of TCM products will inevitably boost the demand for more quantity and better quality TCM herbs which are raw material for TCM products. Traditionally TCM herb plantation is conducted by farmers on a small scale. At present Chinese herbs plantation standardisation work is seriously lagging behind, constraining the growth of TCM industry as a whole. The country has strongly supported more resource and investment into standardised production of TCM herbs.

Dingxi is an important Chinese medical herb production area with more than 300 Chinese medical herbs discovered in the area. Angelicae Sinensis and RCP production in Dingxi City accounts for 70 percent and 40 percent of the entire country’s output, respectively. In 2010, the State Administration of Traditional Chinese Medicine (SATCM) of PRC issued Opinions on supporting development of TCM industry in Gansu Province. The Opinions point out that the Chinese State Government strongly supports research and development of rich TCM resources in Gansu Province and establishment of Dingxi and Longnan *Daodi* TCM herbs production bases. The Opinions support increasing plantation of Angelicae Sinensis, Astragalus Root and RCP, *Daodi* TCM, in Dingxi and Longnan, and improving quality and yield of Gansu *Daodi* TCM through standardisation plantation. In 2012, SATCM lists Gansu Province as one of five TCM seeds breeding and seedling cultivation bases.

## Chapter 4      Company and Business Overview

### 4.1 Corporate Structure

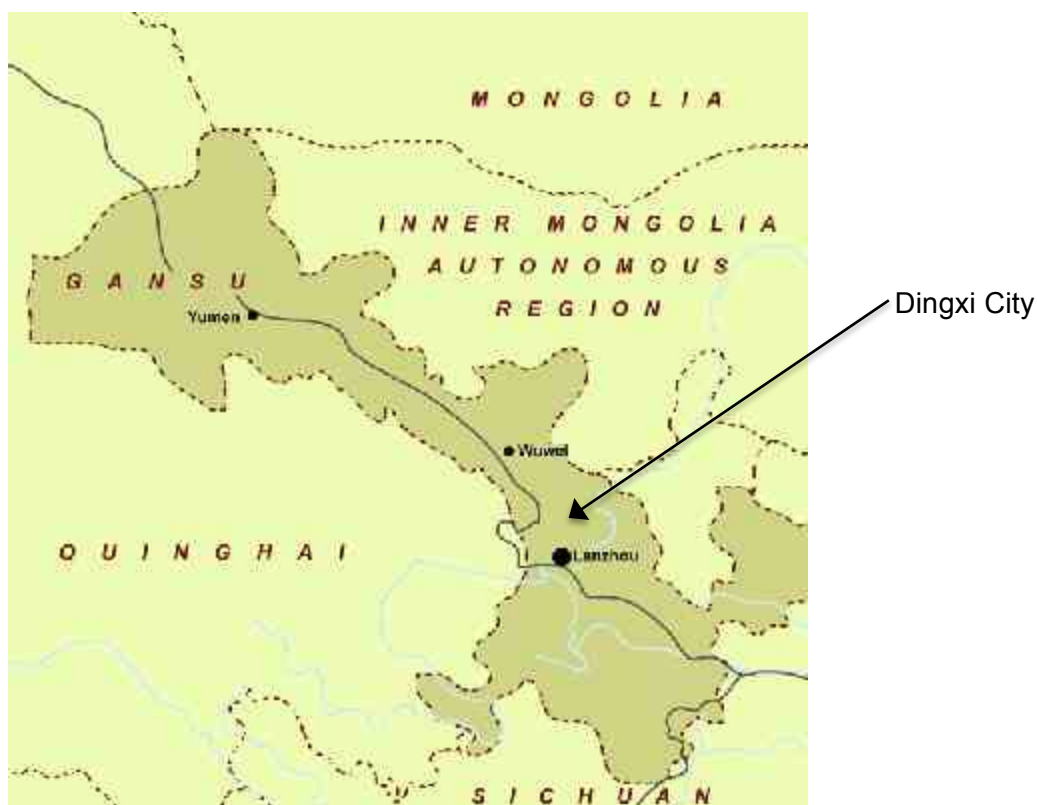
The corporate structure of CHM as at the date of this Information Memorandum is as follows:



- China Herbal Medicine Limited is a public company incorporated in Australia on 7 April 2014. The Company acquired 99% equity interest in Gansu Dahe as a result of two-stage equity transfer (please refer to Section 10.2 and 10.3 for Equity Transfer Agreements). The Company does not itself engage in any substantive business other than acting as the parent company of Gansu Dahe.
- Gansu Dahe was incorporated in PRC on 27 November 2012. Gansu Dahe is the operating entity of the Group, and principally engages in TCM herbs plantation and distribution.
- Mr. Li Yanlong is the founder of Gansu Dahe. He is also the chief executive director and Chairman of CHM.

### 4.2 Business

We are a leading grower of TCM herbs in Gansu Province of PRC. Gansu Province is located in the northwest of PRC and has a population of approximately 30 million. We have grown rapidly since our formation in 2012 and operate 3 production bases of approximately 1.2million sqm of farmland in Dingxi City of Gansu Province. We produce and distribute seeds, seedlings and mature raw plants of 3 types of TCM herbs– Angelicae Sinensis, Astragalus Root and RCP in Gansu Province. By combining our management’s experience and operational knowledge with state-of-the-art TCM herb planting techniques, we have created a hard-to-replicate TCM herbs plantation platform in PRC.



A map showing the location of Gansu Province

#### 4.2.1. Production

Due to differences in growing environments such as altitude, temperature, moisture, and the nature of the soil, there are big differences in the effective ingredients of plants used as TCM. There are also differences in quality. Dingxi is an important Chinese medical herb area with more than 300 Chinese medical herbs discovered in the area. Angelicae Sinensis and RCP production in Dingxi accounts for 70 percent and 40 percent of the entire country's output, respectively. Furthermore, Min County, Longxi County, and Weiyuan County of Dingxi City are named as home for Angelicae Sinensis, Astragalus Root and RCP respectively.

CHM has established and operated three production bases in Dingxi City, namely

- Min County standardised and modernised plantation base for Angelicae Sinensis;
- Longxi County standardised and modernised plantation base for Astragalus Root; and
- Weiyuan County standardised and modernised plantation base for RCP.

We have implemented a traceable quality assurance system and safety management system at our production bases.

The table below shows details of each plantation base of CHM as at the date of this Information Memorandum

Plantation Base	Location	Total (sqm)	Current in use (sqm)	Undercover (sqm)	Legal Status
<b>Angelicae Sinensis base</b>	Ming County	3,333,500	333,350	33,335	20 year lease
<b>Astragalus</b>	Longxi County	66,670	66,670	40,002	20 year

<b>Root base</b>					lease
<b>RCP base</b>	Weiyuan County	800,040	800,040	8,667	2 years lease with renewal option

In addition to three leased production bases, Gansu Dahe leases the following premises for its operation

Name	Lessor	Lessee	Address	Size(sqm)	Lease Period	Annual Rent RMB
Company Headquarters	Dingxi Agricultural Science Research Institution	Gansu Dahe	3 Dinglin Road, Anding District, Dingxi City	13,334 sqm land and building over the land	12 Nov 2013 – 11 Nov 2028	50,000
Warehouse for TCM herb storage	Dingxi Branch of Gansu Province Herbal Medicine Company Limited	Gansu Dahe	518, East Yongding Road, Anding District, Dingxi City	250	1 Feb 2014 – 31 Jan 2015	18,000



Headquarters of Gansu Dahe in Dingxi City of Gansu Province

#### 4.2.2. Products

Our products consist of TCM herb seeds, seedlings and mature raw plants. We have focused on three types of TCM herbs since incorporation, i.e. Angelicae Sinensis, Astragalus Root and RCP.

**Angelicae sinensis** (or "female ginseng") is also known in Chinese as Dang Gui (当归). It is mainly cultivated in Gansu Province.

It is believed by its users to assist with the Liver, Heart, and Spleen, invigorate blood, regulate menstruation, relieve pain, and unblock bowels by moistening the intestine.



**Astragalus Root** (黄芪) is a root used for immune deficiencies and allergies.

Astragalus Root is a plant native to Asia. The Chinese name of the herb, *huang qi*, means "yellow leader", because the root is yellow and it is considered to be one of the most important herbs in traditional Chinese medicine. The part of the plant used medicinally is the root.

Astragalus Root is used in traditional Chinese medicine for night sweats, diarrhoea and for energy tonics that are taken daily at certain times of the year.

It is mainly produced in Inner Mongolia, Shanxi, Gansu and Heilongjiang provinces of China.





**Radix Codonopsis Pilosulae** is an herb. People use the root to make medicine. Codonopsis Pilosulae (Chinese: 党参; pinyin: dǎngshēn), also known as dang shen or poor man's ginseng, is a perennial species of flowering plant in the bellflower family. It is native to Asia, where it grows in forests, meadows, and scrub. The roots of RCP are used in traditional Chinese medicine.

RCP is used to treat HIV infection and to protect cancer patients against side effects of radiation treatment. It is also used to boost the immune system; and to treat weakness, loss of appetite (anorexia), chronic diarrhoea, and shortness of breath, noticeable heartbeat (palpitations), asthma, cough, thirst, and diabetes.



### 4.2.3. Customers

We distribute our products in Gansu Province. Our customers include farmers, farmers' cooperatives, agriculture companies and TCM companies.

### 4.2.4. R&D

We have a strong record of commitment to innovation and improving practices through R&D which has been a very important factor in our successful growth, efficient operations, sustainability and high quality TCM seeds, seedlings and plants.


We invest significant resources and human capital into our R&D, which includes an in-house R&D capability and an extensive network of strategic collaborations with universities and scientific research institutions. We have entered into cooperation agreements respectively with Gansu Agriculture University, Dingxi City Dry Farming Research Institution, Dingxi Agriculture Science Institution, Gansu TCM University, and the Bureau of Dingxi Seeds Management.

