

Markets Announcement Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000



ASX ANNOUNCEMENT

## **Vitaco Scheme Booklet Registered with Australian Securities and Investments Commission**

Vitaco Holdings Limited (ASX: VIT) ("Vitaco") announces that the Australian Securities and Investments Commission ("ASIC") has today (26 October 2016) registered the scheme booklet in relation to the previously announced Scheme of Arrangement ("Scheme") in connection with a proposal whereby SIIC Medical Science and Technology (Group) Limited, a 100% subsidiary of Shanghai Pharmaceuticals Holdings Co., Ltd, and PV Zeus Limited, a 100% subsidiary of Primavera Capital Fund II L.P., will acquire 100% of the issued share capital of Vitaco ("Scheme Booklet"). A copy of the Scheme Booklet accompanies this announcement.

The proposed acquisition is subject to the approval of Vitaco's shareholders and the Federal Court of Australia as well as certain other conditions (details of which are set out in the Scheme Booklet). If the Scheme is approved and implemented, Vitaco shareholders who are not members of Vitaco's lead management team ("Management Shareholders") will receive a total cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the dividend paid to Vitaco shareholders on 30 September 2016). Management Shareholders will receive the consideration set out in section 3.1 of the Scheme Booklet.

Vitaco's board of directors continues to unanimously recommend that Vitaco shareholders vote in favour of the Scheme, in the absence of a superior proposal. Each Vitaco director, the Management Shareholders and Vitaco's majority shareholder, Next Capital, propose to vote in favour of the Scheme subject to the same conditions.

### ***Despatch of Scheme Booklet and proxy form***

A copy of the Scheme Booklet, including the Independent Expert's Report and the notices of scheme meetings (together with a copy of the proxy form for the each scheme meeting), is attached to this announcement and will be sent to Vitaco shareholders on or about Monday, 31 October 2016.

### ***Scheme Meetings***

The scheme meetings will be held on Wednesday, 30 November 2016 in the Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000, commencing at 10am (AEDT).

All Vitaco shareholders are encouraged to vote either by attending the relevant scheme meeting in person, or by lodging a proxy vote by 10.00am (AEDT) on Monday, 28 November 2016. Details of how to lodge a proxy vote are included in the Scheme Booklet.

### ***Further Information***

Vitaco shareholders can obtain further information by contacting the Vitaco Shareholder Information Line on 1800 262 299 for shareholders located in Australia, and +61 1800 262 299 for shareholders located outside Australia.

For further information, please contact:

#### **Investors**

Phil Wiltshire  
Vitaco CFO  
Tel: +64 (0) 275 826 600

#### **Media**

Peter Brookes  
Citadel-MAGNUS  
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- Ends -



Vitaco Holdings Limited  
ACN 606 826 493

# SCHEME BOOKLET

For the scheme of arrangement in relation to the proposed acquisition of all of your Vitaco Shares by Shanghai Pharmaceuticals Holding Co., Ltd and Primavera Capital Fund II L.P., acting through its general partner Primavera Capital GP II Ltd, via their wholly-owned subsidiaries.

YOUR VITACO DIRECTORS UNANIMOUSLY  
RECOMMEND THAT YOU  
**VOTE IN FAVOUR**  
OF THE SCHEME IN THE ABSENCE OF  
A SUPERIOR PROPOSAL

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding whether or not to vote in favour of the Scheme.

If you are in any doubt as to how to deal with this document, please consult your broker or financial, taxation or legal adviser.

If you have sold your Vitaco Shares, please ignore this document.

If you have any questions in relation to this Scheme Booklet or the Transaction, you should call the Vitaco Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) on Business Days between 8.30am and 5.30pm (AET).

Financial adviser

**J.P.Morgan**

Legal adviser

**MinterEllison**



# Important notices

## Nature of this document

This Scheme Booklet provides Vitaco Shareholders with information about the proposed acquisition of Vitaco by BidCo. If you have sold all of your Vitaco Shares, please ignore this Scheme Booklet.

## Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in **Section 10.1**.

## No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

## Not an offer

This Scheme Booklet does not constitute or contain an offer to Vitaco Shareholders, or a solicitation of an offer from Vitaco Shareholders, in any jurisdiction.

## Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

## Regulatory information

This document is the explanatory statement for the proposed scheme of arrangement between Vitaco and the holders of Vitaco Shares as at the Scheme Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as **Annexure B**.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Vitaco Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

## Small offers exclusion warning statement – Note to Management Shareholders

Management Shareholders are being offered HK HoldCo Shares in HK HoldCo.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to the issue of HK HoldCo Shares to Management Shareholders because it is a small offer. As a result, Management Shareholders may not be given all the information usually required. Management Shareholders will also have fewer other legal protections for this investment.

Ask questions, read all documents carefully, and seek independent financial advice before committing yourself.

## Hong Kong Securities Law – Note to Management Shareholders

This document is not a prospectus within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32, The Laws of Hong Kong) (CWMO) and has not been, and will not be, registered as a prospectus under CWMO, nor is it an offer or invitation to the public within the meaning of the CWMO or the Securities and Futures Ordinance (Chapter 571, The Laws of Hong Kong) (SFO), or an advertisement, invitation or document subject to section 103(1) of the SFO.

No advertisement, invitation or document relating to the HK HoldCo Shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the HK HoldCo Shares which are, or are intended to be, issued only to persons outside Hong Kong.

This document and the contents within have not been authorised or reviewed by the Securities and Futures Commission of Hong Kong or any other regulatory authority of Hong Kong. You are advised to

exercise caution in relation to any matter in relation to this document, including but not limited to the HK HoldCo Shares. If you are in doubt about any contents of this document, you should obtain independent professional advice.

## Notices of Scheme Meetings

The Notices of Meeting for the Vitaco Scheme Meeting and the Management Scheme Meeting are included in this Scheme Booklet as **Annexure D**.

## Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote by Vitaco Shareholders (who are not Management Shareholders) and Management Shareholders at the Vitaco Scheme Meeting and the Management Scheme Meeting, respectively.

Any Vitaco Shareholder may appear at the Second Court Hearing, expected to be held at 10.15am on 6 December 2016 at the Federal Court of Australia, 184 Phillip Street, Sydney NSW 2000.

Any Vitaco Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court, and serving on Vitaco, a notice of appearance in the prescribed form together with any affidavit that the Vitaco Shareholder proposes to rely on at least one day before the Second Court Hearing.

## Important notice associated with the Court order under subsection 411(1) of the Corporations Act 2001 (Cth)

The fact that under subsection 411(1) of the Corporations Act 2001 (Cth), the Court has ordered that meetings be convened and has approved the explanatory statement required to accompany the notices of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Vitaco Shareholders should vote (on this matter Vitaco Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

## Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe Vitaco's, BidCo's or the Guarantors'



objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Vitaco's operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of Vitaco are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Vitaco and/or BidCo. Vitaco Shareholders should note that the historical financial performance of Vitaco is no assurance of future financial performance of Vitaco (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Vitaco operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Vitaco following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Vitaco believes that the views reflected in any forward-looking statements included in the Vitaco Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although BidCo and the Guarantors believe that the views reflected in any forward-looking statements included in the BidCo Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Vitaco, BidCo or the Guarantors or their respective officers, employees, agents or advisers or any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

You should review all of the information in this Scheme Booklet carefully. **Section 1.2** sets out the reasons why you should vote in favour of the Scheme and **Section 1.3** sets out the reasons why you may wish to vote against the Scheme.

All subsequent written and oral forward-looking statements attributable to Vitaco, BidCo or the Guarantors or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Vitaco, BidCo and the Guarantors do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

### Responsibility statement

Vitaco has prepared, and is responsible for, the Vitaco Information. BidCo and the Guarantors and their respective Authorised Persons do not assume any responsibility for the accuracy or completeness of the Vitaco Information. To the maximum extent permitted by law, BidCo and the Guarantors are not responsible for any Vitaco Information and disclaim any liability for the Vitaco Information appearing in the Scheme Booklet except to the extent that BidCo or the Guarantors have provided Vitaco with information for the purpose of Vitaco preparing that information.

Primavera has prepared, and is responsible for, the Primavera Capital Fund II Information. Vitaco and its Authorised Persons do not assume any responsibility for the accuracy or completeness of the Primavera Capital Fund II Information. To the maximum extent permitted by law, Primavera is not responsible for any information appearing in this Scheme Booklet other than the Primavera Capital Fund II Information and disclaims any liability for any information appearing in the Scheme Booklet other than the Primavera Capital Fund II Information. Vitaco is not responsible for any Primavera Capital Fund II Information except to the extent that Vitaco has provided Primavera with information for the purpose of Primavera preparing that information.

SIIC Medical Science has prepared, and is responsible for, the Shanghai Pharma Information. Vitaco and its Authorised Persons do not assume any responsibility for the accuracy or completeness of the Shanghai Pharma Information. To the maximum extent permitted by law, Shanghai Pharma is not responsible for any information appearing in the Scheme Booklet other than the Shanghai Pharma Information and disclaims any liability for any information appearing in the Scheme Booklet other than the Shanghai Pharma

Information. Vitaco is not responsible for any Shanghai Pharma Information except to the extent that Vitaco has provided SIIC Medical Science with information for the purpose of SIIC Medical Science preparing that information.

KPMG Corporate Finance has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is included in this Scheme Booklet as **Annexure A**.

Link Market Services Limited has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Vitaco Registry. Link Market Services Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

### Privacy

Vitaco and BidCo may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Vitaco Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Vitaco Scheme Meeting or the Management Scheme Meeting (as the case may be). The primary purpose of the collection of personal information is to assist Vitaco and BidCo to conduct the Scheme Meetings and to implement the Scheme. Personal information of the type described above may be disclosed to the Vitaco Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of Vitaco and BidCo, and Vitaco's and BidCo's advisers and service providers. Vitaco Shareholders have certain rights to access personal information that has been collected. Vitaco Shareholders should contact the Vitaco Registry in the first instance, if they wish to access their personal information. Vitaco Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

### Date of this Scheme Booklet

This Scheme Booklet is dated 26 October 2016.

### Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Vitaco Shares as traded on ASX.

### Effect of rounding

Financial information, calculations, percentages and prices in this Scheme Booklet are subject to the effects of rounding, which may cause discrepancies between actual calculations and this Scheme Booklet.



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# Key Dates

EVENT	DATE
Date of this Scheme Booklet	26 October 2016
First Court Date	Wednesday, 26 October 2016
Scheme Booklet registered with ASIC	Wednesday, 26 October 2016
Despatch Scheme Booklet to Vitaco Shareholders	Monday, 31 October 2016
Scheme Consideration Escrow Date	10.00am (AET) on Monday, 28 November 2016
Last date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meetings	10.00am (AET) on Monday, 28 November 2016
Time and date for determining eligibility to vote at Scheme Meetings	7.00pm (AET) on Monday, 28 November 2016
Vitaco Scheme Meeting	10.00am (AET) on Wednesday, 30 November 2016
Management Scheme Meeting	immediately following the conclusion of the Vitaco Scheme Meeting on Wednesday, 30 November 2016

## If the Scheme is approved at the Vitaco Scheme Meeting and the Management Scheme Meeting

Second Court Date for approval of the Scheme	Tuesday, 6 December 2016
Effective Date	Tuesday, 6 December 2016
Court order lodged with ASIC and announcement to ASX	
Last day of trading in Vitaco Shares – Vitaco Shares suspended from trading on ASX from close of trading	
Scheme Record Date for determining entitlements to Scheme Consideration	7.00pm (AET) on Friday, 9 December 2016
Implementation Date	Friday, 16 December 2016
Payment of Scheme Consideration to Scheme Shareholders	

All dates following the date of the Scheme Meetings are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on Vitaco's website at [www.vitaco.com.au/investor-centre](http://www.vitaco.com.au/investor-centre).

All references to time in this Scheme Booklet are references to Australian Eastern Time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.



# Letter from the Chairman of Vitaco

26 October 2016

## Dear Vitaco Shareholder

I am pleased to provide you with this Scheme Booklet containing information relating to the proposed acquisition of Vitaco by SIIC Medical Science (a subsidiary of Shanghai Pharma) and Primavera (a subsidiary of Primavera Capital Fund II) (together, **BidCo**), but at all times acting severally with respect to the rights and obligations imposed on them under the Transaction<sup>1,2</sup>, in their Relevant Proportions, details of which were announced to the market on 4 August 2016.

The proposed acquisition is being structured as a scheme of arrangement subject to Vitaco Shareholder and Court approval as well as certain other conditions specified in **Section 9**. If the Scheme is approved and implemented, Vitaco Shareholders who are not Management Shareholders will receive a total cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend<sup>3</sup>)<sup>4</sup>.

## Directors' recommendation

Your Directors (including Mr d'Almeida<sup>5</sup>) unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to determine that the Scheme is in the best interests of Vitaco Shareholders. Each Vitaco Director, the Management Shareholders and the largest shareholder, Next Capital, propose to vote all the Vitaco Shares held or controlled by them in favour of the Scheme, subject to the same conditions. As at 25 October 2016, the shareholding of the Vitaco Directors<sup>6</sup>, the Management Shareholders and Next Capital is 0.2%, 1.1% and 15.3%, respectively<sup>7</sup>.

Your Directors consider the Scheme to be an attractive way for Vitaco Shareholders to realise certain value for their Vitaco Shares at a material premium to trading levels prior to 4 August 2016 (being the date the Transaction was announced). The Vitaco Board has made its recommendation based on the following reasons:

- The Independent Expert has determined that the Scheme is fair and reasonable and consequently is in the best interests of Vitaco Shareholders in the absence of a Superior Proposal;
- The Transaction's implied transaction multiple is attractive compared to implied multiples paid in precedent comparable control transactions in the nutrition, health and wellness industry;
- The Transaction represents a significant premium to the trading prices of Vitaco Shares prior to announcement of the Scheme, and exceeds the highest price that Vitaco Shares have traded at since the 1H16 results announcement in February 2016; and
- The Transaction provides a certain return for Vitaco Shareholders and is compelling given the inherent price uncertainty of a listed company that is investing in longer-term growth while facing ongoing regulatory uncertainty in China and volatile macroeconomic conditions.

