

Q1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) Pharmaceutical ingredients:** It was mentioned in the chairman's statement that the group will shut down its production activities of the pharmaceutical ingredients products segment in the current financial year. This is news to shareholders. **Can the board confirm that the decision to do so was just made? Did the board approve the move to shut down the production? What was the level of due diligence carried out by the board, especially the independent directors?**

RESPONSE:

The information was disclosed in the 3Q Unaudited Financial Results for the year ended 30 September 2018. The move was made preemptively in response to the tightening of environmental controls by the Chinese government. The move was approved by Xi'an Reyphon's board. The board had looked into the background of the government's tightening of environmental controls which resulted from possible environmental damages caused by unauthorized development in Qin mountains. As further investigations had effectively led to the resignation of Xi'an mayor Shangguan Jiqing, the board noted that shutting down the production activities of Xi'an Reyphon was a preemptive but prudent decision by management.

- (ii) Real estate development:** **Can management confirm that there are no longer any real estate development activities being carried out? On the balance sheet, the group recognized carrying value of RMB13.8 million for its property held for sale.**

RESPONSE:

There are no longer any real estate development activities being carried out. The carrying value of RMB13.8 million for property held for sale relates to the remaining units still on sale for the Wuping Lan County project.

- (iii) Bottled water:** **Can management provide shareholders with an update of the market entry plans for the bottled water business? What is capacity of the plant and how will the group be scaling up this business?**

RESPONSE:

Following an evaluation of the bottled water market in China, both nation-wide and regionally, the Group is now in talks with the government of Yan'an, Shaanxi to set up a bottled water operation to service Shaanxi and its neighbouring provinces. The Management expects the first manufacturing facility in Yan'an to come online in 2020 and expects to scale up the business by replicating regional

manufacturing facilities across China while simultaneously building the distribution network.

Q2. On 14 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 1 March 2019) and the audited financial statements for FY2018 after the finalisation of audit.

The material adjustments were due to, inter alia:

- Reclassification of administrative expenses to other operating expenses in the amount of RMB125,000
- Expenses relating to a further RMB713,000 allowance for inventories made in the audited financial statements
- Expenses relating to an impairment of intangible assets in audited financial statements
- Revised estimated selling prices of finished goods so further allowance for inventories have been made
- Fully impaired the remaining carrying value of the intangible asset as this asset related to the Group's pharmaceutical ingredients products segment where management has taken steps to shut down its manufacturing activities
- Reclassification of trade payables to other payables to the amount of RMB13.1 million

The changes were as large as RMB13.1 million.

In fact, the company has had to make material adjustments after the finalisation of audit in the past 3 years, i.e. for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016.

The audit committee (AC) comprises Mr Foong Daw Ching (as chairman), Mr He Kaijun and Dr Lan Weiguang.

In particular, Mr Foong Daw Ching, the AC chair, is formerly a senior partner of Baker Tilly TFW LLP and the former Chairman of Baker Tilly International, Asia Pacific Region. Mr Foong has more than 30 years of audit experience. Mr Foong is a Fellow of The Institute Of Chartered Accountants in England and Wales, a Fellow of the Institute of Singapore Chartered Accountants and a Fellow member of CPA Australia.

- (i) Can Mr Foong help shareholders understand his personal involvement in the preparation and the audit of the financial statements?**

RESPONSE:

Mr Foong had no personal involvement in the preparation and the audit of the financial statements. As the Chairman of the Audit Committee and Lead Independent Director of the Company, Mr Foong would lead the Audit Committee to review the audit plans, and the findings of the

auditors and ensure that the Group follows up on auditors' recommendations raised, if any, during the audit process.

- (ii) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

RESPONSE:

There are periodic reviews performed by the management with respect to the adequacy of the process to prepare the financial statements.

Xiamen Heyu Certified Public Accountant Ltd was also engaged as the internal auditors for the group to ensure that the financial statements are prepared in accordance with the relevant Act and financial reporting standards, and that the relevant internal controls are effective and adequate.

With regards to the material differences pointed out in the original query, we wish to point out that the net effect to profit or loss is RMB838,000 while the reclassification of trade and other payables had no impact to the profit or loss, or net equity of the Group.

- (iii) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

RESPONSE:

The AC continued to evaluate if the internal financial team is sufficiently resourced with experienced and qualified staff including the assessment of appointing a suitable CFO for the group. However, the AC has not found a suitable candidate that is available so far.

- (iv) Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

RESPONSE:

Mr Foong Daw Ching, the AC Chairman, was formerly a senior partner of Baker Tilly TFW LLP and the former Chairman of Baker Tilly International, Asia Pacific Region. Mr Foong has more than 30 years of audit experience. Mr Foong is a Fellow of The Institute Of Chartered Accountants in England and Wales, a Fellow of the Institute of Singapore Chartered Accountants and a Fellow member of CPA Australia.

- (v) **Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

RESPONSE:

The AC had tasked management to standardise the approval process on the purchase of structured deposits using cash balance for Wuping Suntar Eco-city Development.

The Management had also been requested to classify the receivables and payables in Xi'an Reyphon Pharmaceutical in order to adhere to the accounting standards.

Q3. The company was placed on the Watch-list under the MTP criterion pursuant to Rule 1311(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited on 5 June 2017.

The company would be required to take active steps to meet the requirement of Listing Rule 1314(2) within 36 months from 5 June 2017, failing which the Exchange would delist the company or suspend trading in the company's shares with a view to delisting the company.

Rule 1314(2) requires the company to achieve a volume-weighted average price of at least \$0.20 and an average daily market capitalisation of \$40 million or more over the last 6 months.

The company currently has a market capitalisation of \$9.4 million based on 6-month volume weighted average price of \$0.14864 per share.

In the last update on 1 March 2019, the company has stated that it is still "*actively considering various options to meet the requirements of Rule 1314(2)*".

- (i) Would the board update shareholders on the deliberations it has had with regard to exiting the watch-list?**

RESPONSE:

The board continued giving support to Management for exploring new business opportunities such as in bottle water segment in order to improve the operational and financial sustainability of the Group, and to exiting the watch-list.

In addition, the board would also continue to evaluate other business opportunities where the Group could hold a competitive advantage.

- (ii) What are the options available to the group given that it has 36 months from 5 June 2017 to meet the MTP exit criteria? Given that the market capitalisation is more than 75% below the minimum market capitalisation, how feasible is it for the group to meet the threshold?**

RESPONSE:

Given that the market capitalization is more than 75% below the minimum market capitalization, the board is of the view that it would be challenging to meet the MTP exit criteria within the next thirteen months if the Company is solely to rely on the contribution of the newly planned bottled water business. The Board is evaluating the options available to exit the MTP watchlist.

- (iii) In addition, has the board/management evaluated the cost to the group as a result of it being watch-listed by the Exchange? For**

instance, the risk of being delisted would negatively impact the share price and this would make fund raising more difficult and more costly. In addition, the company's shares are no longer investable under CPF funds. There might also be reputational risks as suppliers and customers may be concerned with the company's status as a listed company when it is on the watch-list.

RESPONSE:

The board and management are fully aware of the negative impacts of being watch-listed by the Exchange, and is working to exit the watch-list before the due date.