Our R&D program is focused on delivering outcomes across the following areas:

- Increasing production
- Improved quality
- Increased efficiency
- Preservation and enhancement of our operating environment

### 4.2.5. Intellectual Property

#### a) Trademark

No	Trade mark	Class and products/services covered	Registration Number	Issuing Authority	Owner	Duration of right
1		Herbal tea, medicinal stems, roots of medicinal plants, medicine raw materials, human drugs, herbs, traditional Chinese medicines, tonics, medical nutrition, herbal medicine bags	12051659	China Trade Mark Office	Gansu Dahe	7 July 2014-6 July 2024

#### b) Use and Development Right over Crop Variety

We have use and development rights over 6 herbal medicine varieties, named Minggui No.1, Minggui No.2, Longqi No.1, Longqi No.2, Weidang No.1, and Weidang No.2.

#### c) Patent Application



We hold two patent applications for TCM herbs breeding. The details of patent applications are set out below

Patent	Application No.	Application Date	Acceptance No.
A breeding way of Lanzhou Lily	20130667002.1	11 December 2013	2013122300947710
A breeding way of Angelicae Sinensis seedlings	201310666963.0	11 December 2013	2013121300681490

#### **4.2.6. Employees**

We employ 17 people as at the date of this Information Memorandum. Due to the nature of TCM herb planting business, we have casual employee's, mainly local farmers, to meet our seasonal demand.

#### **4.2.7. Competitive Strengths**

We believe that the following competitive strengths contribute to our sustainable growth and distinguish us from our competitors:

##### **a) Operating in favourable locations**

We operate in Dingxi City. The City of Dingxi is located in the central part of Gansu province, 98 kilometers away from the capital city, Lanzhou. The City has good transportation infrastructure, close to highway and railway. The soil, ecological environment and weather in Dingxi are good for the growth of TCM herbs. Dingxi is an important Chinese medical herb area with more than 300 Chinese medical herbs discovered in the area. Angelicae Sinensis and RCP production in the city account for 70 percent and 40 percent of the entire country's output, respectively. Our Angelicae Sinensis base is located at Min County which is a major production area for this medicinal herb. Our base has an altitude of 2900m, which is recognised as the best condition for Angelicae Sinensis plantation. Because of natural conditions and ecological environment at our plantation bases, our products are regarded as superior in quality and effects as compared to herbs of the same species obtained from other regions.

TCM herb plantation is also a labor-intensive business. Compared to Eastern coastal areas, labor costs in Gansu Province are much cheaper.

##### **b) Operating in a growth industry with increasing government support and consumer consumption**

Chinese government support for the TCM industry leads to strong consumer consumption of TCM products. The growth of TCM will inevitably boost the demand for quantity and quality of medicinal herbs. At present standardisation of TCM herbs plantation is seriously lagging behind, constraining the growth of the TCM industry as a whole. The Government strongly supports standardised production of TCM herbs including seeds, seedlings and mature plants. Furthermore, the State Government of PRC has adopted and rolled out the China Western Development Plan since 2000. As a result of that, the Nation has

favorable policies towards business and economy development in the Western part of China. Our operation locates in Gansu Province, which is covered by the China Western Development Plan. We have received the benefit of favourable policies such as a preferential tax rate from local governments.

- c) A leading position in the field of TCM herb plantation with economies of scale

TCM herb plantation is fragmented and traditionally conducted on a small scale by individual farmers who have less technology and capital support. We have established a powerful integrated infrastructure that we believe is unique in the market. The infrastructure includes large-scale standardised and modernised medicinal herb plantation bases, a traceable quality assurance system at each base and strong know-how in medicinal herbs plantation through internal R&D activities and close co-operation with universities and research institutions.

- d) Experienced Management Team

We have an experienced management team which has extensive experience in the TCM industry. We believe the technical knowledge in TCM industry, the experience of the senior management and relationships with industry participants allow us to better understand and respond to industry trends and technological developments and provide a strong foundation for our future growth.

#### **4.2.8. Business Strategies and Future Plans**

- a) Expand plantation area and increase *Daodi* TCM herb varieties

At present we utilise only 16% of our largest production base at Min County of 5,000 Chinese Mu which is the equivalent of 3.3 million sqm. We intend to expand our present planting capacity at the Min County base and augment our existing operations at Longxi County and Weiyuan County by leasing farmland located in close proximity to both bases. We will add new varieties of *Daodi* TCM herbs, such as lily, licorice and honeysuckle to our operation.

- b) Strengthen R&D activities in new varieties seeds breeding

Seeds propagation, breeding and selection are the key element to the modernisation and standardisation of TCM herbs plantation. The Company will work more closely with universities and research institutions, and recruit additional technical talent in a bid to reinforce R&D in new seeds breeding. We are developing a further 60 types of seeds for commercialisation.

- c) Continue to leverage on “Company + farmer + technology + base” operation model

The Company operations centre on the use of local farmers' land resources and human resources, long-term cooperation with farmers, improving the "company + farmers + technology + base" business model. At present, TCM herbs are primarily grown by farmers on a small-scale, leading to high planting costs and low return. The company will work with family farmers and farmers cooperatives to develop the modern TCM planting model, supplying quality seeds to farmers, provide training to farmers, provide technical support, buy back seedlings and raw herb plants at discounted price.

- d) Broaden sales channel and develop e-commerce platform

We will continue to broaden our sales channel. We have recently entered into a strategic cooperation relationship with the Bureau of Seeds Management of Dingxi City, which will assist with promotion of our products in Dingxi City. We also plan to set up a number of sales outlets in Gansu Province. Furthermore, we intend to develop an e-commerce platform for TCM products trading.

e) Extend value chain downstream

We currently focus on the upstream of TCM industry. We plan to extend the value chain downwards to include TCM herb processing business once it is prudent to financially do so.

## Chapter 5 Directors and Senior Management

### 5.1 Board of Directors

The Company's Board of Directors is entrusted with the responsibility of the overall management and governance of the Company.

Name	Age	Position
Li Yanlong	51	Chairman and Chief Executive Officer
Lei Dan	36	Non-Executive Director
Li Ruoning	31	Non-Executive Director
Jiang Ting	36	Non-Executive Director

#### Mr. Li Yanlong

##### Chairman and Chief Executive Officer

Li Yanlong is the Executive Chairman and Chief Executive Officer of the Company and is also the founder of Gansu Dahe. Mr. Li brings more than 30 years of experience in agriculture economics, business management and finance.

He graduated with a Bachelor of Economics from the Shaanxi Institute of Finance and Economics in 1987. After graduation, he served in the Bureau of Materials of Xinjiang Autonomous Region where he was involved in agricultural business. Mr. Li joined Lanzhou Railway Bureau in 1993 to lead the computerised accounting centre. In 2004 he founded Gansu Dahe SME Credit Guarantee Limited which provides credit guarantee and corporate advisory service to SME's in Gansu Province.

Mr. Li is a visiting professor of the School of Finance of Yunnan University of Finance and Economics and holds a certificate of China Advanced Professional Manager from the Ministry of Human Resources of China. Mr. Li is a resident of China.

#### Ms. Lei Dan

##### Non-Executive Director

Lei Dan is a Non-Executive Director of the Company. She obtained double bachelor degrees in English Literature and Accounting from Lanzhou University in 2001, and a Master of Finance from University of Queensland in 2003. Having worked in accounting firms and financial institutions she has significant experience in accounting and corporate finance. She is bilingual in English and Mandarin. Ms. Lei is an Australian Citizen and wife of Mr. Li Yanlong.

**Ms. Li Ruoning**  
**Non-Executive Director**

Li Ruoning is a Non-Executive Director of the Company. She brings significant auditing, internal control and corporate governance experience to the Board. Ms. Li is a qualified CPA and had worked for KPMG audit division since 2007 where she had been involved in many capital market transactions including audits and financial diligence for IPOs in HK, US, PRC and Australia. She obtained a Bachelor of Accounting from Australia in 2006. Ms Li is a resident of Melbourne, Victoria.

**Mr Jiang Ting**  
**Non-Executive Director**

Jiang Ting is a Non-Executive director and company secretary of the Company. Mr. Jiang is a qualified Certified Practising Accountant in Australia and has passed the PRC bar exam. He holds a Master of Business (Research) and a Master of Accounting and Finance from the University of Adelaide, and a Bachelor of Law from China.

Mr. Jiang has more than 6 years of experience in corporate finance and corporate advisory as well as 4 years in legal practice, and has completed a range of capital market transactions in both Australia and the PRC. He has extensive experience in the corporate capital raising process in Australia, including in relation to initial public offerings. He also possesses a strong knowledge of Australian and Chinese corporation laws and exchange listing rules. Currently, Mr. Jiang is also an independent director of ASX-listed Sunbridge Group Limited and Xiaoxiao Education Limited.

Mr Jiang is a resident of Melbourne, Victoria.

## **5.2 Interest of Directors and Remuneration**

Except as disclosed in this Information Memorandum, no Director (whether individually or in consequence of a Director's association with any company or firm or in any material contract entered into by the Company) has now, or has had, in the 2 year period ending on the date of this Information Memorandum, any interest in:

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

Except as disclosed in this Information Memorandum, no amounts of any kind (whether in cash, Shares, options or otherwise) have been paid or given or agreed to be paid or given to any Director or to any company or firm with which a Director is associated to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her or any company or firm with which the Director is associated in connection with the formation or promotion of the Company.

**Directors' interests in securities**

Director Name	Number of Shares held directly	Number of Shares held indirectly
Mr Li Yanlong	Nil	51,421,100
Ms Lei Dan	Nil	Nil
Ms Li Ruoning	Nil	Nil
Mr Jiang Ting	Nil	Nil

**Executive and Non-Executive Directors' fees and remuneration**

Below is a table detailing the amount of remuneration each Director of CHM is entitled to receive per annum at the date of this Information Memorandum.