When evaluating whether the Scheme was in the best interests of Vitaco Shareholders, your Directors also considered the disadvantages of the Scheme proceeding including the following:

- Vitaco Shareholders will not be able to participate in the future financial performance of the Vitaco business;
- Vitaco Shareholders will not have the opportunity to receive the benefit of any future, more favourable proposal for your Vitaco Shares;
- Vitaco Shareholders may not be able to reinvest the proceeds from the sale of their Vitaco Shares into an investment with a similar growth and risk profile to Vitaco; and
- The tax implications of the Scheme may vary across Vitaco Shareholders.

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1. One effect of this is that if a right is conferred on BidCo by the Scheme Implementation Deed, the Scheme or the Deed Poll, it will not be effectively exercised or waived unless it is exercised or waived in the same manner by both SIIC Medical Science and Primavera.

2. If the Scheme becomes Effective and is implemented, BidCo has nominated AcquireCo to take transfer of the Scheme Shares in accordance with the provisions of the Scheme Implementation Deed.

3. The Permitted Dividend was paid to Vitaco Shareholders on 30 September 2016.

4. Certain Vitaco shareholders who are also Management Shareholders will instead receive total value equivalent to \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) in a combination of cash and HK HoldCo Shares, as described in **Section 3**.

5. Mr d'Almeida makes this statement noting his personal interest in the Scheme by way of his proposed participation in the Scheme (including the proposed receipt of HK HoldCo Shares and, following implementation of the Scheme, in equity incentive schemes).

6. Excludes Mr d'Almeida who is covered under Management Shareholders. Mr d'Almeida's interests in Vitaco Shares, Performance Rights and Options in Vitaco are set out in **Section 9.5**.

7. Based on current total Vitaco Shares outstanding of approximately 139.1 million, excluding Options and Performance Rights.



## Independent Expert

Your Directors' unanimous recommendation of the Scheme is supported by the conclusion of KPMG Corporate Finance, the Independent Expert appointed by the Vitaco Board to assess the Scheme's merits. The Independent Expert has concluded that the Scheme is fair and reasonable and consequently is in the best interests of Vitaco Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the fair value of a Vitaco Share to be in the range of \$2.02 to \$2.20 per Vitaco Share. The Scheme Consideration, payable to Vitaco Shareholders who **are not** Management Shareholders, of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) is at a premium to the assessed range. A complete copy of the Independent Expert's report is included in this Scheme Booklet as **Annexure A**.

In addition, the Independent Expert has assessed the fair value of the Scheme Consideration payable to Management Shareholders to be in the range of \$1.82 to \$2.10 per Vitaco Share which overlaps with the lower end of the Independent Expert's assessed value range for a Vitaco Share without accounting for any available synergies specific to the Consortium. The Independent Expert considers it reasonable to expect that specific synergies will be realised by the Consortium and therefore, the assessed value of the Scheme Consideration payable to Management Shareholders represents a minimum value.

## How to vote

On behalf of the Vitaco Board, I encourage you to vote on the Transaction. You may vote by completing the Proxy Form accompanying the Scheme Booklet or by attending the Vitaco Scheme Meeting (for Vitaco Shareholders who **are not** Management Shareholders) or the Management Scheme Meeting (for Vitaco Shareholder who **are** Management Shareholders) to be held at 10.00am (AET) on Wednesday, 30 November 2016 at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000.

If you wish the Scheme to be implemented it must receive Vitaco Shareholder approval, so it is important that you vote in favour of the Scheme.

## Further information

This Scheme Booklet contains important information regarding the proposed transaction including further detail behind your Directors' recommendation and the Independent Expert's Report. Please read this document in its entirety to assist you with making an informed voting decision and seek independent financial, legal and taxation advice regarding your investment decision if necessary.

**On behalf of the Vitaco Board, I would like to recommend this Scheme to you.**

Yours faithfully,

**Greg Richards**  
Chairman  
Vitaco Holdings Limited



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# Key considerations relevant to your vote



## 1.1 Introduction

The Scheme has a number of advantages and disadvantages which may impact Vitaco Shareholders in different ways, depending on their individual circumstances. Vitaco Shareholders should seek professional advice on their particular circumstances, as appropriate.

**Section 1.2** provides a summary of some of the reasons why the Vitaco Directors have unanimously recommended you vote in favour of the Scheme, in the absence of a Superior Proposal. **Section 1.2** should be read in conjunction with **Section 1.3** which sets out reasons why you may wish to vote against the Scheme. You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Vitaco Scheme Meeting (for Vitaco Shareholders who **are not** Management Shareholders) or the Management Scheme Meeting (for Vitaco Shareholder who **are** Management Shareholders). While the Vitaco Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

## 1.2 Why you should vote in favour of the Scheme

### a. The Vitaco Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal

Each Vitaco Director unanimously recommends Vitaco Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to determine that the Scheme is in the best interests of Vitaco Shareholders. Subject to those same qualifications, each Vitaco Director (including Ryan d'Almeida) intends to vote all the Vitaco Shares held or controlled by that Director in favour of the Scheme<sup>1</sup>.

In reaching their recommendation, each Vitaco Director has assessed the Scheme having regard to the merits of the Scheme, the outlook for Vitaco's businesses and broader market conditions, as set out in this Scheme Booklet.

Each Vitaco Director, Management Shareholder and Vitaco's largest shareholder, Next Capital, propose to vote all the Vitaco Shares held or controlled by them in favour of the Scheme in the absence of a Superior Proposal. As at 25 October 2016, the shareholdings of the Vitaco Directors<sup>2</sup>, the Management Shareholders and Next Capital were 0.2%, 1.1% and 15.3% respectively<sup>3</sup>.

### b. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Vitaco Shareholders

Your Directors appointed KPMG Corporate Finance to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is in the best interests of Vitaco Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, that the Scheme is in the best interests of Vitaco Shareholders, in the absence of a Superior Proposal.

The basis for this conclusion is that the Scheme Consideration, payable to Vitaco Shareholders who **are not** Management Shareholders, of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) is at a premium to the assessed value range of \$2.02 to \$2.20 per Vitaco Share.

In addition, the assessed value of the Scheme Consideration payable to Management Shareholders of \$1.82 to \$2.10 per Vitaco Share overlaps with the lower end of the Independent Expert's assessed value range for a Vitaco Share without accounting for any available synergies specific to the Consortium. The Independent Expert considers it reasonable to expect that specific synergies will be realised by the Consortium and therefore, the assessed value of the Scheme Consideration payable to Management Shareholders represents a minimum value.

A complete copy of the Independent Expert's Report is included in this Scheme Booklet as **Annexure A**.

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1. Mr d'Almeida makes this statement noting his personal interest in the Scheme by way of his proposed participation in the Scheme (including the proposed receipt of HK HoldCo Shares and, following implementation of the Scheme, in equity incentive schemes).  
2. Excludes Mr d'Almeida who is covered under Management Shareholders.  
3. Based on current total Vitaco Shares outstanding of approximately 139.1 million, excluding Options and Performance Rights.



### c. The Scheme Consideration represents an attractive acquisition multiple

The Scheme Consideration, payable to Vitaco Shareholders who are **not** Management Shareholders, of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) represents an attractive acquisition multiple of 14.7x EV/pro forma FY16 EBITDA<sup>4</sup>, which is attractive compared to implied multiples paid in precedent comparable control transactions (see table below).

Close date	Acquirer	Target	Percentage acquired	Transaction value (\$m) <sup>1</sup>	EBITDA LTM <sup>2</sup>	EBITDA NTM <sup>3</sup>
<b>Australia</b>						
May-16	Blackmores Limited	Global Therapeutics Pty Ltd.	100%	23.0	7.7x	n/a
Sep-15	Biostime Healthy Australia Pty	Swisse Wellness Pty Ltd.	83%	1,746.9	15.5x	n/a
Jul-12	Blackmores Limited	FIT-BioCeuticals Ltd.	100%	40.0	8.7x	n/a
<b>International</b>						
Feb-14	Consortium led by Permira Funds	Atrium Innovations Inc.	100%	1,073.7	11.0x	9.9x
Dec-12	Reckitt Benckiser LLC	Schiff Nutrition International	100%	1,352.8	29.4x	21.6x
Nov-12	Nestlé S.A.	Pfizer Nutrition Inc.	100%	11,367.1	23.7x	15.6x <sup>4</sup>
Oct-12	Church & Dwight Co. Inc.	Avid Health, Inc.	100%	627.8	11.2x	n/a
Feb-11	Koninklijke DSM N.V.	Martek Biosciences Corp	100%	1,073.3	9.3x	8.4x
Oct-10	The Carlyle Group LP	NBTY, Inc.	100%	3,726.3	7.2x	8.0x

Source: Company financial statements and announcements; S&P CapitalIQ; KPMG Corporate Finance analysis

Note 1: Transaction value refers to enterprise values as of the date of completion

Note 2: LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

Note 3: Based on EBITDA broker consensus forecasts for the twelve months following the transaction announcement date

Note 4: Sourced from Nestlé's investor presentation on the acquisition, representing a NTM EBITDA multiple post expected run rate of synergies

Additional information on comparable control transactions can be found in the Independent Expert's Report in **Annexure A**.

### d. The Scheme Consideration payable to Vitaco Shareholders who are not Management Shareholders represents a significant premium to the trading prices of Vitaco Shares prior to the announcement of the Scheme

The Scheme Consideration, payable to Vitaco Shareholders who are not Management Shareholders, of \$2.25 per Scheme Share (including the amount of the Permitted Dividend) is a significant premium to the trading prices of Vitaco Shares prior to the announcement of the Scheme and represents an attractive premium of 37% on Vitaco Shares one month VWAP up to and including 3 August 2016 of \$1.64.

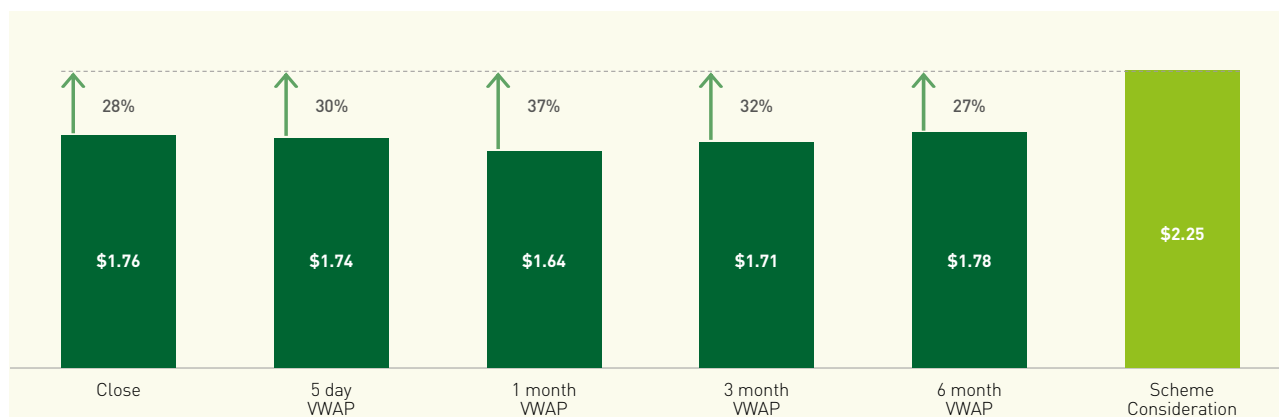
**Figure 1** shows the Scheme Consideration of \$2.25 per Scheme Share, including the Permitted Dividend, and the VWAPs of Vitaco Shares before the announcement of the Scheme<sup>5</sup>.

4. EV calculated using fully diluted Vitaco Shares on issue and net debt (current and non-current borrowings less cash and cash equivalents) of \$36.4 million as at 30 June 2016. Fully diluted Vitaco Shares outstanding of approximately 139.4 million calculated as total shares outstanding if all performance rights and options were exercised (using the treasury stock method). Assumes FY16 pro forma EBITDA of \$23.9 million. The pro forma adjustments included in FY16 pro forma EBITDA are the exclusion of one-off transaction expenses associated with the IPO and the exclusion of one-off transaction and integration costs attributable to the Musashi acquisition.

5. VWAPs based on Vitaco Shares traded up to the closing price of A\$1.76 on 3 August 2016.



FIGURE 1: OFFER PREMIUM TO VWAP



Source: IRESS as at 3 August 2016

#### e. The Scheme Consideration provides you with certainty of value for your Vitaco Shares

The Scheme Consideration, payable to Vitaco Shareholders who **are not** Management Shareholders, of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) provides the most certain near-term return for Vitaco Shareholders, which is compelling compared to the inherent price uncertainty as a listed company (particularly given volatile macroeconomic conditions and ongoing regulatory uncertainty in China).

The certainty of this cash payment should be compared with the risks and the uncertainties of remaining a Vitaco Shareholder, which include, but are not limited to, the risks set out in **Section 7**.

#### f. Since the announcement of the Scheme, no Superior Proposal has emerged

Since the announcement of the Scheme to the market on 4 August 2016 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Vitaco Directors are not aware, as at the date of this Scheme Booklet, of any Superior Proposal that is likely to emerge.

In addition, the Independent Expert has acknowledged that the likelihood of an alternative proposal emerging at this time is considered low. According to the Independent Expert:

*'At the time of the IPO, a trade sale process was also undertaken by Vitaco's private equity owners. The process, whilst thorough, failed to deliver a buyer that would match the price that could be achieved by way of an IPO.'*

*'In announcing the Scheme, Vitaco signalled to the market that it was once again 'in play', but as with any active market transaction, only for a limited period. Initial speculation that a higher price may be extracted from the Consortium has failed to materialise, and no other party has signalled an interest in Vitaco.'*

#### g. The price of the Vitaco Shares may fall if the Scheme is not implemented

Since listing, Vitaco Shares have traded on ASX between a last close high of \$3.16 on 4 November 2015 and a last close low of approximately \$1.42 on 25 April 2016. On 3 August 2016, the last trading day before the announcement of the Scheme, the Vitaco Share price closed at \$1.76.

If the Scheme is not implemented, the Vitaco Shares will remain quoted on the ASX and will continue to be subject to market volatility, including general stock market movements, the impact of general economic conditions and demand for listed securities. As such, if the Scheme is not implemented, the price at which Vitaco Shares trade may fall, including to a price that is well below the Scheme Consideration.

The Independent Expert expressed a similar view in the Independent Expert's Report. According to the Independent Expert:

*'The current share price of Vitaco reflects the terms of the Scheme and therefore includes a control premium. As such, in the absence of the Scheme, an alternative proposal or speculation concerning an alternative proposal, the Vitaco share price is likely to fall to levels consistent with trading prices prior to the announcement of the Scheme, or potentially lower, if the market sentiment that impacted Blackmores' trading price post its earnings announcement is also assessed against Vitaco.'*

#### h. If the Scheme does not proceed, you will continue to be subject to the risks and uncertainties associated with the Vitaco business and also general market risks

The Vitaco Directors consider that Vitaco, as a standalone listed company on the ASX, operates in a dynamic market which will continue to be subject to risks and uncertainties including volatile macroeconomic conditions and ongoing regulatory uncertainty in China. Vitaco has significant growth opportunities, including current growth initiatives to expand distribution into China, however these



will likely take time to develop, will likely require further capital expenditure and marketing investment, and are exposed to market conditions and carry execution risks, some of which are outside the control of Vitaco.

If the Scheme does not proceed, Vitaco Shareholders will continue to be subject to these risks, as well as other specific risks inherent in Vitaco's business, including, but not limited to, those risk factors summarised in **Section 7**.

The Scheme removes these risks and uncertainties for Vitaco Shareholders and allows Vitaco Shareholders to exit their investment in Vitaco at a price that your Directors consider to be attractive.

## 1.3 Why you may wish to vote against the Scheme

### a. You may disagree with the Vitaco Directors' unanimous recommendation and the Independent Expert's conclusion and believe that the Scheme is not in your best interests

Despite the view of the Vitaco Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Vitaco Shareholders or not in your individual best interests.

### b. You may prefer to participate in the future financial performance of the Vitaco business

If the Scheme is approved and implemented, you will cease to be a Vitaco Shareholder. As such, you will no longer be able to participate in the future financial performance or future prospects of Vitaco's ongoing business, including any benefits that may result from being a Vitaco Shareholder. However, there is no guarantee as to Vitaco's future performance, as with all investments in listed securities.

### c. You may wish to maintain your investment profile

You may wish to maintain your investment in Vitaco in order to have an investment in a publicly listed company with the specific characteristics of Vitaco in terms of industry, operational profile, size, capital structure and potential dividend stream.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Vitaco Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Vitaco and they may incur transaction costs in undertaking any new investment.

### d. The tax consequences of the Scheme may not suit your individual financial position

Implementation of the Scheme may trigger taxation consequences for Vitaco Shareholders. A general guide to the taxation implications of the Scheme is set out in **Section 8**. This guide is expressed in general terms only and Vitaco Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

### e. You may consider that there is potential for a Superior Proposal to be made in the foreseeable future

It is possible that, if Vitaco were to continue as an independent listed entity, a corporate control proposal for Vitaco could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Vitaco Shareholders will not receive the benefit of any such proposal.

Since the announcement of the Scheme on 4 August 2016 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Vitaco Directors are not aware of any superior or any alternative proposal that is likely to emerge.

The Scheme Implementation Deed prohibits Vitaco from soliciting a Competing Transaction. However, Vitaco is permitted to respond to any Competing Transaction should the Vitaco Directors determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties. Further details of the key terms of the Scheme Implementation Deed are provided in **Sections 3** and **9.3**.

### f. The Scheme may be subject to conditions that you consider to be unacceptable

The Scheme is subject to a number of Conditions Precedent, including certain regulatory approvals, Vitaco Shareholder approval, Court approval, no 'material adverse change' (for a description of what constitutes a material adverse change, see **Section 9.3(a)**), no change in the conclusion of the Independent Expert, and no Guarantor Prescribed Occurrence<sup>6</sup>.

All of the Conditions Precedent to implementation of the Scheme are set out in full in clause 3.1 of the Scheme Implementation Deed.

If these Conditions Precedent are not satisfied or waived, the Scheme will not proceed (even if it has been approved by Vitaco Shareholders) and Vitaco Shareholders will not receive the Scheme Consideration as contemplated by the Scheme. You may consider the uncertainty created by the Conditions Precedent to be unacceptable. However, we note that Vitaco intends to announce on the ASX the satisfaction or waiver of Conditions Precedent as that occurs.

6. Guarantor Prescribed Occurrence means the occurrence of an Insolvency Event as defined in the Scheme Implementation Deed in relation to BidCo or a Guarantor.



## 1.4 Other considerations

### a. The Scheme may be implemented even if you do not vote at the relevant Scheme Meeting or you vote against the Scheme

Regardless of whether you vote for or against the Scheme, abstain or do not vote at all, the Scheme may still be implemented if it is approved by the Requisite Majorities of Vitaco Shareholders at each Scheme Meeting, the Court's approval is obtained and the other Conditions Precedent are satisfied or waived (if capable of waiver). If this occurs, your Vitaco Shares will be transferred to AcquireCo and you will receive the Scheme Consideration funded by BidCo (in the case of the cash component of the Scheme Consideration) and issued by HK HoldCo to Management Shareholders (in the case of the HK HoldCo Shares).

### b. There are implications to consider if the Scheme is not approved

If the Scheme is not approved by the Requisite Majorities of Vitaco Shareholders at the Scheme Meetings, or by the Court, or the other Conditions Precedent are not satisfied or waived (if capable of waiver):

- you will not receive the Scheme Consideration;
- your Vitaco Shares will not be transferred to AcquireCo (they will be retained by you);
- Vitaco will continue to operate as a standalone entity;
- you will continue to be exposed to the benefits and risks associated with an investment in Vitaco and other general benefits and risks relating to any investment in a publicly listed company; and
- in the absence of a Superior Proposal, the Vitaco share price may fall.

Transaction costs will have been incurred, or will be committed, by Vitaco in relation to the Scheme. Those transaction costs have either already been paid, or will be payable, by Vitaco regardless of whether or not the Scheme is implemented. If the Scheme does proceed, additional costs will be incurred.

### c. A break fee may be payable in some circumstances

Depending on the reasons why the Scheme does not proceed, either Vitaco or BidCo may be liable to pay a break fee to the other party as outlined in clauses 13 to 15 of the Scheme Implementation Deed.

### d. If regulatory approvals are significantly delayed, supplementary information from the Independent Expert may be provided

This Scheme Booklet has been sent because BidCo expects to have received all regulatory approvals by the date of the Scheme Meetings. If there is a delay in the receipt of these approvals, the Scheme Meetings may be adjourned to a later date. If the Scheme Meetings are adjourned, an updated Independent Expert's Report may need to be issued to Vitaco Shareholders. This will ensure you are in possession of the latest information regarding the value of Vitaco.

Depending on the length of time that passes between the adjourned meeting and the new meeting date, the Independent Expert's valuation range may increase or decrease depending on a number of factors. These include the accumulation of profits, foreign exchange rates and general economic and stock market conditions.



# 2

## Frequently asked questions



## 2.0 Frequently asked questions

Question	Answer
<b>What is the Scheme?</b>	<p>The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company.</p> <p>If the Scheme becomes Effective and is implemented, BidCo has nominated AcquireCo to take transfer of the Scheme Shares in accordance with the provisions of the Scheme Implementation Deed.</p> <p>The Scheme is between Vitaco and those Vitaco Shareholders who hold Vitaco Shares at the Scheme Record Date and will effect the acquisition of Vitaco by the Consortium, through AcquireCo funded by BidCo (in the case of the cash component of the Scheme Consideration) and issued by HK HoldCo (in the case of the HK HoldCo Shares).</p> <p>If the Scheme is approved and implemented Vitaco Shareholders will receive the Scheme Consideration.</p> <p>Further details of these entitlements are set out at <b>Section 3.1</b>.</p> <p><b>Section 3 contains an overview of the Scheme and a copy of the Scheme is included in this Scheme Booklet as Annexure B.</b></p>
<b>What is the Scheme Consideration?</b>	<p><i>Vitaco Shareholders who <b>are not</b> Management Shareholders</i></p> <p>If the Scheme is approved and implemented Vitaco Shareholders (who <b>are not</b> Management Shareholders (as to which see below)) at the Scheme Record Date will receive a cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend).</p> <p><i>Vitaco Shareholders who <b>are</b> Management Shareholders</i></p> <p>Vitaco Shareholders who <b>are</b> Management Shareholders at the Scheme Record Date will receive both:</p> <ul style="list-style-type: none"> <li>that number of HK HoldCo Shares for each Management Share held by the Management Shareholders calculated using the following formula:  <math display="block">\frac{(2.25-P)}{V}</math> , where:  <b>P</b> = the amount of the Permitted Dividend; and  <b>V</b> = the A\$ equivalent (on the date of funding and by no later than 1 Business Day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date; and</li> <li>a cash payment of \$2.2204 (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) in respect of each Scheme Share for which the Management Shareholders did not receive HK HoldCo Shares.</li> </ul> <p>Where the aggregate amount of Scheme Consideration to be paid to a Vitaco Shareholder would result in a Vitaco Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.</p> <p>Further details of these entitlements are set out at <b>Section 3.1</b>.</p> <p><b>Section 3 contains an overview of the Scheme and the Scheme Consideration.</b></p>
<b>What do the Vitaco Directors recommend and how do they intend to vote?</b>	<p>Your Vitaco Directors unanimously recommend that all Vitaco Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Vitaco Shareholders.</p> <p>Each Vitaco Director who holds Vitaco Shares intends to vote all Vitaco Shares held or controlled by them in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Vitaco Shareholders.</p> <p><b>Section 1.2 provides a summary of some of the reasons why the Vitaco Board considers that Vitaco Shareholders should vote in favour of the Scheme.</b></p>
<b>What is the opinion of the Independent Expert?</b>	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Vitaco Shareholders.</p> <p><b>A copy of the Independent Expert's Report is included in this Scheme Booklet as Annexure A.</b></p>



Question	Answer
<b>Who are the entities comprising BidCo?</b>	<p>BidCo comprises Primavera and SIIC Medical Science, acting severally with respect to the rights and obligations imposed on them under the Transaction, in their Relevant Proportions and subject at all times to the provisions of clause 20 of the Scheme Implementation Deed. One effect of this is that if a right is conferred on BidCo by the Scheme Implementation Deed, the Scheme or the Deed Poll it will not be effectively exercised or waived unless it is exercised or waived in the same manner by both SIIC Medical Science and Primavera.</p> <p>Primavera is a limited liability company incorporated under the laws of the British Virgin Islands. It was incorporated on 31 August 2015 and is a wholly-owned subsidiary of Primavera Capital Fund II.</p> <p>SIIC Medical Science was incorporated in 1999 and is a wholly-owned subsidiary of Shanghai Pharma. It is a private company limited by shares incorporated under the laws of the Cayman Islands.</p> <p><b>Section 5 contains further details about the entities comprising BidCo and their respective associated companies.</b></p>
<b>Who are the Primavera Capital Group and Primavera Capital Fund II?</b>	<p>Primavera Capital Group is a leading Asia-based investment firm. The firm employs a flexible strategy of growth capital and control-oriented investments and seeks to create long-term value by working closely with portfolio companies to improve operational efficiency, competitiveness, and earnings growth.</p> <p>Primavera Capital Fund II is a Cayman Islands exempted limited partnership which was incorporated on 22 May 2014. Its general partner is Primavera Capital GP II Ltd. Primavera Capital GP II Ltd is a limited liability company incorporated in the Cayman Islands on 8 May 2014.</p> <p><b>Section 5 contains further details about Primavera Capital Group and its associated companies.</b></p>
<b>Who is Shanghai Pharma?</b>	<p>Shanghai Pharma is one of China's leading pharmaceutical groups, with a sales network comprising over 1,800 retail pharmacies across 16 provinces, autonomous regions and municipalities throughout China and approximately 41,000 employees. Its business activities include pharmaceutical research and development, manufacturing, distribution and retailing. Shanghai Pharma is listed on the Shanghai Stock Exchange and the Hong Kong Exchange, with a total market capitalisation of approximately RMB 51.8 billion (A\$10.1 billion) as at 30 September 2016.</p> <p><b>Section 5 contains further details about Shanghai Pharma and its associated companies.</b></p>
<b>Will I receive any further dividends from Vitaco?</b>	<p>No further dividends will be paid if the Scheme is implemented.</p>
<b>Are there any conditions to be satisfied?</b>	<p>There are a number of conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become effective.</p> <p>In summary, as at the date of this Scheme Booklet, the outstanding conditions include:</p> <ul style="list-style-type: none"> <li>• no restraining order or injunction issued by a court or Governmental Agency or similar restraint prohibiting the Scheme;</li> <li>• all required Regulatory Approvals (other than approval under the FATA and approval required from the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government (which have been obtained));</li> <li>• no Guarantor Prescribed Occurrence occurring between 3 August 2016 and the Delivery Time;</li> <li>• no Vitaco Prescribed Occurrence occurring between 3 August 2016 and the Delivery Time;</li> <li>• no 'material adverse change' occurring between 3 August 2016 and the Delivery Time (for a description of what constitutes a material adverse change, see <b>Section 9.3(a)</b>);</li> <li>• the representations and warranties given by Vitaco and BidCo in the Scheme Implementation Deed being true and correct between 3 August 2016 and the Delivery Time;</li> <li>• Court approval of the Scheme;</li> <li>• approval of the Scheme by Vitaco Shareholders at each Scheme Meeting; and</li> <li>• the Independent Expert not changing or withdrawing its opinion prior to the Second Court Date.</li> </ul> <p>Vitaco will announce to ASX the satisfaction (or waiver) of each of the conditions to the Scheme.</p> <p><b>Section 9.3 contains further information on the conditions to the Scheme.</b></p> <p><b>Section 9.4 contains further information on the status of the regulatory conditions to the Scheme.</b></p>