Name	Position	Annual Remuneration	Other compensation (including options)
Mr Li Yanlong	Chairman and Chief Executive Officer	A\$60,000	Nil
Ms Lei Dan	Non-Executive Director	A\$50,000	Nil
Ms Li Ruoning	Non-Executive Director	A\$50,000	Nil
Mr Jiang Ting	Non-Executive Director and Company Secretary	A\$50,000	Nil

### 5.3 Senior Management

Name	Age	Position
Mr Lu Fuming	49	General Manager
Mr Zhang Guoping	44	Deputy General Manager
Mr Liu Benhai	57	Sales Manager
Mr Jia Xiaogang	30	Financial Manager
Mr Lin Haiming	61	Chief Technology Adviser

Lu Fuming, aged 49, joined Gansu Dahe as the general manager in December 2012 and is responsible for daily management and operation. Prior to that, he held management roles at several companies and organisations. Mr Lu served as a deputy general manager of Gansu Provincial Commerce and Trade Group Limited from 1991 to 2005, a director of Gansu Provincial International Culture Exchange Centre from 2005 to 2009, and a company secretary of Lanzhou Yatai Limited from 2009 and 2012. Mr Lu obtained a bachelor of engineering from Jinan University.

Zhang Guoping, aged 44, joined Gansu Dahe as a deputy general manager in December 2012 and is mainly responsible for production. Prior to that he held several positions including technical officer at Gansu Lanzhou Pharmaceuticals Group from 1993 to 2007, served as a production manager of Gansu Du Yi Wei Biological Pharmaceuticals Limited, a public company listed on Shenzhen Stock Exchange, from 2007 to 2010, and worked as a deputy manager of Gansu Fu Ren Pharmaceuticals Limited from 2010 to 2012. Mr. Zhang graduated with a diploma of pharmacy from Lanzhou University.

Liu Benhai, aged 57, joined Gansu Dahe as a sales manager in April 2013 and is mainly responsible for the sales and marketing of the Company products. He has more than 30 years' experience in the Chinese medicine industry. He started his career as a clerk of Lanzhou pharmaceuticals group limited in 1974 and was the wholesale manager until 1995. From 1995 to 2013, he was a sole trader for Chinese herbal medicine. Mr Liu graduated with a diploma of traditional herbal medicine from Gansu College of Traditional Chinese Medicine.

Jia Xiaogang, aged 30, joined Gansu Dahe as a financial manager since its incorporation. Prior to that, he served as an accountant of Lanzhou Xiao Er Hei Foods Company Limited from 2003 to 2007, and a senior accountant of Yuancheng Group until 2012. Mr Jia graduated with a diploma of accounting from Gansu Finance and Trade College.

Lin Haiming, aged 61, is the Chief Technology Adviser of Gansu Dahe. Mr. Lin is a professor of Gansu Agricultural University and a PHD supervisor. He is a recipient of the Special Allowance from the State Council of PRC. He has engaged in teaching and research activities in Agriculture Ecology, Crop Cultivation and TCM Seeds Breeding for over 30 years and published over 100 research articles on various Journals and 10 research books. With his vast experience and knowledge in TCM seeds breeding and seedling cultivation field, he will continue to bring technology support to the Company.

## **Chapter 6      Corporate Governance**

### **6.1 Background**

The Board is dedicated to maximising performance and generating appropriate levels of Shareholder value and financial return.

In conducting business within these objectives, the Board is concerned to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and employees operate in an appropriate environment.

The Board is committed to principles of best practice in Corporate Governance and is ultimately responsible to the shareholders of the Company. The Board has relied on the Revised Principles of Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition), developed by the NSX Corporate Governance Council, in formulating its corporate governance policies and practices. The Board seeks, where appropriate, to adopt without modification, the NSX Corporate Governance Council's Corporate Governance Principles and Recommendations.

### **6.2 Board Committees**

The board has established an Audit and Risk Management Committee and a Remuneration and Nomination Committee. The charters for each of these committees are available on the Company's website [www.chinaherb.com.au](http://www.chinaherb.com.au)

#### **Audit and Risk Management Committee**

The board has adopted an Audit and Risk Management Committee Charter. This charter comprehensively outlines the composition, meeting requirements, authority, reporting, duties and responsibilities of the committee.

If possible, the committee must have a majority of independent directors and include at least 3 Non-Executive directors. If possible, the chairperson also must be independent and cannot be the chairperson of the board.

The current members of the committee are: Li Ruoning (Chair), Lei Dan, and Jiang Ting.

The primary objectives of the Committee are to ensure:

- effective management of financial and other material business risks
- reliable management and financial reporting, including accounts
- compliance with laws and regulations
- Maintenance of an independent, effective and efficient audit.

#### **Nomination and Remuneration Committee**

The board has adopted a Nomination and Remuneration Committee Charter. This document sets out the committee's responsibilities, composition, access to resources and issues to consider in nomination and deciding remuneration for executive directors and senior executives and Non-Executive directors.

If possible, the committee must have a majority of independent directors and include at least 3 Non-Executive directors.

The current members of the committee are: Lei Dan (Chair), Jiang Ting and Li Ruoning.



It is the responsibility of the Committee to review and make recommendations to the board on:

- procedures for the selection and recommendation of candidates suitable for appointment to the Board.
- Appointment, evaluation and removal of the Chief Executive Officer, Board members and senior executives.
- the Company's remuneration, recruitment, retention and termination policies and procedures for senior executives
- senior executives' remuneration and incentives
- superannuation arrangements
- the remuneration framework for directors
- remuneration by gender

### **6.3 Corporate Governance Documents of the Company**

Set out below are summaries of the corporate governance documents of the Company which are available on the Company's website at [www.gsdhzc.com](http://www.gsdhzc.com)

#### **Summary of Board Charter**

The Board's Charter sets out the functions, authority and responsibilities for the Board. The Charter states the Board's primary role is to represent and serve shareholders' interests by appraising the Company's strategies, policies, and performance. The document also explains the relationship between the Board and management.

#### **Summary of Code of Conduct**

The purpose of the Code of Conduct is to outline the Company's philosophy and corporate values. The code is a framework for conducting business and is applicable to all employees in the Company including its subsidiary.

The code directs personnel relating to how to act in the case of a conflict of interest, business hospitality, issues in the workplace and media. No personnel at the Company or its subsidiary are to offer or accept bribes. The code also deals with diversity in the workplace and social and environmental awareness.

#### **Summary of Share Trading Policy**

The Share Trading Policy reinforces the legal prohibitions of dealing in the Company's securities by Directors, Officers and employees when these people are in possession of inside information. The policy restricts trading to certain window periods or in accordance with permission obtained under the policy. The policy also sets out the process for reporting breaches of this policy.

#### **Summary of Continuous Disclosure Policy**

The focus of the Continuous Disclosure Policy is compliance with the disclosure requirements of the *Corporations Act 2001*(Cth) and the NSX listing Rules. The policy has been adopted to establish procedures and protocols to ensure that Directors and management are aware of and fulfil their obligation in relation to the timely disclosure of information.

### **Summary of Shareholder Communication Policy**

This policy promotes effective communication with shareholders by setting out the information to be disclosed to shareholders and the manner in which it is to be released.

### **Summary of related party policy**

The Company recognises that Related Party transactions can present potential or actual conflicts of interest and may raise questions about whether they are in the best interests of the Company. The Company is committed to ensuring that all decisions are made in the best interests of the Company as well as ensuring compliance with the law.

Policy and Procedure is to provide the Company with the process of identification, review, approval and disclosure of Related Party transactions. All Related Party transactions, unless a Pre-approved Transaction, are to be reviewed and approved or ratified, if applicable by the Company's Audit and Risk Management Committee.

The Related Party Transactions Policy provides definitions for key terms such as Related Party and Financial Benefit and specifies the basis for allowing such related party transactions. The Policy requires each related party transaction be at arm's length, transparent and fully documented and provides a process for monitoring and approval.

## **Chapter 7      Risk Factors**

The following summary of Risks relating to the Group is not intended to be a summary of all risks to which the Group is or may be subject. The Board recommends that investors consider the risks described below and information contained elsewhere in this Information Memorandum as well as consulting with their professional advisers.

If any of the risks described below materialise, individually or together, they may have a material adverse effect on the Group's business, financial condition, operating results and/or cash flow, which, in turn, cause a decline in the value and trading price of the Shares.

### **7.1 Risks Specific to the Company**

#### **(a) Foreign currency risks**

The Company's costs and expenses are denominated in Renminbi. Accordingly, the depreciation and/or appreciation of Renminbi relative to Australian Dollars would result in a translation loss and/or gain on consolidation which is taken directly to shareholder equity. In addition, the reporting currency of the Company's financial reports is denominated in Australian Dollars. Any depreciation of Renminbi relative to Australian Dollars may result in lower than anticipated revenue, profit and earnings.

#### **(b) Operating risks**

The Company's overall operations may be adversely affected by various factors, including but not limited to:

- failure to sell its products;
- failure to achieve production;
- unexpected shortages or increases in the cost of consumables, labour, plant and equipment;
- unanticipated sourcing problems, including delays, disruptions or quality control problems;
- industrial and environmental accidents;
- industrial disputes;
- delays due to government actions;
- weather or disease causing unanticipated production problems.

#### **(c) Country risks**

The Company's business is conducted and located in China, such that its operations will be subject to:

- Risk of political and economic instability in China;
- The possible imposition of restrictive trade regulations and tariffs;
- Reduced legal protection and remedies under Chinese commercial laws;
- Risks of foreign exchange currency fluctuations;
- Potential unexpected changes in regulatory requirements (such as those relating to taxation, import and export tariffs, environmental obligations and other matters).

#### **(d) Tax risks**

The Company is subject to the tax regimes of China and Australia. However, more generally, changes in the tax laws and regulations or their interpretation and application could adversely affect the tax liabilities of the Company. There is also no assurance that current concessions or incentives or exemptions of the Company will be reviewed upon their expiry

date. Industry profitability can be affected by changes in government taxation policies or in the interpretation or application of those policies.