Question	Answer
<b>Can I sell my Vitaco Shares now?</b>	<p>You can sell your Vitaco Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration which you would receive should the Scheme become effective).</p> <p>Vitaco intends to apply to ASX for Vitaco Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be Tuesday, 6 December 2016). You will not be able to sell your Vitaco Shares on market after this time.</p>
<b>What vote is required to approve the Scheme?</b>	<p>For the Scheme to proceed, the Vitaco Scheme Resolution and the Management Scheme Resolution must be passed by:</p> <ul style="list-style-type: none"><li>• a majority in number of Vitaco Shareholders who vote on the Vitaco Scheme Resolution and the Management Scheme Resolution, respectively; and</li><li>• at least 75% of the votes cast on the Vitaco Scheme Resolution and the Management Scheme Resolution, respectively.</li></ul> <p>The Court has the discretion to waive the first of these two requirements in relation to either or both Scheme Meetings if it considers it appropriate to do so.</p> <p><b>Section 3.2(a) and the Notices of Meeting included in this Scheme Booklet as Annexure D set out further details on the Scheme approval requirements.</b></p>
<b>Am I entitled to vote?</b>	<p>Each Vitaco Shareholder (who is not a Management Shareholder) who is registered on the Register at 7.00pm (AET) on Monday, 28 November 2016 is entitled to vote at the Vitaco Scheme Meeting.</p> <p>Each Vitaco Shareholder (who is a Management Shareholder) who is registered on the Register at 7.00pm (AET) on Monday, 28 November 2016 is entitled to vote at the Management Scheme Meeting.</p> <p><b>The Notices of Meeting are included in this Scheme Booklet as Annexure D and set out the entitlement to vote at the relevant Scheme Meeting.</b></p>
<b>How do I vote?</b>	<p>You can vote by appointing a proxy or attorney to attend the Vitaco Scheme Meeting or the Management Scheme Meeting (as the case may be) and vote on your behalf or by attending the relevant Scheme Meeting in person.</p> <p><b>Section 6 contains details of how to vote at the Scheme Meetings.</b></p> <p><b>The Notices of Meeting included in this Scheme Booklet as Annexure D also set out further details on how to vote at the Scheme Meetings.</b></p>
<b>When and where will the Scheme Meetings be held?</b>	<p>The Scheme Meetings will be held on Wednesday, 30 November 2016 at Northcott Room, SMC Conference &amp; Function Centre, 66 Goulburn Street, Sydney, NSW 2000. The Vitaco Scheme Meeting will commence at 10.00am (AET). The Management Scheme Meeting will commence immediately after the conclusion of the Vitaco Scheme Meeting.</p> <p><b>The Notices of Meeting included in this Scheme Booklet as Annexure D also set out further details in relation to the Scheme Meetings.</b></p>
<b>When will the results of the Scheme Meetings be known?</b>	<p>The results of the Scheme Meetings will be available shortly after the conclusion of the meetings and will be announced to ASX once available. Even if the Scheme Resolutions are passed at the Scheme Meetings, the Scheme remains subject to approval of the Court.</p>
<b>What happens to my Vitaco Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes effective?</b>	<p>If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Vitaco Shares held by you on the Scheme Record Date (currently expected to be Friday, 9 December 2016) will be transferred to AcquireCo and you will receive the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme.</p>
<b>When will I be paid?</b>	<p>Payment of the Scheme Consideration is expected to be made on Friday, 16 December 2016.</p> <p><b>Section 3.1 sets out further details on the Scheme Consideration.</b></p>



Question	Answer
<b>How will I be paid?</b>	<p><i>Vitaco Shareholders who <b>are not</b> Management Shareholders</i></p> <p>All payments will be made by direct deposit into your nominated bank account, as advised to the Vitaco Registry as at the Scheme Record Date.</p> <p>If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your registered address as shown on the Register.</p> <p><i>Vitaco Shareholders who <b>are</b> Management Shareholders</i></p> <p>All cash payments will be made by direct deposit into your nominated bank account, as advised to the Vitaco Registry as at the Scheme Record Date.</p> <p>If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your registered address as shown on the Register.</p> <p>HK HoldCo Shares will be issued to the person/s who are the registered holders of the Management Shares as at the Scheme Record Date or to such other persons as nominated to the Vitaco Registry as at the Scheme Record Date by the Management Shareholders.</p> <p><b>Section 3.1 sets out further details on the Scheme Consideration.</b></p>
<b>Will I need to pay brokerage?</b>	You will not incur any brokerage on the transfer of your Vitaco Shares pursuant to the Scheme.
<b>What is the Effective Date?</b>	The Effective Date is the date on which, if the Court approves the Scheme, the Court order relating to such approval is lodged with ASIC and the Scheme becomes effective (which is expected to be Tuesday, 6 December 2016).
<b>What is the Scheme Record Date?</b>	The Scheme Record Date is 7.00pm on the third Business Day after the Effective Date (which is expected to be Tuesday, 6 December 2016), and is the date when the Register is examined to determine who is entitled to participate in the Scheme (i.e. a Scheme Shareholder) and be paid the Scheme Consideration.
<b>What is the Implementation Date?</b>	<p>The Implementation Date is the fifth Business Day after the Scheme Record Date (which is expected to be Friday, 9 December), and is the date on which:</p> <ul style="list-style-type: none"> <li>all of the Scheme Shares held by Scheme Shareholders will be transferred to AcquireCo; and</li> <li>Scheme Shareholders will be paid the Scheme Consideration.</li> </ul>
<b>What happens if the Scheme does not proceed?</b>	<p>If the Scheme is not approved at both Scheme Meetings, or another condition to the Scheme is not satisfied or waived (where capable of waiver) by the End Date, the Scheme will not be implemented.</p> <p>If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration but will retain their Vitaco Shares. In these circumstances, Vitaco will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX.</p>
<b>Where can I get further information?</b>	For further information, you can call the Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia).



# 3

## Overview of the Scheme



A copy of the Scheme is included in this Scheme Booklet as **Annexure B**.

### 3.1 Scheme Consideration

If the Scheme is approved and implemented:

- a. Vitaco Shareholders (who **are not** Management Shareholders) at the Scheme Record Date will receive a cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend); and
- b. Vitaco Shareholders who **are** Management Shareholders at the Scheme Record Date will receive both:
  - i. that number of HK HoldCo Shares for each Management Share held by the Management Shareholders calculated using the following formula:  

$$\frac{(2.25 - P)}{V}$$
, where:  
**P** = the amount of the Permitted Dividend; and  
**V** = the A\$ equivalent (on the date of funding and by no later than 1 Business Day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date; and
  - ii. a cash payment of \$2.2204 (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) in respect of each Scheme Share for which the Management Shareholders (or their nominees) did not receive HK HoldCo Shares.

#### Worked example of the number of HK HoldCo Shares per Management Share (Illustrative only)

The following is a worked example of the number of HK HoldCo Shares that would be received for each Management Share held by a Management Shareholder.

This example is for information purposes only and is not intended to reflect the final position which will apply if the Scheme is approved and implemented. The number of HK HoldCo Shares which will be received per Management Shares will be influenced by a number of factors, including but not limited to the total number of Vitaco Shares post exercise or vesting (as the case may be) of the Options and Performance Rights, additional funding requirements associated with HK HoldCo and the number of ordinary shares in HK HoldCo on issue.

P = \$0.0296

$$V = \frac{H \text{ (HoldCo funding)}}{N \text{ (Number of HK HoldCo ordinary shares)}}$$

H = \$299,745,000 (Illustrative only)

N = 135,000,000 shares (Illustrative only)

$$V = \frac{\$299,745,000}{135,000,000}$$
  
 = \$2.2204

1 Management Share =  $\frac{\$2.25 - P}{V}$  HK HoldCo Shares  
 =  $\frac{(\$2.25 - \$0.0296)}{\$2.2204}$  HK HoldCo Shares  
 =  $\frac{\$2.2204}{\$2.2204}$  HK HoldCo Shares  
 = 1 HK HoldCo Share

Therefore, under this example, Management Shareholders will receive 1 HK HoldCo Share for each Management Share they hold.

Further details of the mechanism for determining the Scheme Consideration payable to the Management Shareholders are set out in clauses 1.1, 4.2 and 5.2 of the Scheme Implementation Deed.



## Funding for Scheme Consideration

BidCo has covenanted in favour of Vitaco (in its own right and separately as trustee for each Scheme Shareholder) that, if the Scheme becomes Effective, in consideration of the transfer of the Scheme Shares to AcquireCo, BidCo will pay the relevant Scheme Consideration to each of the Scheme Shareholders (including procuring the issue of HK HoldCo Shares to Management Shareholders in respect of their Management Shares). For that purpose, each of Primavera and SIIC Medical Science have agreed to take the steps set out below:

- a. **(cash component of the Scheme Consideration)** by no later than the Scheme Consideration Escrow Time (expected to be Monday, 28 November 2016), each of Primavera and SIIC Medical Science will:
  - i. **(deposit into Escrow Accounts)** deposit into the respective Escrow Accounts amounts in cleared funds equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders; or
  - ii. **(delivery of standby irrevocable letters of credit)** deliver to the Stakeholder standby irrevocable letters of credit issued by a globally recognised bank, in respect of an amount equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders, which letters of credit must either be governed by Australian law or the globally recognised bank which issues the letters of credit must agree to submit to the jurisdiction of the Australian courts.

In the event that either of Primavera or SIIC Medical Science fails to comply with its obligation to pay its Relevant Proportion of the cash component of the Scheme Consideration by the Scheme Consideration Escrow Time, Vitaco is required to, either:

- iii. on written notice to BidCo and the Guarantors, postpone the Scheme Meetings to such other date or time (prior to the End Date) it determines; or
- iv. on at least 2 hours written notice to BidCo, terminate the Scheme Implementation Deed, in which case the Scheme Meetings and, consequently, the Transaction, will not proceed.

If Vitaco postpones the Scheme Meetings and either of Primavera or SIIC Medical Science (as the case may be) still fails to comply with its obligation to pay its Relevant Proportion of the cash component of the Scheme Consideration by the Business Day prior to the date of the Scheme Meeting so postponed, Vitaco is required, on at least 2 hours written notice to BidCo, to terminate the Scheme Implementation Deed and, consequently, the Transaction will not proceed.

If the cash component of the Scheme Consideration is deposited by BidCo into the Escrow Accounts by the Scheme Consideration Escrow Time, one Business Day before the Implementation Date, following receipt of written notice from BidCo to the Stakeholder, the funds in the Escrow Accounts will be immediately disbursed by the Stakeholder to Vitaco (which will hold the Scheme Consideration on behalf of each Scheme Shareholder, in the Trust Account). On the Implementation Date, Vitaco will disburse those funds from the Trust Account to Scheme Shareholders in accordance with the Scheme.

If BidCo has delivered standby irrevocable letters of credit to the Stakeholder by the Scheme Consideration Escrow Time, one Business Day before the Implementation Date, following receipt of written notice by BidCo to the Stakeholder, the Stakeholder will immediately release the Letters of Credit to Vitaco which may draw down funds under the Letters of Credit into the Trust Account and, on the Implementation Date, advance those funds from the Trust Account to Scheme Shareholders in accordance with the Scheme; and

- b. **(HK HoldCo Shares)** each of Primavera and SIIC Medical Science will procure:
  - i. on or as soon as practicable after the Effective Date and, in any event no later than one Business Day before the Implementation Date, that BidCo provides Vitaco with a certificate (duly executed by BidCo) which sets out BidCo's good faith and bona fide calculation of the Scheme Consideration due to be paid to a Management Shareholder (**Certificate**). The Certificate must be accompanied by evidence of the aggregate amount of funding provided by Primavera and SIIC Medical Science (or their respective affiliates) to HK HoldCo, being:
    - A. an unaudited statement of financial position of HK HoldCo; and
    - B. a copy of HK HoldCo's share register.

The Certificate delivered by BidCo to Vitaco, absent any manifest error, will be prima facie evidence of the aggregate amount due to be paid to Management Shareholders in accordance with the definition of Scheme Consideration;

- ii. on the Implementation Date and otherwise in accordance with the Scheme, the issue by HK HoldCo to each Management Shareholder (or its nominee) of that number of HK HoldCo Shares for each Management Share held by that Management Shareholder determined in accordance with the formula set out above, rounded up to the nearest whole number of HK HoldCo Shares;
- iii. on the Implementation Date and otherwise in accordance with the Scheme, the entry of the name and address of each Management Shareholder in the register of shares of HK HoldCo in respect of the HK HoldCo Shares issued to each Management Shareholder;



- iv. on the Implementation Date, the issue by HK HoldCo to each Management Shareholder (or its nominee) of a copy of the terms of issue of the HK HoldCo Shares accompanied by wording to the effect that they have been issued HK HoldCo Shares and their acceptance of the HK HoldCo Shares constitutes agreement by them to the articles of association of HK HoldCo; and
- v. that on or before the date that is two Business Days after the Implementation Date and otherwise in accordance with the Scheme, a share certificate is sent to the address of each Management Shareholder to whom HK HoldCo Shares are issued representing the number of HK HoldCo Shares issued to that Management Shareholder.

#### **Payment of cash component of Scheme Consideration**

Payments will be made by direct deposit into your nominated bank account, as advised to the Vitaco Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque.

If a Vitaco Shareholder does not have a registered address, or Vitaco considers the Shareholder is not known at its registered address and no bank account has been nominated, payments due to the Vitaco Shareholder will be held by Vitaco until claimed or applied under the relevant laws dealing with unclaimed money.

Payment of the Scheme Consideration will be made on the Implementation Date, currently expected to be 16 December 2016.

## **3.2 Key steps in the Scheme**

Each key step to implement the Scheme and relevant information concerning these steps is set out below. All dates following the Scheme Meetings are indicative only and are subject to change. Vitaco will announce any change to the dates set out in the Key Dates section to ASX:

#### **a. Scheme approval requirements – Scheme Meetings**

Vitaco has convened the Vitaco Scheme Meeting to be held at 10.00am on Wednesday, 30 November 2016 at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 with the Management Scheme Meeting to follow immediately after the conclusion of the Vitaco Scheme Meeting. The Notices of Meeting for the Vitaco Scheme Meeting and the Management Scheme Meeting are included in this Scheme Booklet as **Annexure D**.

Subject to all Regulatory Approvals being obtained, the Scheme will only become effective and be implemented if it is:

- i. agreed to by the Requisite Majorities of Vitaco Shareholders at both the Scheme Meetings to be held on 30 November 2016; and
- ii. approved by the Court at the Second Court Hearing.

Agreement by Vitaco Shareholders requires the Scheme Resolutions to be approved at the Scheme Meetings by:

- iii. a majority in number (more than 50%) of applicable Vitaco Shareholders present and entitled to vote at the Vitaco Scheme Meeting or Management Scheme Meeting (as the case may be) (either by proxy or in person); and
- iv. at least 75% of the total number of votes cast on the Scheme Resolution at the Vitaco Scheme Meeting or the Management Scheme Meeting (as the case may be) by applicable Vitaco Shareholders present and entitled to vote at the relevant Scheme Meeting (either by proxy or in person).

The Court has the power to waive the first requirement in relation to either or both of the Scheme Meetings.

In the event that:

- the Scheme is agreed to by the Requisite Majorities of applicable Vitaco Shareholders at each of the Vitaco Scheme Meeting and the Management Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

Vitaco will apply to the Court at the Second Court Hearing for orders approving the Scheme.

Each Vitaco Shareholder has the right to appear at the Second Court Hearing.

#### **b. Effective Date**

The Effective Date is the date on which, if the Court approves the Scheme and all other conditions have been satisfied or waived (where capable of waiver), a copy of the Court order approving the Scheme is lodged with ASIC and the Scheme becomes Effective.

Vitaco will, on the Scheme becoming effective, give notice of that event to ASX. Vitaco intends to apply to ASX for Vitaco Shares to be suspended from official quotation on ASX from close of trading on the Effective Date, which is currently expected to be 6 December 2016.



### c. Scheme Record Date

The Scheme Record Date is 7.00pm on the third Business Day after the Effective Date (which is currently expected to be 6 December 2016) and is the date when the Register is examined to determine who is entitled to participate in the Scheme and be paid the Scheme Consideration.

Those Vitaco Shareholders on the Register on the Scheme Record Date (which is expected to be 9 December 2016) will be entitled to receive the Scheme Consideration in respect of the Vitaco Shares they hold on that date.

#### i. Dealings on or prior to the Scheme Record Date

For the purpose of determining which Vitaco Shareholders are eligible to participate in the Scheme, dealings in Vitaco Shares will be recognised only if:

- A. in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Register as the holder of the relevant Vitaco Shares as at 7.00pm (AET) on the Scheme Record Date; and
- B. in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Vitaco Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, Vitaco will not accept for registration or recognise any transfer or transmission applications in respect of Vitaco Shares received after the Scheme Record Date.

#### ii. Dealings after the Scheme Record Date

For the purpose of determining entitlements to the Scheme Consideration, Vitaco must maintain the Register in its form as at the Scheme Record Date (currently expected to be 9 December 2016) until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for Vitaco Shares will cease to have effect as documents relating to title in respect of such Vitaco Shares; and
- each entry on the Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Vitaco Shares relating to that entry.

### d. Implementation Date

The Implementation Date is the fifth Business Day after the Scheme Record Date (which is currently expected to be 9 December 2016) and is the date on which:

- Vitaco will pay the Scheme Consideration received from BidCo to Scheme Shareholders (and BidCo must procure that HK HoldCo Shares are issued to each Management Shareholder entitled to receive such shares in accordance with the Scheme Implementation Deed); and
- immediately after the Scheme Consideration is sent to Scheme Shareholders, the Scheme Shares will be transferred to AcquireCo without Scheme Shareholders needing to take any further action.

### e. Deed Poll

BidCo and each of the Guarantors have executed the Deed Poll pursuant to which each of them has separately undertaken, in their Relevant Proportions, in favour of each Scheme Shareholder to provide each Scheme Shareholder with the Scheme Consideration to which they are entitled under the Scheme, subject to the Scheme becoming effective.

A copy of the Deed Poll is included in this Scheme Booklet as **Annexure C**.

## 3.3 Warranties by Vitaco Shareholders

The Scheme provides that each Scheme Shareholder is deemed to have warranted to Vitaco and AcquireCo on the Implementation Date that all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the time of transfer of them to AcquireCo, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any security interests within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Scheme Shares to AcquireCo together with any rights and entitlements attaching to those Scheme Shares.

## 3.4 Delisting from ASX

In accordance with the Scheme, on a date after the Implementation Date to be determined by BidCo, Vitaco will apply for termination of the official quotation of Vitaco Shares on ASX and to have itself removed from the official list of ASX.



4

# Information about Vitaco



## 4.1 Overview

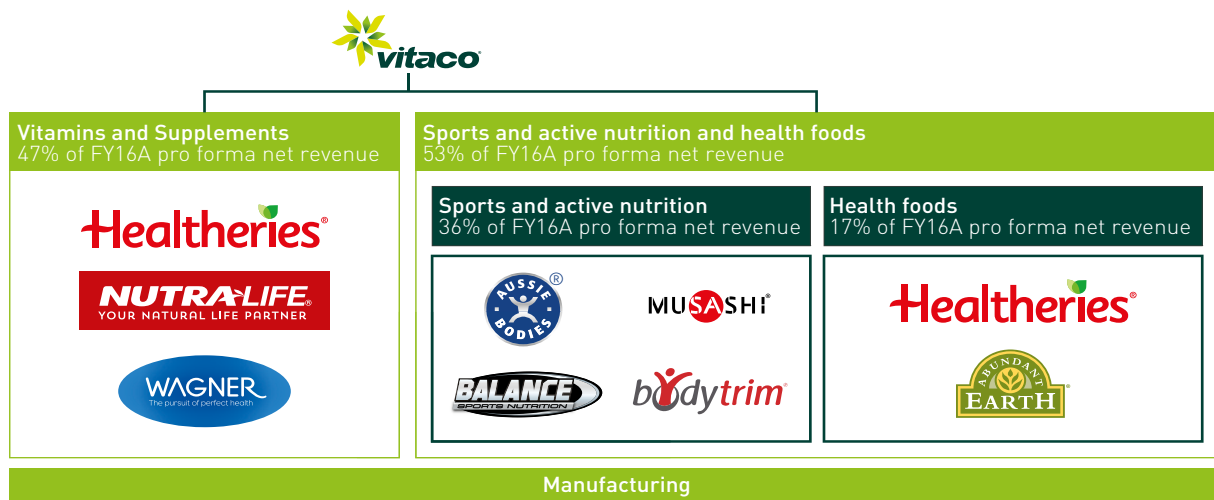
### a. Introduction

Vitaco is a nutritional products business that aims to empower healthier lives by developing, manufacturing and distributing a range of branded products within the broader nutrition, health and wellness industry. While Vitaco's major markets are Australia and New Zealand, it has a long-established and growing international business, particularly in Asia.

Vitaco considers itself a brand-led business with a goal to empower healthier lives. Many of its brands hold leading positions in their respective markets. With operations underpinned by in-house manufacturing capabilities, Vitaco is vertically integrated and controls its supply chain from procurement to distribution.

Figure 2 provides an overview of Vitaco outlining its categories and brands.

FIGURE 2: VITACO'S DIVISIONS AND BRANDS



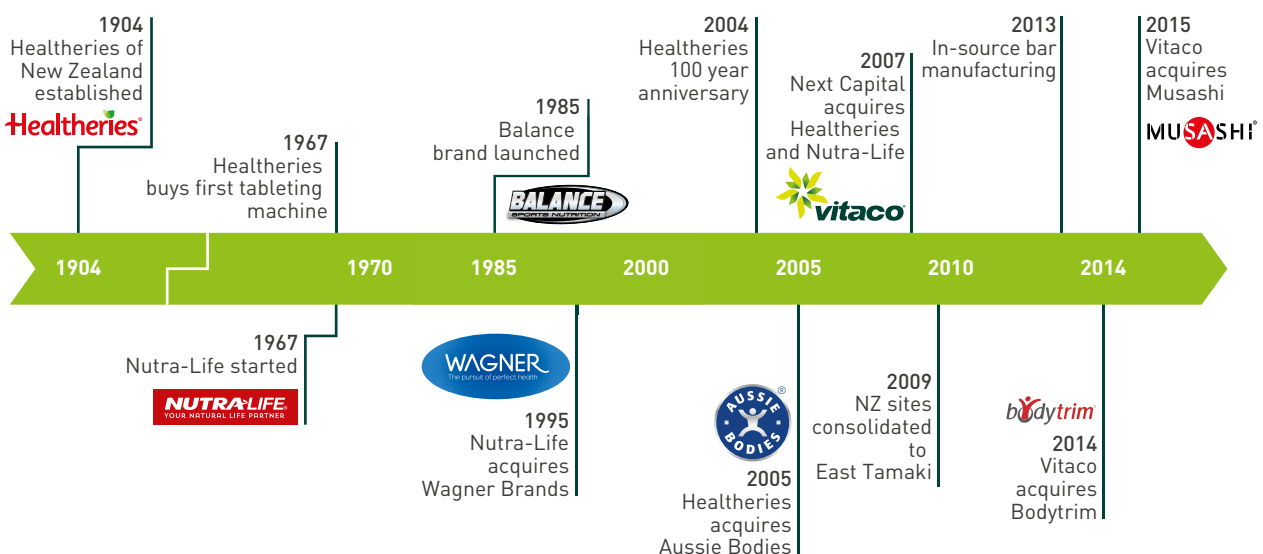
Source: Management

Note: Excludes head office sales of raw materials at cost to sub-contractors

### b. Background

Vitaco commenced operations in 1904 when the Healthieries brand was established in New Zealand. Initially a flourmill, Healthieries grew both organically and via acquisition throughout the twentieth century to become an integrated health food and supplements business. The Nutra-Life brand was established in Australia in 1967. In 2007, Healthieries merged with Nutra-Life, to create what is now Vitaco.

FIGURE 3: VITACO HISTORY



Source: Management



### c. Overview of operations

Vitaco's brand portfolio is diversified across channel, geography and consumer groups and its brands target specific consumer segments and/or market channels.

An overview of Vitaco's brand portfolio is provided in **Figure 4** below.

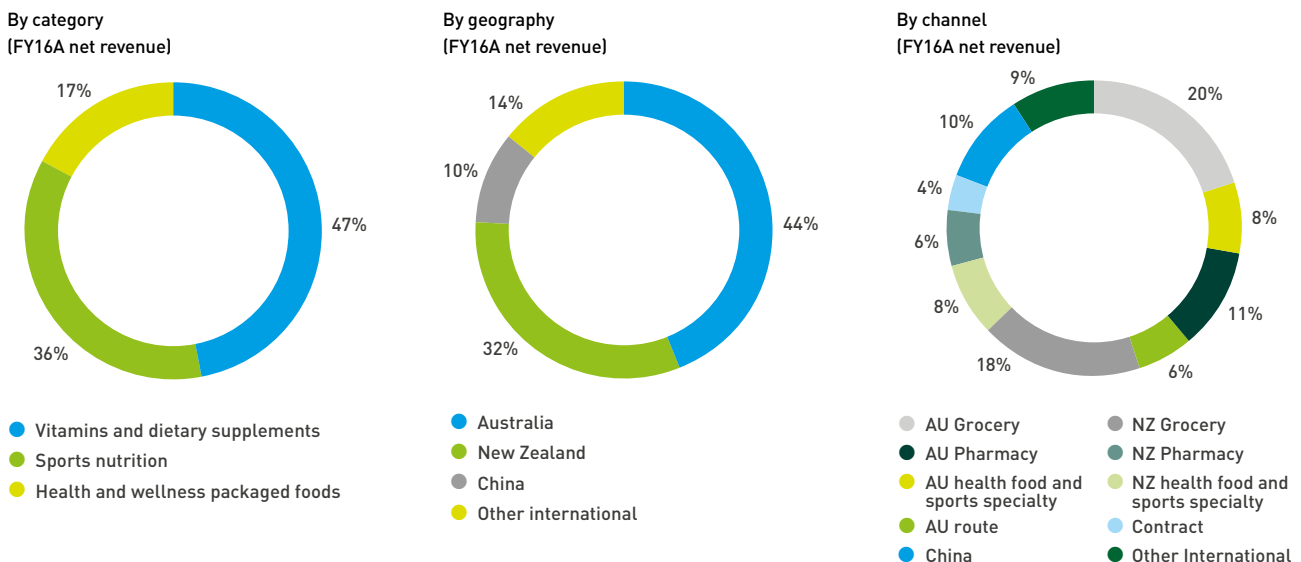
FIGURE 4: VITACO BRAND PORTFOLIO

		Market position
Vitamins and supplements		Vitamin and dietary supplements brand in the New Zealand grocery channel
		Brand in the New Zealand pharmacy and health food channels with a longstanding presence in the Australian health food channel
		Vitamin and dietary supplements brand in the Australian pharmacy channel
Sports and active nutrition and health foods		Sports nutrition brand in the Australian sports nutrition market, with distribution through mainstream channels
		MUSASHI®
		Brand in the Australian sports nutrition market, with distribution in mainstream channels
		Sports nutrition brand in the New Zealand market and a presence in the Australian health food channel
		bodytrim®
		Weight management brand in the Australian grocery, pharmacy and DTC channels
Health foods		Grocery and health food channel brand, with a presence in a number of specialist grocery channel sub-categories
		Brand in the Australian grocery and health food channels

Source: Management

An overview of Vitaco's net revenue breakdown by category, geography and channel is provided in **Figure 5** below.