(e) PRC legal risk

As the Company's operation is located in PRC, PRC laws and the PRC legal system in general may have a significant impact on our business operations. Although China's legal system has developed rapidly over the last several decades, PRC laws, regulations and legal requirements remain underdeveloped relative to Australia. Moreover, PRC laws and regulations change frequently and their interpretation and enforcement involve uncertainties. For example, the interpretation or enforcement of PRC laws and regulations may be subject to unpublished government rules or policies. In addition, the relative inexperience of China's judiciary in some cases may create uncertainty as to the outcome of litigation. These uncertainties could limit our ability to enforce our legal or contractual rights or otherwise adversely affect our business and operations. Furthermore, due to the existence of unpublished rules and policies, and since newly issued PRC laws and regulations may have a retroactive effect, we may not be aware of our violation of certain PRC laws, regulations, policies or rules until after the fact. Accordingly, we cannot predict the effect of future developments in the PRC legal system. These uncertainties could limit the legal protections available to you and us.

(f) Strategic investment risks and management of growth

The growth of the Company through either acquisitions or organic growth initiatives carries with it a number of risks. Acquisitions could result in losses for the Company based on the assessment of acquisition opportunities, the retention of staff and the integration of new businesses. Organic growth initiatives could result in losses for the Company if operating expenditure or capital expenditure does not result in the anticipated increase in sales or profits for the Company. There can be no assurance that acquisitions and other growth initiatives will achieve required returns on investment.

(g) Fluctuation in market prices for our products could adversely affect our business, financial condition and results of operations

Prices for our products, like those of other commodities, have historically been cyclical and subject to domestic changes in supply and demand and can be expected to fluctuate significantly. We have not engaged in any hedging activities. A decline in the prices of our products below their current levels for a sustained period of time could significantly reduce the value of our land holdings and adversely affect our financial condition and results of operation.

(h) We are exposed to risks of natural disasters, adverse weather conditions or other factors beyond our control which may adversely affect our business, results of operations and financial condition

Natural disasters, such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect our operation. Such natural disasters could cause a material economic downturn in the affected area as well. Although we have had very limited exposure to any catastrophic event, any future disasters in the regions in which we operate or in our main markets could have a adverse effect on our business prospects, financial condition and results of operations.

(i) The outbreak of any major diseases in our production bases in China could adversely affect our business

Our business relies heavily on TCM herbs farming operation. Major outbreaks of disease at any of our production bases could lead to significant shortfalls in our seeds, seedlings and raw herbs production volume, and would have a significant impact on operation. In the past, our production bases have not experienced any major diseases. However, there can be no assurance that such incidents will not happen in the future.

(j) We are exposed to risks of increase labour costs in China

Our business is labour intensive by nature. There has been a general trend of increasing labour costs in China. Although in comparison with Eastern coastal areas labour costs in Western parts of China such as Gansu Province are cheaper, there can no assurance that labour costs will not increase significantly in the future. If that happen, our business prospects, financial condition and results of operations may be adversely affected.

(k) We may not continue to benefit from favourable government policies

We have received preferential tax treatment and subsidies as a result of PRC Government policies that assist the TCM in order to promote standardisation and modernisation of TCM herbs plantation. If these government policies change, we may fail to continue receiving such favourable government policies and our operation and financial results could be adversely affected.

(l) Non-renewal of and/or inability to obtain our relevant regulatory permits and licences may affect our business operations and financial condition

The TCM cultivation and processing industry is a highly regulated industry. We operate under various permits and licences granted by relevant regulatory authorities in the PRC. These permits and licences are generally valid for fixed periods and are renewable upon expiry. Our business and operations are subject to periodic checks by the relevant authorities in the PRC to ensure that we comply with the terms and conditions of these various permits and licences. As we are required to adhere to and maintain requirements imposed by the relevant authorities, our failure to do so may lead to the withdrawal, suspension and/or non-renewal of the permits and licences necessary for our operations, or penalties imposed on us. In such event, our business operations, financial performance and financial position may be adversely affected.

(m) Our continued growth and success are largely dependent on our experienced management team

The success of our Group is attributable to, amongst other things, the expertise and experience of the key management personnel of our Group, in particular our Executive Directors and Executive Officers. There is a risk that changes could occur that adversely affect our ability to retain key personnel or impede its ability to recruit or retain replacement or additional personnel, which could materially impact our business, operational results and financial performance.

(n) We may fail to successfully implement our expansion strategies

As set out in the section “Business Strategies and Future Plans” in this Information Memorandum, our Directors intend to carry out the expansion strategies contained therein. Our growth and future success will be dependent on, among others, the successful completion of such expansion projects proposed to be undertaken by us and the sufficiency of demand for our products. The execution of our expansion strategy may also place a strain on our managerial, operational and financial reserves. Should we fail to implement our expansion plans or should there be insufficient demand for our products, our business operations, financial performance and prospects may be adversely affected.

(o) Counterparty risk

The Company is subject to certain business risks with respect to its contractual counterparties, and failure of such counterparties to meet their obligations could cause the Company to suffer losses or otherwise adversely affect its business.

## 7.2 General Risks

In addition to the specific risks associated with the Company's present and proposed business and operations, there are also general risks which may affect the Company, regardless of its own performance.

(a) Share market conditions

Share market conditions may be affected by many international and domestic factors, including, but not limited to:

- economic conditions and general economic outlook, including inflation rates and interest rates;
- changes in Australian and international stock markets;
- government policy changes, including taxation, monetary policies and legislation;
- interest rates and inflation rates;
- currency fluctuations;
- perception of investors towards particular market sectors;
- the demand for and supply of capital; and
- war, terrorism or other hostilities.

These factors may cause fluctuations in the prices of listed securities quoted on the NSX, including the Company. Regardless of the Company's performance, share market fluctuations may materially and adversely affect the market price of the Shares.

No guarantee can be given that trading prices and volumes of any securities will be sustained. Neither the Company, nor the Directors nor any other person guarantees the market performance of the Company.

(b) Economic risk

Changes in the general economic climate in which the Company operates may adversely affect the operating and financial performance of the Company.

Factors such as inflation, currency fluctuations, interest rates, industrial disruption and economic growth may impact on future operations and earnings. These factors are beyond the control of the Company. No assurance can be given that general economic factors will not affect the company. Indeed, these factors may affect the Company's future profitability and the market price of its Shares.

No assurances can be given as to the growth experienced by the Chinese economy. A future economic downturn in China or in other regions where the Company operates may materially and adversely affect the operating and financial performance of the Company.

(c) Government policy, legislation and regulation

The introduction of new legislation or amendments to existing legislation and regulations by governments, and the decisions of courts and tribunals, may adversely impact on the assets, operations and the financial performance of the Company and its securities.

Political changes or change to monetary and fiscal policies, import regulations and tariffs, taxation, methods of taxation and currency exchange could affect the profitability of the Company and adversely affect the return to Shareholders.

Any adverse changes in political and regulatory conditions in China could affect the Company's prospects.

(d) Dilution risk

The Company may raise additional funds in future to take advantage of growth and expansion opportunities. Any equity offerings to new investors could result in dilution for existing shareholders.

## Chapter 8 Financial Information

### 8.1 Historical Financial Information of Gansu Dahe

Set out below is the historical Statement of Profit or Loss and Other Comprehensive Income of Gansu Dahe Herbal Medicine Development Company Limited ("Gansu Dahe") for the period ended 31 December 2012, year-ended 2013 and the half-year ended 30 June 2014.

As the China Herbal Medicine Limited ("China Herbal")("Company") was incorporated on 7 April 2014 as a vehicle to list on the National Stock Exchange of Australia ("NSX"), it has no substantial operating or trading history. The financials of Gansu Dahe which is a 99% owned subsidiary of China Herbal is considered the most relevant to investors.

	Audited <sup>(1)</sup>		
	Period Ended 31 December 2012 <sup>(2)</sup>	Year Ended 31 December 2013 <sup>(3)</sup>	Half year Ended 30 June 2014 <sup>(4)</sup>
	\$	\$	\$
Revenue	37,311	2,124,252	808,027
Cost of sales	(33,128)	(1,754,408)	(517,223)
Gross profit	4,183	369,844	290,804
Net gain arising from changes in fair value of grow-out work in progress of Chinese herbal sprouts	-	451,039	886,018
Other revenues	-	17,081	14,611
Operating expenses	-	(11,123)	(4,532)
Administration expenses	(10,804)	(227,804)	(149,456)
Finance costs	-	(326)	-
<b>Profit/(Loss) from ordinary activities before income tax expense</b>	<b>(6,621)</b>	<b>598,710</b>	<b>1,037,446</b>
Income tax expense	(67)	(19)	-
<b>Profit/(Loss) from ordinary activities after income tax expense</b>	<b>(6,688)</b>	<b>598,691</b>	<b>1,037,446</b>
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange difference on translating foreign operations	3,969	693,440	(324,445)
<b>Total comprehensive income</b>	<b>(2,719)</b>	<b>1,292,131</b>	<b>713,001</b>

- (1) The historical Statement of Profit or Loss and Other Comprehensive Income has been extracted from the audited financial statements of Gansu Dahe for the period ended 31 December 2012, year-ended 31 December 2013 and the half-year ended 30 June 2014.
- (2) The above Statement of Profit or Loss and Other Comprehensive Income of Gansu Dahe for the period ending 31 December 2012 has been translated from RMB to \$AUD at an average exchange rate of RMB1:AUD\$0.1519. Gansu Dahe was incorporated on 27 November 2012.
- (3) The above Statement of Profit or Loss and Other Comprehensive Income of Gansu Dahe for the year ending 31 December 2013 has been translated from RMB to \$AUD at an average exchange rate of RMB1:AUD\$0.1673.
- (4) The above Statement of Profit or Loss and Other Comprehensive Income of Gansu Dahe for the 6 months ending 30 June 2014 has been translated from RMB to \$AUD at an average exchange rate of RMB1:AUD\$0.1780.

## 8.2 Pro Forma Financial Information

China Herbal Medicine Limited

ACN 168 882 648

**REVIEWED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FROM REGISTRATION  
TO 30 NOVEMBER 2014**

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	Reviewed \$
Revenue	-
Cost of sales	-
<b>Gross profit</b>	<u>-</u>
Other revenues	-
Administration expenses	(309,662)
Finance costs	-
	<u>-</u>
<b>Profit/(loss) from ordinary activities before income tax expense</b>	<u><b>(309,662)</b></u>
Income tax expense relating to ordinary activities	-
	<u>-</u>
<b>Profit/(loss) from ordinary activities after income tax expense</b>	<u><b>(309,662)</b></u>
Other comprehensive income	-
	<u>-</u>
<b>Total comprehensive income for the period</b>	<u><b>(309,662)</b></u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with  
the accompanying notes



**STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL POSITION AS AT 30 NOVEMBER 2014**

		Reviewed China Herbal Medicine Limited <sup>(1)</sup> \$	Audited 30 June 2014 Gansu Dahe <sup>(2)</sup> \$	Pro Forma Balance Sheet \$
<b>CURRENT ASSETS</b>				
Cash and cash equivalent	3	53,574	43,449	97,023
Receivable		-	1,200,652	1,200,652
Inventories		-	141,008	141,008
Biological assets		-	2,159,785	2,159,785
Prepayments		-	597,700	597,700
<b>TOTAL CURRENT ASSETS</b>		<b>53,574</b>	<b>4,142,594</b>	<b>4,196,168</b>
<b>NON CURRENT ASSETS</b>				
Property, plant and equipment		-	1,900,018	1,900,018
Intangible assets		-	3,035	3,035
Investment in Gansu Dahe	4	3,563,987	-	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>3,563,987</b>	<b>1,903,053</b>	<b>1,903,053</b>
<b>TOTAL ASSETS</b>		<b>3,617,561</b>	<b>6,045,647</b>	<b>6,099,221</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	5	489,988	936,316	1,426,304
Revenue received in advance		-	58,919	58,919
<b>TOTAL CURRENT LIABILITIES</b>		<b>489,988</b>	<b>995,235</b>	<b>1,485,223</b>
<b>TOTAL LIABILITIES</b>		<b>489,988</b>	<b>995,235</b>	<b>1,485,223</b>
<b>NET ASSETS</b>		<b>3,127,573</b>	<b>5,050,412</b>	<b>4,613,998</b>
<b>SHAREHOLDERS EQUITY</b>				
Issued capital	6	3,437,235	3,048,000	3,437,235
Retained earnings	7	(309,662)	1,629,448	757,025
Foreign translation reserve	8	-	372,964	369,234
Non-controlling Interest	9	-	-	50,504
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>3,127,573</b>	<b>5,050,412</b>	<b>4,613,998</b>

(1) China Herbal Medicine Limited was registered on the 7 April 2014.

(2) Audited Gansu Dahe financial information has been extracted from the audited financial statements of Gansu Dahe for the period ended 30 June 2014 for the purposes of the preparation of the pro forma consolidated statement of financial position as at 30 November 2014 to provide potential shareholders with a view of the Company's financial position. Financial transactions of Gansu Dahe from July 2014 to November 2014 have not been included in the pro forma consolidated statement of financial position as at 30 November 2014.

**The above statement of financial position and consolidated pro forma statement of financial position should be read in conjunction with the accompanying notes**

China Herbal Medicine Limited  
ACN 168 882 648  
**REVIEWED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD FROM REGISTRATION TO 30 NOVEMBER 2014**

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	Reviewed \$
<b>Operating activities</b>	
Receipts from customers	-
Payments to suppliers	(70)
Interest received	-
	<hr/>
<b>Cash inflows/(outflows) from operating activities</b>	<b>(70)</b>
	<hr/>
<b>Investing activities</b>	
Payments for the acquisition of Gansu Dahe	(3,257,568)
Payments for property, plant and equipment	-
	<hr/>
<b>Cash inflows/(outflows) from investing activities</b>	<b>(3,257,568)</b>
	<hr/>
<b>Financing activities</b>	
Proceeds from share issues	3,437,235
Payments for listing costs	(126,023)
	<hr/>
<b>Cash inflows/(outflows) from financing activities</b>	<b>3,311,212</b>
	<hr/>
Net increase/(decrease) in cash	53,574
	<hr/>
Cash at registration	-
	<hr/>
<b>Cash at period end</b>	<b>53,574</b>
	<hr/>

The above statement of cash flows should be read in conjunction with the accompanying notes

**China Herbal Medicine Limited**  
**ACN 168 882 648**

**REVIEWED STATEMENT OF CHANGES IN EQUITY AND CONSOLIDATED PRO FORMA STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD FROM REGISTRATION TO 30 NOVEMBER 2014**

	Issued Capital	Consolidated Entity Retained Earnings	Foreign currency translation reserve	Non- controlling Interest
	\$	\$	\$	\$
<b>Balance at registration</b>				
Shares issued on registration – 1 ordinary share <sup>(1)</sup>	1	-	-	-
Issue of 3,437,234 ordinary shares	3,437,234	-	-	-
Subdivision of ordinary shares issued to 68,744,700 ordinary shares	-	-	-	-
Loss for the period	-	(309,662)	-	-
<b>Balance at 30 November 2014 (Reviewed)</b>	<b>3,437,235</b>	<b>(309,662)</b>	<b>-</b>	<b>-</b>
<b>Pro forma transactions</b>				
Amounts recognised as a result of acquisition of Gansu Dahe (net) – Refer Note 2	-	1,066,687	369,234	50,504
<b>Pro forma balance</b>	<b>3,437,235</b>	<b>757,025</b>	<b>369,234</b>	<b>50,504</b>

(1) China Herbal was registered on the 7 April 2014 with 1 share. Amount of capital paid was AUD\$1.00.

**The above statement of changes in equity and consolidated pro forma statement of changes in equity should be read in conjunction with the accompanying notes**

## **Note 1 - Statement of Significant Accounting Policies**

The financial information presented herein has been prepared in accordance with the measurement and recognition, but not all of the disclosure, requirements of Australian Accounting Standards. The financial information is presented in abbreviated form insofar as it does not comply with all disclosure requirements set out in the Australian Accounting Standards, the Australian Accounting Interpretations and the Corporations Act 2001.

In the view of the Directors of the Company, the omitted disclosures would provide no further relevant information to potential investors.

### **(a) Basis of Preparation**

The Company has prepared financial information in accordance with the Australian Equivalents to International Financial Reporting Standards (AIFRS).

#### *Reporting Basis and Conventions*

The financial information has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### **(b) Principals of consolidation**

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

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

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

### **(c) Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### **(d) Foreign Currency Translation**

#### **(i) Functional and presentation currency**

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

The presentational and functional currency of its operating subsidiary, Gansu Dahe, is Chinese Renminbi. The consolidated financial statements are presented in Australian Dollars, the presentational and functional currency of China Herbal.

(ii) *Transactions and balances*

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

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

(iii) *Group entities*

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

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

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

**(e) Revenue**

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

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

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

Government grant relating to subsidy is credited to the statement of profit or loss and other comprehensive income.

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

**(f) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

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

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

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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of profit or loss and other comprehensive income. Each year the difference between depreciation based on the re-valued carrying amount of asset charged to the statement of profit or loss and other comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation surplus to retain earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

#### Depreciation

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

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>	<b>Depreciation Basis</b>
Office and equipment	20%	Straight line
Buildings	5%	Straight line
Motor vehicle	10%	Straight line

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

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

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

When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### (g) Inventories

Raw materials include seeds and sprouts to be planted and chemical fertilizer, which are all measured at cost.

Consumable inventories include farming tools and other planting accessories that are valued at cost plus cost of delivery to site.

Finished goods comprise Chinese herbal medicine purchased for wholesales and agriculture produce self-generated seeds. The seeds are measured at its fair value less costs to sell. The fair value is measured at the most recent market transaction price. There has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period.

#### (h) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(i) Financial Instruments**

*Initial recognition and measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial instruments are classified and measured as set out below.

*Effective interest rate method*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

*Classification and subsequent measurement*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

*Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

*Held-to-maturity investments*

These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are held at fair value with changes in fair value taken through the financial assets reserve directly in equity.

*Financial liabilities*

The Company's financial liabilities include trade and other payables. Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

#### *Fair value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### *Impairment of financial assets*

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

### **(j) Impairment of Non-Financial Assets**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### **(k) Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.



**(l) Cash and Cash Equivalents**

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

**(m) Chinese VAT/Australian GST**

Revenues, expenses and assets are recognised net of the amount of VAT/GST, except where the amount of VAT/GST incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT/GST.

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

**(n) Biological Assets**

Biological assets include Chinese herbal medicine seeds planted and sprouts that have yet to be harvested. These are valued under AASB 141.

Seeds and sprouts are valued at their fair value less estimated point-of-sale costs based on estimated sale value. The estimated sale value is measured at the most recent market transaction price. The estimated point-of-sale costs are based on expected shrinkage, delivery costs, storage costs and costs to complete (harvest costs). At 30 June 2014 the Company has 1440 acres (2013: 240 acres) of Chinese herbal medicine seeds and sprouts being cultivated in the ground. The harvest of sprouts from 75% of the acreage being cultivated will be sold to the market with the remaining 25% to be utilised for the cultivation of seeds.

Currently insurance cover is not available at commercially acceptable rates for the biological assets. The directors have chosen to proactively manage the risk as preferred alternative.