FIGURE 5: VITACO NET REVENUE BREAKDOWN



Source: Management

Note: The pro forma financial information varies significantly from the statutory financial information, primarily due to changes in year-end and currency.



## 4.2 Vitaco Board and senior management

### a. Board

The Vitaco Board comprises the following directors:

Greg Richards	Independent Non-Executive Chairman
Ryan d'Almeida	Chief Executive Officer
Emmet Hobbs	Independent Non-Executive Director
Katrina Onishi	Independent Non-Executive Director
Andrew (Sandy) Lockhart	Non-Executive Director (Representative of Next Capital)

### b. Executive leadership team

Members of Vitaco's executive leadership team are:

Ryan d'Almeida	Chief Executive Officer
Phillip Wiltshire	Chief Financial Officer
Roger Scott	Chief Operating Officer
John Stanton	General Manager, Vitamins and Supplements
Martin Drinkrow	General Manager, Sports and Active Nutrition and Health Foods
Brent Hall	General Manager, Supply Chain and Contract Manufacturing
Jay Drezner	General Manager, International and Business Development

## 4.3 Capital structure

### a. Capital structure

As at the date of this Scheme Booklet, Vitaco had the following securities on issue:

- Ordinary shares (139,143,525)
- Options (1,000,918)
- Performance Rights (195,499)

### b. Substantial shareholders

Based on filings to ASX, the substantial holders of Vitaco's Shares as at 25 October 2016 are:

Substantial holder	Number of Shares	Percentage <sup>1</sup>
Next Capital	21,288,933	15.30%
BT Investment Management Limited	13,737,196	9.87%
Credit Suisse Holdings (Australia) Limited	9,489,077	6.82%

Source: Vitaco filings

Note: 1. Based on Vitaco Shares outstanding of 139,143,525 as at 25 October 2016

## 4.4 Historical financial information

The information set out below summarises certain historical financial information about Vitaco and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The historical financial information of Vitaco has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards. The financial information has primarily been extracted from Vitaco's Annual Report for the period ended 30 June 2016 and should be read in conjunction with the notes included in that financial report. Where information has been extracted from other sources, the reference has been noted accordingly in this section.

See **Section 4.7** for further details as to how to obtain additional financial information in respect of Vitaco.

Numbers are subject to rounding.



## a. Consolidated statement of comprehensive income

\$ millions	FY16 15m Jun 16	FY15 12m Mar 15
Revenue from ordinary activities	257.3	160.1
Other income	0.8	1.1
<b>Total revenue and other income</b>	<b>258.1</b>	<b>161.3</b>
Inventories used	(140.0)	(83.6)
Employee benefits expense	(41.6)	(27.2)
Depreciation and amortisation expense	(3.9)	(3.0)
Distribution and commission expense	(19.7)	(12.3)
Marketing and selling costs	(23.0)	(15.8)
Foreign exchange (loss)/gain on borrowings	(2.8)	1.4
Other expenses	(5.4)	(4.3)
Non-recurring items	(23.6)	–
<b>Operating (loss)/profit</b>	<b>(1.9)</b>	<b>16.6</b>
<i>Finance costs:</i>		
Interest and finance charges	(4.6)	(6.3)
Gain/(loss) on fair value of derivatives	1.0	(3.8)
<b>(Loss)/profit before income tax</b>	<b>(5.6)</b>	<b>6.6</b>
Income tax expense	(3.6)	(2.1)
<b>(Loss)/profit for the period</b>	<b>(9.1)</b>	<b>4.4</b>
<b>(Loss)/profit for the period attributable to the shareholders of Vitaco</b>	<b>(9.1)</b>	<b>4.4</b>
<b>Other comprehensive income</b>		
<i>Items that may be subsequently reclassified to income statement:</i>		
Net exchange differences on translation of foreign operations	0.4	3.3
Change in fair value of cash flow hedges	0.0	–
<b>Other comprehensive income, net of tax</b>	<b>0.5</b>	<b>3.3</b>
<b>Total comprehensive (loss)/income attributable to the shareholders of Vitaco</b>	<b>(8.6)</b>	<b>7.7</b>
<b>Earnings per share</b>		
Basic (loss)/earnings per share (cents)	(0.07)	0.04
Diluted (loss)/earnings per share (cents)	(0.07)	0.04



### **Reconciliation of Statutory to pro forma EBITDA and NPAT**

The following information has been extracted from Vitaco's FY16 Full Year Results Investor Presentation, dated 30 August 2016.  
The adjustments have not been audited.

<b>\$ millions</b>	<b>FY16 15m Jun 16</b>	<b>FY15 12m Mar 15</b>
<b>Profit/(Loss) attributable to the shareholders of Vitaco Holdings Limited</b>	<b>(9.1)</b>	<b>4.4</b>
Add back/(deduct):		
Income tax expense/(benefit)	3.6	2.1
Finance costs	7.5	4.8
(Finance income)	(0.2)	(0.2)
Depreciation and amortisation expense	3.9	3.0
<b>Statutory EBITDA</b>	<b>5.7</b>	<b>14.1</b>
Pro forma adjustments:		
<i>Adjustment to a 12 month year ending in June</i>		
Deduct Q1 EBITDA (April to June results)	(5.9)	(1.0)
Add back new Q4 EBITDA (FY15 only)	–	5.9
<i>Items considered to be Non-Recurring by Vitaco Management and Board</i>		
Musashi transaction and integration costs	9.1	–
Share issue costs	14.3	–
Impact of closing hedging contracts (relating to foreign denominated debt paid off on IPO)	1.7	–
One-off non-cash gain from adoption of hedge accounting	(1.0)	–
Unrealised FX gain/(loss)	–	1.6
Non-recurring costs paid during FY15	–	1.5
<i>Adjustments to reflect structural changes in the business</i>		
Incremental listed company costs	–	(1.5)
<b>Pro forma EBITDA (12 months ended 30 June)</b>	<b>23.9</b>	<b>20.6</b>
Less:		
Depreciation and amortisation expense	(3.1)	(3.1)
Pro forma finance costs	(2.4)	(1.8)
Pro forma taxation costs	(5.3)	(4.6)
<b>Pro forma Net Profit After Tax (12 months ended 30 June)</b>	<b>13.1</b>	<b>11.1</b>



## b. Consolidated balance sheet

\$ millions	30 Jun 16	31 Mar 15
<b>Current assets</b>		
Cash and cash equivalents	9.9	3.8
Trade and other receivables	34.0	29.1
Inventories	46.5	36.0
Derivative financial instruments	0.2	1.4
Current tax receivable	2.9	0.3
<b>Total current assets</b>	<b>93.5</b>	<b>70.6</b>
<b>Non-current assets</b>		
Property, plant and equipment	19.3	18.7
Deferred tax assets	2.6	3.6
Intangible assets	108.4	113.7
<b>Total non-current assets</b>	<b>130.2</b>	<b>136.0</b>
<b>Total assets</b>	<b>223.8</b>	<b>206.6</b>
<b>Current liabilities</b>		
Trade and other payables	31.1	25.7
Derivative financial instruments	0.2	4.4
Provisions	4.2	2.4
Current tax payable	1.4	–
Borrowings	6.0	76.8
<b>Total current liabilities</b>	<b>42.9</b>	<b>109.3</b>
<b>Non-current liabilities</b>		
Provisions	1.2	0.3
Borrowings	40.4	0.8
<b>Total non-current liabilities</b>	<b>41.6</b>	<b>1.1</b>
<b>Total liabilities</b>	<b>84.4</b>	<b>110.3</b>
<b>Net assets</b>	<b>139.3</b>	<b>96.3</b>
<b>Equity</b>		
Contributed equity	288.2	77.4
Reserves	(152.9)	4.5
Retained earnings	4.1	14.4
<b>Total equity</b>	<b>139.3</b>	<b>96.3</b>



### c. Consolidated statement of cash flows

\$ millions	FY16 15m Jun 16	FY15 12m Mar 15
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	302.6	214.8
Payments to suppliers (inclusive of goods and services tax)	(248.6)	(165.1)
Payments to employees	(41.5)	(26.7)
Interest paid	(4.6)	(5.6)
Tax payments	(3.2)	(2.5)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>4.8</b>	<b>14.9</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3.8)	(2.4)
Purchase of intangible assets	(0.3)	(1.8)
Acquisition of subsidiary, net of cash acquired	(6.0)	–
Proceeds from sale of plant and equipment	–	(0.0)
<b>Net cash inflows/(outflows) from investing activities</b>	<b>(10.0)</b>	<b>(4.2)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	232.3	–
Purchase of previously issued ordinary and preference shares	(173.0)	–
Share issue costs	(19.0)	–
Dividends paid	(2.4)	–
Increase in borrowings	15.4	2.5
Repayment of borrowings	(45.8)	(10.1)
Proceeds from shareholder loans	4.0	–
Decrease in capital	–	(0.4)
<b>Net cash inflows/(outflows) from financing activities</b>	<b>11.5</b>	<b>(8.0)</b>
<b>Net increase in cash and cash equivalents</b>	<b>6.2</b>	<b>2.7</b>
Net foreign exchange differences	(0.0)	0.2
Cash and cash equivalents at the beginning of the period	3.7	0.9
<b>Cash and cash equivalents at the end of the period</b>	<b>9.9</b>	<b>3.8</b>



## 4.5 Vitaco Directors' intentions

Each Vitaco Director intends to vote all Vitaco Shares held or controlled by that director in favour of the Scheme, in the absence of a Superior Proposal emerging and subject to the Independent Expert continuing to determine that the Scheme is in the best interests of Vitaco Shareholders<sup>1</sup>.

## 4.6 Material changes to Vitaco's financial position since 30 June 2016

Other than:

- payment of the Permitted Dividend of \$0.0296 per Vitaco Share on 30 September 2016;
- the receipt by Vitaco of an amount of \$1.8 million in connection with the early termination of Vitaco's Sydney office lease;
- the release of the amount of \$787,500 to Vitaco which was being held in escrow following the Vitaco Group's acquisition of the Musashi business in June 2015 (further details of which are set out in section 9.4 of the prospectus dated 4 September 2015 which was prepared by Vitaco in connection with its IPO);
- the accumulation of earnings in the ordinary course of trading;
- as disclosed in this Scheme Booklet or as otherwise disclosed to ASX by Vitaco; and
- in accordance with generally known market conditions,

within the knowledge of Vitaco, the financial position of Vitaco has not changed since 30 June 2016, being the date of Vitaco's financial statements for the full year ended 30 June 2016 (released to ASX on 30 August 2016).

## 4.7 Publicly available information about Vitaco

As a company listed on the ASX, Vitaco is subject to regular reporting and disclosure obligations which broadly speaking requires Vitaco to immediately disclose to the market any price sensitive information of which it is aware, subject to exceptions for certain confidential information.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to ASX by Vitaco is available on ASX's website at [www.asx.com.au](http://www.asx.com.au). Further announcements concerning developments at Vitaco will continue to be made available on this website after the date of this Scheme Booklet. Vitaco is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the Vitaco Directors and an audit or review report. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the Vitaco website <http://www.vitaco.com.au/investor-centre>.

Vitaco Shareholders may also obtain copies of Vitaco's annual report for the financial year ended 30 June 2016 and Vitaco's replacement prospectus issued in connection with its IPO dated, and released to ASX, on 15 September 2015 free of charge by calling the Shareholder Information Line on 1800 262 299 (in Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 5.30pm (AET). Further information regarding Vitaco's historical financial performance and financial position is also set out in the Independent Expert's Report which forms **Annexure A** to this Scheme Booklet.

1. Mr d'Almeida makes this statement noting his personal interest in the Scheme by way of his proposed participation in the Scheme (including the proposed receipt of HK HoldCo Shares and, following implementation of the Scheme, in equity incentive schemes).



# 5

## Information relating to BidCo, Primavera Capital Fund II and Shanghai Pharma



This **Section 5** has been prepared, in part, by Shanghai Pharma (with respect to information about Shanghai Pharma and SIIC Medical Science only) and in part by Primavera Capital Fund II (with respect to information about Primavera Capital Fund II and Primavera only) and each of them is individually responsible for the information they have respectively provided. The information in this **Section 5** about HK HoldCo, BidCo, AcquireCo and the Consortium's intentions after implementation of the Scheme or about the funding of the Scheme Consideration, has been jointly prepared by Shanghai Pharma and Primavera Capital Fund II and they are each individually responsible for that information in their Relevant Proportions.