**(o) Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

**(p) Critical accounting estimates and judgments**

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

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

*Key estimates — Impairment of non-financial assets*

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

*Exchange Rates*

The following exchange rates used in the preparation of the financial information section is as follows:

RMB:AUD		
	Average	Spot
2012*	0.1519	0.1526
FY2013	0.1673	0.1843

HY2014	0.1780	0.1720
27 November 2012**	-	0.1524

\*Gansu Dahe was incorporated on 27 November 2012. The average rate is from 27 November 2012 to 31 December 2012.

\*\*Historical spot rate has been used to convert issued capital of Gansu Dahe into Australian Dollars.

**(q) New Accounting Standards for Application in Future Periods**

There have been new Australian Accounting Standards and Australian Accounting Interpretations issued or amended which are applicable to the Company but are not yet effective. The Company's assessment of the impact of these new standards and interpretations has been completed with no material effect on the Company's historical and pro forma financial information. The new standards and interpretations have not been adopted in the preparation of the historical and pro forma financial information.

**Note 2 – Pro forma adjustments**

The pro forma financial information has been prepared to illustrate the effects of the acquisition of Gansu Dahe to provide potential shareholders with a view of the Group's financial position, summarised below and referred to as the pro forma adjustments.

**2.1 Acquisition of Gansu Dahe**

Pursuant to an Equity Transfer Agreement dated 3 May 2014 between the Company and Mr. Li Yan Long, the Company acquired 25% of Mr. Li Yan Long's equity interest in Gansu Dahe for the consideration of RMB 5.17 million.

Pursuant to an Equity Transfer Agreement dated 5 August 2014 between the Company and Mr. Li Yan Long and Lanzhou Jiufeng Investment Management Co., Limited ("Lanzhou Jiufeng"), the Company acquired 54% of Mr. Li Yan Long's and 20% of Lanzhou Jiufeng's equity interest in Gansu Dahe for the consideration of RMB 11.15 million and RMB 4.13 million respectively.

The Equity Transfer Agreements were approved by the Gansu Provincial Bureau of Commerce on the 23 September 2014.

The Company has determined that the acquisition of Gansu Dahe did not represent a business combination as defined by Australian Accounting Standards AASB 3. This is because the restructure is considered to be a combination of entities under common control immediately prior to the IPO, and such common control transactions are outside the scope of AASB 3.

The pro forma consolidated statement of financial position has been prepared on the basis that China Herbal has acquired Gansu Dahe's assets and liabilities as noted below. The consolidated pro forma statement of financial position has then been adjusted to reflect transactions in the Equity Transfer Agreements dated 3 May 2014 and 5 August 2014.

Through this transaction effective control of Gansu Dahe passed to the shareholders of China Herbal where following the reconstruction China Herbal took control of Gansu Dahe with no change in underlying control.

As China Herbal was incorporated specifically for the purpose of listing on the NSX and this transaction, the fair value of the equity instruments issued has been estimated by reference to the value of historical (Gansu Dahe's) net assets.

Audited Gansu Dahe financial information has been extracted from the audited financial statements of Gansu Dahe for the period ended 30 June 2014 for the purposes of the preparation of the pro forma consolidated statement of financial position as at 30 November 2014 to provide potential shareholders with a view of the Company's financial position. Financial transactions of Gansu Dahe from July 2014 to November 2014 have not been included in the pro forma consolidated statement of financial position as at 30 November 2014.

The following has been extracted from the audited financial information of Gansu Dahe as at 30 June 2014, converted from Chinese Renmimbi to Australian Dollars using an exchange rate outlined in Note 1.

**30 June 2014**  
**\$**

The assets and liabilities of Gansu Dahe as at 30 June 2014 were:

Cash and cash equivalent	43,449
Receivable	1,200,652
Inventories	141,008
Biological assets	2,159,785
Prepayments	597,700
Property, plant and equipment	1,900,018
Intangible assets	3,035
Trade and other payables	(936,316)
Revenue received in advance	(58,919)
	<hr/>
Total net assets acquired	<b>5,050,412</b>

Accounted for as:

Issued capital	3,048,000
Foreign currency translation reserve	372,964
Retained earnings	1,629,448
	<hr/>
	<b>5,050,412</b>

### **Note 3 – Cash and cash equivalents**

The pro forma cash and cash equivalents are set out below:

	<b>Pro Forma 30 November 2014 \$</b>
<b>Cash and cash equivalents at 30 November 2014</b>	<b>53,574</b>
<i>Pro forma transactions:</i>	
Cash and cash equivalent acquired on the acquisition of Gansu Dahe	43,449
	<hr/>
<b>Total pro forma cash and cash equivalents</b>	<b>97,023</b>

### **Note 4 – Investment in Gansu Dahe**

The pro forma investment in Gansu Dahe is set out below:

	<b>Pro Forma 30 November 2014 \$</b>
<b>Investment in Gansu Dahe at 30 November 2014</b>	<b>3,563,987</b>
<i>Pro forma transactions:</i>	
Elimination of inter-company investment (net)	(3,563,987)
	<hr/>
<b>Total pro forma investment in Gansu Dahe</b>	<b>-</b>

The balance represents investment by China Herbal in Gansu Dahe. The amount of \$3.56 million represents consideration paid/payable pursuant to Equity Transfer Agreements between the Company and Mr. Li Yan Long and Lanzhou Jiufeng. Amount has been eliminated on consolidation of the entities within the Group.

#### Note 5 – Trade and Other Payables

The pro forma trade and other payables are set out below:

	Pro Forma 30 November 2014 \$
<b>Trade and other payables at 30 November 2014</b>	<b>489,988</b>
<i>Pro forma transactions:</i>	
Trade and other payables assumed on the acquisition of Gansu Dahe	936,316
<b>Total pro forma trade and other payables</b>	<b>1,426,304</b>

Within the pro forma trade and other payables balance, \$908,353 is payable to related parties, Director Mr. Li Yan Long and entities and personnel associated with Director Li Yan Long.

#### Note 6 – Issued capital

The pro forma issued capital is set out below:

	Pro Forma 30 November 2014 \$
<b>Issued capital at 30 November 2014</b>	<b>3,437,235</b>
<i>Pro forma transactions:</i>	
Issued capital of Gansu Dahe on acquisition	3,048,000
Elimination of Non-controlling interest relating to Gansu Dahe	(30,480)
Elimination of inter-company investment (net)	(3,017,520)
<b>Total pro forma issued capital</b>	<b>3,437,235</b>

#### Note 7 – Retained earnings

The pro forma retained earnings are set out below:

	Pro Forma 30 November 2014 \$
<b>Retained earnings at 30 November 2014</b>	<b>(309,662)</b>
<i>Pro forma transactions:</i>	
Retained earnings of Gansu Dahe	1,629,448
Elimination of Non-controlling interest relating to Gansu Dahe	(16,294)
Distributions to the Mr. Li Yan Long and Lanzhou Jiufeng as owners of Gansu Dahe before acquisition by China Herbal (net)	(546,467)
<b>Total pro forma retained earnings</b>	<b>757,025</b>

#### Note 8 – Foreign Translation Reserve

The pro forma foreign translation reserve is set out below:

	Pro Forma 30 November 2014 \$
<b>Foreign translation reserve at 30 November 2014</b>	-
<i>Pro forma transactions:</i>	
Foreign translation reserve of Gansu Dahe	372,964
Elimination of Non-controlling interest relating to Gansu Dahe	(3,730)
<b>Total pro forma foreign translation reserve</b>	<b>(369,234)</b>

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi) into presentational currency of the group (Australian Dollars).

#### Note 9 – Non-controlling Interest

The pro forma non-controlling interest is set out below:

	Pro Forma 30 November 2014 \$
<b>Non-controlling interest reserve at 30 November 2014</b>	-
<i>Pro forma transactions:</i>	
Non-controlling interest of Gansu Dahe	50,504
<b>Total pro forma non-controlling interest</b>	<b>50,504</b>

Non-controlling interest represents amounts attributable to the minority shareholder of Gansu Dahe, Mr. Li Yan Long. The minority interest amounts to 1% of Gansu Dahe's shareholdings.

#### Note 10 – Commitments

Operating leases in respect to the lease of cultivating lands on which seeds and sprouts of Chinese herbal medicine are planted are held with commitments totalling AUD\$492,952 at 30 June 2014.

Capital commitments in respect to construction in progress totalling AUD\$42,987 at 30 June 2014.

## Chapter 9 Investigating Accountant's Report



Board of Directors  
China Herbal Medicine Limited  
Level 25, Aurora Place  
88 Phillip Street  
Sydney NSW 2000, Australia

19 December 2014  
**PRIVATE AND CONFIDENTIAL**

Level 1,  
67 Greenhill Rd  
Wayville SA 5034

Correspondence to:  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E info.sa@au.gt.com  
W www.granthornton.com.au

Dear Directors

### **INVESTIGATING ACCOUNTANT'S REPORT ON THE HISTORICAL AND PRO FORMA FINANCIAL INFORMATION**

#### **Introduction**

We have prepared this Investigating Accountant's Report at the request of the Directors of China Herbal Medicine Limited ("China Herbal" or the "Company") for inclusion in an Information Memorandum ("Memorandum") to be dated on or about 19 December 2014, in respect of the planned listing on the National Stock Exchange of Australia.

Expressions defined in the Memorandum have the same meaning in this report.

#### **Scope**

Grant Thornton Audit Pty Ltd ("Grant Thornton Audit") has been requested to prepare this report on the following financial information:

#### **Historical Financial Information**

The Historical Financial Information, as set out in **Chapter 8.2** of the Memorandum comprises:

- China Herbal's historical consolidated statement of profit or loss and other comprehensive income for the financial period ended 30 November 2014; and
- China Herbal's historical consolidated statement of financial position as at 30 November 2014.

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The historical financial information for the period ended 31 December 2012, year ended 31 December 2013 and the period ended 30 June 2014 has been extracted from the audited financial statements of Gansu Dahe Herbal Medicine Development Company Limited (“Gansu Dahe”) upon which Grant Thornton Audit issued an unqualified audit report.

(hereafter, ‘Historical Financial Information’).

#### **Pro forma Financial Information**

The Pro forma Financial Information as set out in **Chapter 8** of the Memorandum comprises the pro forma consolidated statement of financial position at 30 November 2014 and includes the Pro forma Adjustments (“Pro forma Adjustments”) as at that date as disclosed in Note 2 of **Chapter 8.2**. (hereafter, the ‘Pro forma Financial Information’ and collectively the ‘Financial Information’).

This report has been prepared for inclusion in the Memorandum. Grant Thornton Audit disclaim any assumption of responsibility for any reliance on this report or on the Financial Information to which this report relates for any purpose other than the purposes for which it was prepared. This report should be read in conjunction with the Memorandum.

#### **Directors Responsibility for the Historical and Pro Forma Financial Information**

The Directors have prepared and are responsible for the preparation and presentation of the Financial Information. The Directors are also responsible for the determination of the Pro forma Adjustments as set out in **Chapter 8.2** of the Memorandum.

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by the Australian Accounting Standards and other mandatory professional reporting requirements.

#### **Our Responsibility**

Our responsibility is to express a conclusion on the Historical and Pro forma Financial Information based on our review. We have conducted an independent review of the Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- a) The Historical Financial Information does not present fairly the consolidated statement of financial position in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements ) of applicable Accounting Standards;
- b) The Pro forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;
- c) The Pro forma Financial Information has not been prepared on the basis of the assumptions set out in **Chapter 8** of the Memorandum; and

- d) The Pro forma Financial Information does not present fairly the pro forma consolidated statement of financial position at 30 November 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia as if the Pro forma Adjustments set out in **Chapter 8.2** of the Memorandum had occurred at 30 November 2014.

Our independent review of the Financial Information has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consist of reading relevant Board minutes, reading of relevant contracts and other legal documents, inquiries of management personnel and the Directors and analytical and other procedures applied to Gansu Dahe's accounting records.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Financial Information.

#### **Subsequent events**

Since the 30 November 2014 and to the date of the Report, the Company has:

- incurred costs associated with the production of the Memorandum and managing of the Company's assets.

These transactions have been included in the pro forma financial information as adjustments as outlined in **Chapter 8.2** of the Memorandum.

Apart from the matters dealt with in this report and having regard to the scope of our review, to the best of our knowledge and belief, no additional material transactions or events outside the ordinary business of the Company have come to our attention that require comment on or adjustment to the information referred to in our report or that would cause such information to be misleading or deceptive.

#### **Conclusion Statements**

##### *Review Conclusion on the Financial Information*

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that:

- a) The Historical Financial Information does not present fairly the consolidated statement of financial position at 30 November 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia;
- b) The Pro forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;



- c) The Pro Forma Financial Information has not been prepared on the basis of the assumptions set out in **Chapter 8.2** of the Memorandum; and
- d) The Pro forma Financial Information does not present fairly the pro forma consolidated statement of financial position at 30 November 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia as if the Pro forma Adjustments set out in **Chapter 8.2** of the Memorandum had occurred at 30 November 2014.

**Independence and Disclosure of Interest**

Grant Thornton Audit does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Audit will receive a professional fee for the preparation of this report.

Yours faithfully  
GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



S J Gray  
Partner – Audit & Assurance

## **Chapter 10     Material Contracts**

Set out below is a summary of the contracts to which the company is a party which may be material in terms of this Information Memorandum.

To fully understand all rights and obligations of a material contract it will be necessary to review each contract in full and the summaries below should be read in that light.

### **10.1     Directors and officer's agreements**

#### Summary of Executive Director Service Agreement

Under an Executive Employment Agreement dated 3 October 2014 between Mr Li Yanlong and the Company, Mr Li was appointed as Chief Executive Officer of the Company, with effect from 3 October 2014. The Agreement has a term of three years from the Commencement Date, unless terminated earlier in accordance with the agreement. Mr Li's base remuneration will be A\$60,000 for the first year and will be reviewed by the Board on an annual basis thereafter.

#### Non-Executive Directors Letters of engagement

The aggregate remuneration of the Non-Executive Directors has been fixed at a maximum of A\$350,000 per annum (allowing the appointment of future directors) to be apportioned among the Non-Executive Directors in such manner as they determine. Each Non-Executive Director will receive the Director's fee pursuant to their respective Engagement Letters. But the remuneration of the Non-Executive Directors may not exceed in any year the amount fixed by the Company in a general meeting for that purpose.

Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

### **10.2     25% Equity Transfer Agreement**

On 3 May 2014 the Company entered into an Equity Transfer Agreement with Mr Li Yanlong in respect of the acquisition of 25% of Mr Li Yanlong's equity interest in Gansu Dahe. Under the agreement the Company was required to pay consideration of RMB 5.17m to Mr Li Yanlong within 3 months of the change of the business licence. The updated business licence was issued 30 June 2014.

### **10.3     74% Equity Transfer Agreement**

On 5 August 2014 the Company entered into Equity Transfer Agreements with Mr Li Yanlong and Lanzhou Jiufeng Investment Management Company Limited (Lanzhou Jiufeng) in respect of the acquisition of 54% of Mr Li Yanlong's equity interest and 20% of Lanzhou Jiufeng's equity interest in Gansu Dahe. Under the agreements the Company was required to pay consideration of RMB 15.28m to Mr Li Yanlong and Lanzhou Jiufeng (RMB11.15m and RMB 4.13m respectively) within 3 months of the approval of Agreements by the governing commerce authority of PRC . The Equity Transfer Agreements were approved by the Gansu Provincial Bureau of Commerce on 23 September 2014. The updated business licence was issued 25 September 2014.

## **Chapter 11 Additional Information**

### **11.1 Incorporation**

The Company was incorporated as a public company in Australia on 7<sup>th</sup> April 2014.

### **11.2 Tax Status and Financial Year**

The Company's Australian income (if any) will be taxed in Australia as a public company at the prevailing corporate tax rate of 30%. The corporate rate of tax in China is 25%. The financial year of the Company will end on 31 December annually.

### **11.3 Litigation**

The Directors are not aware of any legal proceedings which have been threatened or commenced against the Company.

### **11.4 Rights Attaching to Shares**

The Company currently has 68,744,700 fully paid ordinary shares on issue. There are no other classes of shares on issue. The rights and liabilities attaching to ownership of the Shares are set out in the Company's Constitution, and, in certain circumstances, are regulated by the Corporations Act, the NSX Listing Rules, the ASTC Settlement Rules and general law.

The following is a summary of the more significant rights of the holders of Ordinary Shares of the Company. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Company's Members. The summary assumes that the Company is admitted to the Official List of the NSX.

#### **General Meeting**

Each member is entitled to receive notice of and to attend and vote at general meetings of the Company and to receive all financial statements, notices, and other documents required to be sent to members under the Company's Constitution, the Corporations Act or the Listing Rules.

#### **Voting**

Subject to any rights or restrictions for the time being attached to any class or classes of shares whether by the terms of their issue, the Constitution, the Corporations Act or the NSX Listing Rules, at a general meeting of the Company every holder of fully paid ordinary shares present in person or by proxy, lawyer or representative has one vote on a show of hands and on a poll has one vote for each fully paid share held. A person who holds an ordinary share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are two or more joint holders of the share and more than one of them is present at a meeting and tenders a vote in respect of the share (whether in person or by proxy or lawyer), the Company will count only the vote cast by the member whose name appears before the other in the Company's register of members.

## **Issues of Further Shares**

The Directors may, on behalf of the Company, issue shares or other securities to any person on the terms, with such preferred or deferred or other special rights, obligations or restrictions, and at the times that the Directors may determine. However, the Directors must act in accordance with the restrictions imposed by the Company's Constitution, the NSX Listing Rules, the Corporations Law and any rights for the time being attached to the Shares in special classes of shares.

## **Variation of Rights**

At present, the Company has on issue one class of shares only, namely ordinary Shares. The rights attached to the Shares in any class may be altered only by a special resolution of the Company and a special resolution passed at a separate meeting of the holders of the issued Shares of the affected class, or with the written consent of the holders of at least three quarters of the issued Shares of the affected class.

## **Transfer of Shares**

Subject to the Company's Constitution, the Corporations Act, the ASTC Settlement Rules and the NSX Listing Rules, ordinary Shares are freely transferable.

The Shares may be transferred by a proper transfer effected in accordance with ASTC Settlement Rules, by any other method of transferring or dealing introduced by the NSX and as otherwise permitted by the Corporations Act or by a written instrument of transfer in any usual form or in any other form approved by the Directors that is permitted by the Corporations Act. The Company may decline to register a transfer of Shares in the circumstances described in the Company's Constitution and where permitted to do so under the NSX Listing Rules. The Directors must decline to register a transfer of Shares when required by law by the NSX Listing Rules or by the ASTC Settlement Rules.

## **Partly Paid Shares**

The Directors may, subject to compliance with the Company's Constitution, the Corporations Act and the NSX Listing Rules, issue partly paid Shares upon which amounts are or may become payable at a future time in satisfaction of all or part of the unpaid issue price.

## **Dividends**

Subject to any special terms and conditions of issue of Shares, the profits of the Company which the Board from time to time determines to distribute by way of dividend are divisible amongst the members in proportion to the amounts paid up on the Shares held by them. The Directors may authorise the payment to the members of such interim dividends as appear to the Directors to be justified by the Company's profits and for that purpose may declare such interim dividends.

The Directors favour a strong dividends policy for its shareholders. However it is the current intention of the Company to pay an annual, unfranked dividend to shareholders when it is prudent to do so. Initially however any excess funds will go towards carrying out the companies intended expansion into the Beijing market and throughout China.