## 5.1 Overview of Shanghai Pharma and SIIC Medical Science

### a. Corporate information

Shanghai Pharma was incorporated in the People's Republic of China in 1994 and is one of China's leading pharmaceutical groups. Shanghai Pharma is listed on the Shanghai Stock Exchange (SSE stock code 601607) and the Hong Kong Exchange (HKEx stock code 02607), with a total market capitalisation of approximately RMB 51.8 billion (A\$10.1 billion) as at 30 September 2016, and is included as a reference stock in both the Shanghai Stock Exchange 180 Index and China Securities 300 Index, with its 'H shares' selected into the Hang Seng Index Compositional Stocks and Morgan Stanley Capital International Index. Shanghai Shangshi (Group) Co., Ltd, an entity under the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, has a total 24.86% interest in Shanghai Pharma as a direct shareholder and through its interest in another shareholder of Shanghai Pharma.

As at 31 December 2015, Shanghai Pharma's consolidated total assets were approximately RMB 74 billion (A\$14.8 billion). Shanghai Pharma's net profit for the financial year ended 31 December 2015 was approximately RMB 2.88 billion (A\$0.58 billion) and for the financial year ended 31 December 2014 was approximately RMB2.59bn (A\$0.52 billion). Shanghai Pharma's revenue for the financial year ended 31 December 2015 was approximately RMB 105.5 billion (A\$21.0 billion).

Shanghai Pharma's business activities include pharmaceutical research and development, manufacturing, distribution and retailing.

Shanghai Pharma is headquartered in Shanghai and has a sales network comprising over 1,800 retail pharmacies across 16 provinces, autonomous regions and municipalities throughout China. It has a national workforce of approximately 41,000 people.

SIIC Medical Science is a private company limited by shares incorporated under the laws of the Cayman Islands. It was incorporated in 1999 and is a wholly-owned subsidiary of Shanghai Pharma. In 2015, SIIC Medical Science recorded an operating income of RMB 0 (A\$0) and net profit of RMB 49.0 million (A\$9.6 million). As at the end of 2015, the total assets of SIIC Medical Science amounted to approximately RMB 7.5 billion (A\$1.5 billion) and the net assets amounted to approximately RMB6.9 billion (A\$1.4 billion).<sup>1</sup>

Further information about Shanghai Pharma is available on its website <http://english.sphchina.com/>.

### b. Principal activities and operations

#### i. Research and development

Shanghai Pharma's research and development business is dedicated to developing safe and effective drugs against grave and chronic diseases. In addition to its in-house research and development function, Shanghai Pharma also maintains collaborative relationships with national and international research partners to jointly develop new pharmaceutical products, including the China Academy of Science, China Pharmaceutical University, Shenyang Pharmaceutical University and Mitsubishi Tanabe Pharma Corporation. The total amount of research and development investment of Shanghai Pharma was approximately RMB 618 million (A\$124 million) during the financial year ended 31 December 2015. In addition to the 267 patents that it held as at 31 December 2015, Shanghai Pharma has a range of innovative products that are currently in the registration or clinical trial stages.

#### ii. Manufacturing

Shanghai Pharma's manufacturing business produces over 800 drugs across more than 20 dosage forms, including 24 products that each had sales of over RMB 100 million during the financial year ended 31 December 2015. Its products cover a wide range of chemical drugs, modern Chinese medicines, bio-pharma products and various other pharma products in five major therapeutic areas, namely cardiovascular, systemic anti-infections, digestive system and immune-metabolism, neuropsychiatric and antineoplastic.

Shanghai Pharma has manufacturing bases in eight provinces in China, including a specialist active pharmaceutical ingredients base, a modern traditional Chinese medicine base and a fine chemical reagent factory.

1. Unaudited financial information.



### iii. Distribution

Shanghai Pharma operates the third largest medical distribution network in China, with a nationwide coverage that is centred around three most-developed regions of East, North and South China. It distributes in excess of 10,000 pharmaceutical and healthcare products ranging from prescription medicines, over-the-counter medicines, personal care products to medical supplies.

Shanghai Pharma specialises in distributing products directly to over 20,000 hospitals and other healthcare institutions, including community healthcare centres and clinics. It also provides pharmaceutical companies, both domestically and globally, with supply chain solutions such as modern logistics delivery, information support and terminal retail distribution.

Shanghai Pharma's distribution activities strictly comply with the requirements of China's national Good Supply Practice specifications.

### iv. Retail

Shanghai Pharma is also engaged in the retail of pharmaceutical products, including prescription medicines, over-the-counter medicines and other personal healthcare products such as healthcare supplements, vitamins, as well as skin care and beauty products. Its retail network spans 16 provinces, municipalities and autonomous regions in China, and consisted of approximately 1,800 retail pharmacies as of 31 December 2015. Its Huashi chain is one of the largest pharmacy networks in East China.

Shanghai Pharma's medicine retail business activities strictly comply with the requirements of China's national Good Supply Practice specifications.

## 5.2 Overview of Primavera Capital Fund II and Primavera

### a. Corporate information

Primavera Capital Group is a leading Asia-based investment firm. The firm employs a flexible strategy of growth capital and control-oriented investments and seeks to create long-term value by working closely with portfolio companies to improve operational efficiency, competitiveness, and earnings growth. Founded by Dr. Fred Hu, a renowned economist and successful investor, and a former partner and Chairman of Greater China at Goldman Sachs Group, the Primavera team combines global capital market experience, deep industry knowledge, and a strong network of relationships with policy-makers as well as leading business leaders and entrepreneurs in Asia and globally.

Primavera Capital Fund II is a Cayman Islands exempted limited partnership which was incorporated on 22 May 2014. Its general partner is Primavera Capital GP II Ltd. Primavera Capital GP II Ltd is a limited liability company incorporated in the Cayman Islands on 8 May 2014.

Primavera is a limited liability company incorporated under the laws of the British Virgin Islands. It was incorporated on 31 August 2015 and is a wholly-owned subsidiary of Primavera Capital Fund II.

### b. Key business investments

This section summarises previous business investments by Primavera Capital Group as at the date of this Scheme Booklet.

Investments made by Primavera Capital Group include:

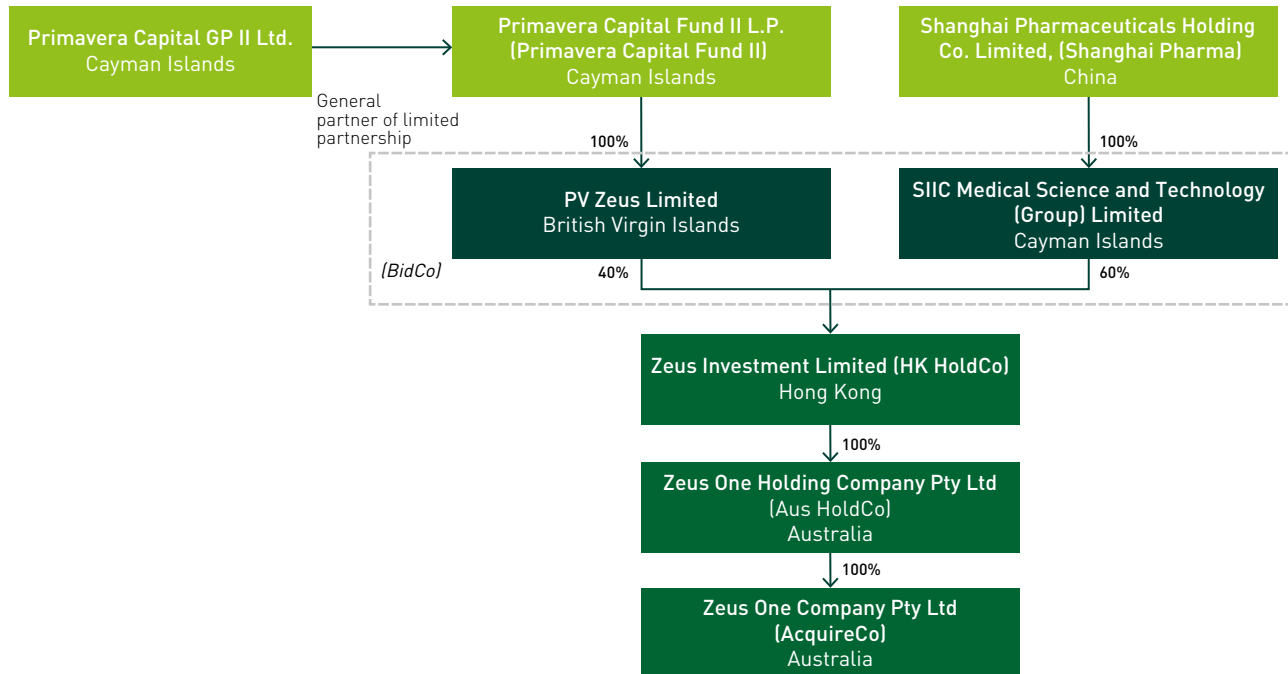
- Alibaba – Chinese technology company focused on building the infrastructure of e-commerce, whose business consists of e-commerce, cloud computing, mobile media and entertainment, and other innovation initiatives;
- iResearch – Chinese provider of online audience measurement and consumer insights in China's online marketing, e-commerce, mobile internet, big data, and internet finance sectors through premium data products, analytics, and consulting services;
- Element Fresh – leading casual dining restaurant chain in China, which serves high quality Western and fusion dishes; and
- Cainiao – leading fourth party logistics services provider in China, which provides comprehensive logistics services to e-commerce merchants as well as the consumers with its partners.

Further information about Primavera Capital Group is available from its website at: <https://www.primavera-capital.com/>.



## 5.3 Acquisition structure

As contemplated by the Scheme Implementation Deed, BidCo (which has the obligation to pay the cash component of the Scheme Consideration and procure the issue of the HK HoldCo Shares by HK HoldCo) has nominated AcquireCo to take transfer of the Scheme Shares, if the Scheme becomes Effective and is implemented. The proposed acquisition structure is as follows:



## 5.4 Overview of HK HoldCo

HK HoldCo is a Hong Kong private company established on 24 August 2016 by SIIC Medical Science and Primavera as the ultimate holding company of BidCo's interests in Vitaco on and from implementation of the Scheme. As at the date of this Scheme Booklet, HK HoldCo does not conduct any other business, though it is not limited by its constituent documents from doing so in future.

As at the date of this Scheme Booklet, SIIC Medical Science and Primavera own 60% and 40% of the ordinary shares of HK HoldCo respectively.

### Directors of HK HoldCo

As at the date of this Scheme Booklet, the directors of HK HoldCo are as follows:

- Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (formerly West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho Man is currently an executive director and the president of Shanghai Pharma. He served as vice chairman and chief executive officer of The Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, general manager and chairman of Sanjiu Economic Trading Co., Ltd., general manager and chairman of Nine Stars Printing and Packaging Co., Ltd., head of sales department and vice director of Shenzhen South Pharmaceutical Factory, and pharmacist, head of transfusion medicine department and head of the drug injection department of Nanfang Hospital, First Military Medical University, Guangzhou.
- Mr. Li Yongzhong, born in February 1970, has an executive master of business administration from the China Europe International Business School, is a pharmacist and is currently an executive director of Shanghai Pharma and the general manager and director of Shanghai Pharmaceuticals Distribution Co., Ltd.. His previous positions include deputy manager of the New Drug Branch of, deputy general manager and general manager of pharmaceutical distribution business department of, and general manager assistant and deputy general manager of Shanghai Pharmaceutical Co., Ltd. and vice president of Shanghai Pharmaceuticals Holding Co., Ltd.



- Mr. Shen Bo, born in March 1973, obtained a bachelor's degree majoring in accounting from Shanghai Institute of Construction Materials Industry and master of professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants examination. He is currently an executive director and the chief financial officer of Shanghai Pharma. He has been a non-executive director of Tianda Pharmaceuticals Co., Ltd. (a company listed on the Stock Exchange of Hong Kong Limited with stock code 00455). He has been a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Stock Exchange of Hong Kong Limited with stock code 08231) since June 2012. His previous positions include the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd.
- Mr. Wong Hong Kit Kenneth is a partner of Primavera Capital Group. He was previously a Managing Director of Investment Banking Division, Goldman Sachs (Asia). Prior to Goldman Sachs, Kenneth was a Director for UBS Investment Banking Division. Kenneth graduated with a Bachelor of Arts from Cambridge University.
- Mr. Chen Tong is a Managing Director and a founding member of Primavera Capital Group. He worked on the firm's investments in Alibaba, iResearch and Cainiao Smart Logistics, among others. Prior to Primavera, Mr. Chen worked at the Investment Banking Division of Goldman Sachs in both Hong Kong and New York. Mr. Chen received his JD and MBA degrees from Harvard Law School and Harvard Business School respectively. He also holds a Bachelor of Arts degree in Applied Mathematics from Harvard College.

## 5.5 Overview of AcquireCo and Aus HoldCo

AcquireCo is an Australian proprietary company established for the purpose of receiving the transfer of the Scheme Shares and acting as BidCo's direct holding company of its interests in Vitaco on and from implementation of the Scheme. Upon implementation of the Scheme, AcquireCo will hold all of the Scheme Shares.

AcquireCo is wholly owned by Aus HoldCo, an Australian proprietary company established for the purpose of holding shares in AcquireCo.