## **Dividends Plan**

The Directors may establish, maintain, suspend or terminate dividend plans under which (among other things) a member may elect that dividends payable by the Company be reinvested by way of subscription for Shares in the Company or a member may elect to forego any dividends that may be payable on all or some of the Shares held by that member and to receive instead some other entitlement, including the issue of Shares.

## **Winding Up**

If the Company is wound up at any time, the liquidator may divide, among all or any of the contributories (as defined by the Corporations Act) as the liquidator thinks fit, any part of the assets of the Company. In so dividing, the liquidator may give any class of Shares special or preferential treatment or exclude any class altogether or in part.

If the Company has issued preference shares, those Shares carry a right in a winding up to payment in cash in priority to all other classes of Shares of the amount paid (or agreed to be considered as paid) on each of the preference Shares and the amount (if any) equal to any accrued but unpaid dividends referable to those Shares.

## **Directors**

The Company's Constitution states that the minimum number of Directors is three.

## **Powers of the Board**

The Directors have power to manage the business of the Company and may exercise that power to the exclusion of the members, except as otherwise required by the Corporations Act, any other law, the NSX Listing Rules or the Company's Constitution.

### **11.5 Working Capital Adequacy**

The Directors are satisfied that the Company will have sufficient working capital to carry out its stated objectives.

### **11.6 CHESS**

The Company will apply to participate in the Clearing House Electronic Sub-register System ("CHESS"), operated by NSX Settlement and Transfer Corporation Pty Ltd ("ASTC") a wholly owned subsidiary of the NSX, in accordance with the NSX Listing Rules and the ASTC Settlement Rules. Under this system, the Company will not issue certificates to investors. Instead, Shareholders will receive a statement of their holdings in the Company.

If an investor is broker sponsored, ASTC will send them a CHESS statement. The CHESS statement will set out the number of Shares allotted to the investor under the Information Memorandum, give details of the Shareholder's Holder Identification Number ("HIN") and give the participant identification number of the sponsor.

Alternatively, if an investor is registered on the issuer sponsored sub-register, the statement will be dispatched by the Share Registrar and will contain the number of Shares allotted under the Information Memorandum and the Shareholder's Security Holder Reference Number ("SRN").

A CHESS statement or issuer sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. A

Shareholder may request a statement at any other time. However, a charge may be made for additional statements.

### 11.7 Restricted Securities

As a condition of admitting the Company to the Official List, certain Shares held prior to the date of this Information Memorandum may be classified by NSX as restricted securities. The effect of this is that the restricted securities cannot be dealt with for a period specified by the NSX in the agreements which these Shareholders will have to enter into. Details of such restricted securities will be released to the market prior to commencement of trading in the Shares.

The following shareholders have entered into Voluntary Escrow Agreements with the Company whereby they have agreed not to sell their Shares for the periods set out in the table below.

Shareholder	Escrow period	Shares held
<b>Hailong Investment Co., Limited (owned by Mr Li Yanlong)</b>	18 months	51,421,100

Hailong Investment Co., Limited is an investment holding company incorporated in the British Virgin Island (BVI) and is 100% owned by Mr Li Yanlong.

### 11.8 Interests of Named Persons

Except as disclosed in this Information Memorandum, no expert, promoter or any other person named in this Information Memorandum as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Information Memorandum, nor any firm in which any of those persons is or was a partner, nor any company in which any of those persons is or was associated with, has now, or has had, in the 2 year period ending on the date of this Information Memorandum, any interest in:

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

Except as disclosed in this Information Memorandum, no amounts of any kind (whether in cash, Shares, options or otherwise) have been paid or given or agreed to be paid or given to any expert, promoter or any other person named in this Information Memorandum as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Information Memorandum, or to any firm in which any of those persons is or was a partner or to any company in which any of those persons is or was associated with, for services rendered by that person in connection with the formation or promotion of the Company.

Connell Lawyers (CL) has acted as the Australian Legal Adviser and Nominated adviser to the Company in relation to the listing. CL has been involved in undertaking certain due diligence enquiries in relation to legal matters and providing legal advice to the Company in relation to the listing. In respect of this work, the Company had agreed to pay Connell

Lawyers a total of \$75,000 (plus GST plus disbursements) for these services up to the date of this Information Memorandum.

Grant Thornton Audit Pty Ltd has prepared the Investigating Accountant's Report which is included as part of this Information Memorandum. Total fees payable to Grant Thornton Audit Pty Ltd for this report are approximately \$7,000 (plus GST). Grant Thornton has also consented to act as statutory auditors to the Group.

Beijing Dacheng Law Firm (Shenzhen Office) has acted as Legal Adviser to PRC Law. Dacheng Law Firm has been involved in undertaking certain due diligence enquiries in relation to legal matters. In respect of this work the Company has agreed to pay Dacheng Law Firm RMB 700,000 (approximately \$131,463 AUD at an exchange rate of AUD \$1 = RMB 5.3247 on 24 November 2014<sup>2</sup>).

Boardroom Pty Limited has agreed to provide share registry services to the Company in accordance with the Engagement Letter dated 4 November 2014.

## **11.9 Consents**

Connell Lawyers has given and has not withdrawn its written consent to be named in this Information Memorandum in the form and context in which it is named.

Grant Thornton Audit Pty Ltd has given and has not withdrawn its written consent to be named in this Information Memorandum in the form and context in which it is named.

Beijing Dacheng Law Firm (Shenzhen Office) has given and has not withdrawn its written consent to be named in this Information Memorandum in the form and context in which it is named.

Boardroom Pty Limited has given and has not withdrawn its written consent to be named in this Information Memorandum in the form and context in which it is named.

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<sup>2</sup> Reserve Bank of Australia

## **Chapter 12 Directors' Responsibility Statement and Consent**

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements by the Directors in this Information Memorandum are not misleading or deceptive and that with respect to any other statements made in this Information Memorandum by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making those other statements were competent to make such statements and each of those persons have given their consent to the issue of this Information Memorandum and have not withdrawn that consent, before lodgement of this Information Memorandum with NSX , or to the Directors' knowledge, before any issue of Shares pursuant to this Information Memorandum. The Information Memorandum is prepared on the basis that certain matters may be reasonably expected to be known to likely investors or their professional advisors.

Each Director of the Company has consented in writing to the lodgement of the Information Memorandum with NSX and has not withdrawn that consent.

Signed for and on behalf of China Herbal Medicine Limited

A handwritten signature in black ink, appearing to be 'Li Yanlong', written in a cursive style.

**Mr Li Yanlong**

Chairman and Chief Executive Officer



## Chapter 13      Glossary and Definitions

The following terms used in this Information Memorandum have the following meanings unless the context otherwise requires:

<b>TERM</b>	<b>MEANING</b>
<i>\$, A\$ or AUD</i>	Australian dollars, unless otherwise stated
<i>ASIC</i>	Australian Securities and Investments Commission
<i>ASTC</i>	ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532)
<i>Board of Directors and Board</i>	Board of Directors of China Herbal Medicine Limited unless the context indicates otherwise
<i>Business Day</i>	Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, and any other day that NSX declares is not a business day
<i>BVI</i>	the British Virgin Island
<i>CHESS</i>	ASX Clearing House Electronic Sub-registry System
<i>Company or CHM</i>	China Herbal Medicine Company Limited, a limited company incorporated in Australia on the 7 April 2014 with Australian Company Number (ACN) 168 882 648 and where applicable includes its subsidiaries
<i>Constitution</i>	the constitution of the Company
<i>Corporations Act</i>	the Corporations Act 2001 of Australia
<i>Daodi Medicinal Herbs</i>	<i>Daodi</i> medicinal herbs are those grown and produced in specific geographic regions with designated natural conditions and ecological environment and thus regarded as superior in quality and effects as compared to herbs of the same species obtained from other regions.
<i>Directors</i>	mean directors of CHM unless the context indicates otherwise
<i>EBIT</i>	Earnings before Interest and Tax
<i>EBITDA</i>	Earnings before Interest, Tax, Depreciation and Amortisation
<i>Shares</i>	The 68,744,700 Shares in the Company on issue at the date of the listing
<i>FY</i>	Financial Year ending on 31 December on the year stated
<i>Gansu Dahe</i>	Gansu Dahe Herbal Medicine Development Company Limited, a limited liability company incorporated in China. Dahe in English is translated as Great River.
<i>Group or we or our or us</i>	China Herbal Medicine Limited and Gansu Dahe Herbal

	Medicine Development Company Limited
<i>GST</i>	has the meaning given to it in A New Tax System (Goods and Services Tax) Act 1999 (Cth)
<i>HIN</i>	the holder identification number (for CHESS)
<i>HY</i>	half year ending on 30 June on the year stated
<i>Listing</i>	the listing of the Shares of the Company on the NSX
<i>Listing Rules</i>	listing rules of the NSX
<i>NSX</i>	National Stock Exchange of Australia ACN 000 902 063
<i>Official List</i>	the Official List of the NSX
<i>% or percent</i>	percentage
<i>PRC or China</i>	the People's Republic of China, excluding Taiwan, Hong Kong SAR and Macau PRC for the purpose of this Information Memorandum
<i>Information Memorandum</i>	this disclosure document
<i>Quotation</i>	quotation of the Shares on the Official List
<i>Renminbi or RMB</i>	the legal currency of China
<i>R &amp; D</i>	Research and Development
<i>SCH Business Rules</i>	the SCH Business Rules issued by ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532)
<i>Chapter</i>	a Chapter in this Information Memorandum
<i>Share</i>	a fully paid ordinary share of China Herbal Medicine Company Limited
<i>Shareholders</i>	mean the holder of Shares in China Herbal Medicine Company Limited
<i>Share Registry</i>	Boardroom Pty Limited that the Company appoints to maintain the register of Shares
<i>Sqm</i>	square meters
<i>SRN</i>	Security Holder Reference Number
<i>Subsidiaries</i>	the same as that term is defined under Chapter 1 of the Corporations Act
<i>TCM</i>	Traditional Chinese Medicine