Aus HoldCo is wholly owned by HK HoldCo. As at the date of this Scheme Booklet, SIIC Medical Science and Primavera own 60% and 40% of the ordinary shares of HK HoldCo respectively. See **Section 5.4** above for further information regarding HK HoldCo.

As at the date of this Scheme Booklet, the directors of AcquireCo and Aus HoldCo are Wong Hong Kit Kenneth, Shen Bo, and Martin James. Ryan d'Almeida (the Chief Executive Officer and a director of Vitaco) may be appointed as a director of AcquireCo and Aus HoldCo following implementation of the Scheme to replace Martin James.

## 5.6 Governance arrangements between the Consortium members

### a. Shareholders Agreement

The relationship between SIIC Medical Science and Primavera as shareholders of HK HoldCo is governed by the Shareholders Agreement. As noted above, SIIC Medical Science and Primavera hold 60% and 40% respectively of the ordinary shares in HK HoldCo, which is the parent company of Aus HoldCo and AcquireCo.

The Shareholders Agreement sets out the agreements that Shanghai Pharma, SIIC Medical Science, Primavera Capital Fund II and Primavera have made in relation to the ongoing management and operation of HK HoldCo and its subsidiaries (including Aus HoldCo and AcquireCo and, following implementation of the Scheme, Vitaco).

The Shareholders Agreement includes provisions in relation to:

- Board composition of HK HoldCo – as 60% shareholder SIIC Medical Science has the right to nominate and replace three directors of HK HoldCo, and as 40% shareholder Primavera has the right to nominate and replace two directors of HK HoldCo. The initial directors of HK HoldCo are Cho Man, Li Yongzhong and Shen Bo (SIIC Medical Science's nominees) and Wong Hong Kit Kenneth and Chen Tong (Primavera's nominees). SIIC Medical Science and Primavera may also unanimously agree to appoint a sixth director. Following implementation of the Scheme, SIIC Medical Science and Primavera currently intend to appoint Vitaco CEO Ryan d'Almeida as this sixth director.
- Put option – Primavera has an option, at any time within the four year period after the fourth anniversary of the completion of the Scheme or upon the occurrence of certain events defined in the Shareholders Agreement, to put all or part of its 40% interest in HK HoldCo to Shanghai Pharma, SIIC Medical Science or a subsidiary of Shanghai Pharma. The events include sale, lease, transfer or disposal of all or material assets of the group comprising HK HoldCo and its subsidiaries (taken as a whole) and a transaction that results in Shanghai Pharma ceasing to be a controlling shareholder of SIIC Medical Science.
- Pre-emptive and co-sale right – each of SIIC Medical Science and Primavera has customary pre-emptive and co-sale rights if the other shareholder proposes to transfer interests in HK HoldCo to a third party.
- Dividends – unless otherwise agreed by SIIC Medical Science and Primavera and subject to the terms of the Shareholders Agreement, HK HoldCo will allocate its statutory profits available for distribution in a financial year after its recovery of any loss made by HK HoldCo in previous financial years.
- Financing – SIIC Medical Science will provide 60% of the funding for the Transaction and Primavera will provide 40% of the funding for the Transaction.



## b. Summary of material provisions of the articles of association of HK HoldCo

A description of material provisions of the articles of association of HK HoldCo are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of holders of shares in HK HoldCo:

- At a general meeting of HK HoldCo, every holder of ordinary shares present in person or by proxy has one vote on a show of hands and, on a poll, one vote for each ordinary share held.
- Each holder of ordinary shares is entitled to receive notice of, attend and vote at general meetings of HK HoldCo.
- The board of HK HoldCo may declare, make or otherwise pay any dividend, distribution, return of capital or the like by HK HoldCo.
- A transfer of shares requires an instrument of transfer in any usual form or any other form approved by the board of HK HoldCo. The board of HK HoldCo may in its discretion refuse to register the transfer of a share. If the board of HK HoldCo declines to register a transfer, the transferor or transferee may request a statement of reasons for the refusal.
- Subject to applicable laws, the board of HK HoldCo may increase or decrease the share capital or issue options or other securities which can be converted to or exchanged for HK HoldCo Shares.
- If HK HoldCo is wound up and a surplus remains after the payment of debts proved in the winding up, the liquidator may, with the required sanction, divide amongst the members in specie or kind the whole or any part of the assets of the company (whether they consist of property of the same kind or not) and may, for this purpose, set a value the liquidator thinks fair on any property to be so divided, and may determine how the division is to be carried out between the members or different classes of members.
- The company may buy back its own shares (including any redeemable shares) in accordance with the Hong Kong Companies Ordinance, Cap 622 of the Laws of Hong Kong.
- Variation of rights attaching to any class of shares is subject to the requirements of the Hong Kong Companies Ordinance, Cap 622 of the Laws of Hong Kong and the terms of issue of a class of shares.
- Under the articles of association, the maximum number of directors of HK HoldCo is six. Each shareholder has the right to appoint and replace one director for each 20% ordinary shareholding it holds in HK HoldCo. A shareholder may replace its nominated director at any time. If a member's ordinary shareholding in the company is reduced below 20% (or a multiple thereof), any other shareholder holding ordinary shares may require by written notice that the relevant number of directors appointed by the first-mentioned shareholder cease to act as directors.
- Questions arising at a meeting of the board of HK HoldCo will be decided by a majority of more than two thirds of all the members of the board of HK HoldCo nominated by SIIC Medical Science and Primavera in respect of certain matters including amending HK HoldCo's articles of association or constituent documents of subsidiaries; changes to share capital; winding up procedures; disposals; mergers; initial public offerings; changes to the auditor or material changes to accounting practices or policies; establishing, selling or acquiring subsidiaries; incurring certain loans; purchasing, selling or disposing of assets in excess of certain monetary thresholds; entering into related party transactions; providing guarantees or financing to a third party; management or employee incentive plans; and approving matters in relation to the acquisition of Vitaco. Other matters will be passed by a simple majority of the directors of HK HoldCo at a meeting. The chairperson has no casting vote.
- The articles of association also contain customary provisions relating to indemnifying the directors of HK HoldCo and provision of related insurance.
- The articles of association of HK HoldCo may only be amended by a special resolution passed by shareholders in accordance with Hong Kong law and a resolution of more than two thirds of all the members of the board of HK HoldCo nominated by SIIC Medical Science and Primavera.

## 5.7 The Consortium's rationale for acquiring Vitaco

The Scheme represents an opportunity for the Consortium to acquire and support the growth of a leading vitamins and supplements, sports nutrition, and health foods business in Australia and New Zealand. Vitaco's brands have a long and trusted history in Australia and New Zealand, as well as a reputation for product efficacy, ingredient integrity and premium quality.

In addition to its leading position in Australia and New Zealand, Vitaco has a growing presence in offshore markets, particularly across Asia. Shanghai Pharma and Primavera Capital Fund II see significant potential for Vitaco's products to benefit from the growth of middle class consumption in China, and in particular the increasing demand for healthy, safe foods and nutritional products. Shanghai Pharma's scale and distribution network in China, together with Primavera Capital Group's investment experience and both parties' financial resources, place the Consortium in a unique position to accelerate Vitaco's global expansion strategy.

Shanghai Pharma and Primavera Capital Fund II also acknowledge and support the very important role that Vitaco plays in its local communities as an employer and as a local manufacturing success story. The 'clean and green' image and natural characteristics of Vitaco's brands are also highly valued by Chinese consumers and something Shanghai Pharma and Primavera Capital Fund II will look to nurture and preserve.



## 5.8 Funding of the Scheme Consideration

The Scheme Consideration is 100% cash (or, with respect to the Management Shareholders only, the Scheme Consideration comprises cash and HK HoldCo Shares, as described in **Section 3.1**).

Under the terms of the Scheme Implementation Deed, SIIC Medical Science and Primavera, in their Relevant Proportions, have covenanted in favour of Vitaco (in its own right and separately as trustee for each Scheme Shareholder) to:

- deposit into the Escrow Accounts an amount in cleared funds equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders; or
- deliver to the Stakeholder standby irrevocable letters of credit issued by a globally recognised bank, in respect of an amount equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders, which letters of credit must either be governed by Australian law or the globally recognised bank which issues the letters of credit must agree to submit to the jurisdiction of the Australian courts,

by no later than the Scheme Consideration Escrow Time.

The Escrow Accounts will be opened at Commonwealth Bank of Australia and operated by the Stakeholder in accordance with the Escrow Agreement. If the Scheme is Effective, one Business Day before the Implementation Date, in accordance with the terms of the Scheme, BidCo will give written notice to the Stakeholder to disburse the cash component of the Scheme Consideration from the Escrow Accounts to Vitaco (which will hold those funds in the Trust Account) or release the letters of credit to Vitaco (which may draw down funds under the letters of credit into the Trust Account) (as applicable), in order for the funds to be disbursed by Vitaco to Scheme Shareholders on the Implementation Date.

If the Transaction is completed:

- Scheme Shareholders (other than Management Shareholders) will become entitled to receive the Scheme Consideration of a cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend), which will be payable by BidCo; and
- Scheme Shareholders which are Management Shareholders will become entitled to receive Scheme Consideration comprising HK HoldCo Shares and a cash payment of \$2.2204 (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) per Scheme Share for which they did not receive HK HoldCo Shares, calculated as described in **Section 3.1**.

Based on Vitaco's fully diluted share capital as at the date of this Scheme Booklet, the total amount of cash required to be paid by BidCo to Scheme Shareholders under the Scheme is approximately A\$313.7 million<sup>2</sup>.

Shanghai Pharma has guaranteed the performance by SIIC Medical Science of its obligations under the Scheme Implementation Deed, including the obligation to pay its Relevant Proportion of the cash component of the Scheme Consideration. Under terms of its Equity Commitment Letter, Shanghai Pharma has committed to provide (in the form of equity, loans or other instruments) an amount equal to SIIC Medical Science's Relevant Proportion of the cash component of the Scheme Consideration to meet SIIC Medical Science's payment obligations under the Scheme Implementation Deed. Shanghai Pharma intends to satisfy this amount through existing cash reserves.

Primavera Capital Fund II has guaranteed the performance by Primavera of its obligations under the Scheme Implementation Deed, including the obligation to pay its Relevant Proportion of the cash component of the Scheme Consideration. Under terms of its Equity Commitment Letter, Primavera Capital Fund II has committed to provide (in the form of equity, loans or other instruments) an amount equal to Primavera's Relevant Proportion of the cash component of the Scheme Consideration to meet Primavera's payment obligations under the Scheme Implementation Deed. Primavera Capital Fund II intends to satisfy this amount through uncalled capital commitments or other available funds.

## 5.9 HK HoldCo Shares

As described in **Section 3.1**, following implementation of the Scheme, the Management Shareholders will receive vested HK HoldCo Shares, being a separate class of shares in HK HoldCo. A summary of the key terms of the vested HK HoldCo Shares is set out below:<sup>3</sup>

- to the extent permitted by law, a right to vote only as the board of HK HoldCo may determine;
- a right to receive dividends as if vested HK HoldCo Shares were ordinary shares in HK HoldCo, with any dividends being declared and paid in the discretion of the board of HK HoldCo;
- holders of vested HK HoldCo Shares are entitled to participate in certain exit events, including trade sales, share sales, and sales of all or substantially all of the business or assets of HK HoldCo and its subsidiaries. The board of HK HoldCo may decide whether the relevant vested HK HoldCo Shares will be converted into ordinary shares in HK HoldCo or cashed out, in order for the Management Shareholders to receive the relevant consideration from an exit event. In the case of an initial public offering (IPO), if existing shares are sold in the IPO by SIIC Medical Science, holders of HK HoldCo Shares may also be able to sell a certain portion of their HK HoldCo Shares, subject to other arrangements such as lock-up or escrow which may apply;

2. Fully diluted Vitaco shares outstanding calculated as total shares outstanding if all performance rights and options were exercised (using the treasury stock method). Assumes fully diluted Vitaco shares on issue as at the date of this Scheme Booklet of approximately 139.4 million.

3. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of holders of HK HoldCo Shares.



- holders of vested HK HoldCo Shares will have an option, at certain times within the four year period after the fourth anniversary of the completion of the acquisition of Vitaco, to put a certain portion of their vested Management Shares to HK HoldCo; and
- the holders of vested HK HoldCo Shares will have co-sale rights if SIIC Medical Science proposes to transfer its shares in HK HoldCo to a third party.

## 5.10 Risks associated with HK HoldCo and the HK HoldCo Shares

The future performance of HK HoldCo and the future investment performance of HK HoldCo Shares may be influenced by a range of factors, many of which are outside the control of the Consortium or HK HoldCo. This section describes what the Consortium or HK HoldCo believe to be the key risks associated with an investment in HK HoldCo. It does not purport to list every risk that may be associated with an investment in HK HoldCo now or in the future.

There is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge. Any of these risks, and any other risks that may emerge, may have a material adverse effect on the business, financial condition, results of operations and cash flows of HK HoldCo. There can be no guarantee that HK HoldCo will achieve its stated objectives or that any forward looking statements or forecasts will eventuate. Management Shareholders should satisfy yourself that you have a sufficient understanding of the risks described in this section and all of the other information set out in this Scheme Booklet, having regard to your own financial circumstances and taxation position.

If Management Shareholders do not understand any part of this Scheme Booklet, or have any questions about an investment in HK HoldCo, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

In addition to the risks set out in **Section 7**, some key risks associated with HK HoldCo and the HK HoldCo Shares include:

- **Risks associated with the business of Vitaco:** As at the date of this Scheme Booklet, HK HoldCo does not have any business operations. If the Scheme is implemented, the HK HoldCo Shares will continue to have exposure to the underlying business of Vitaco. Please refer to **Section 7** for details of risks regarding an investment in Vitaco.
- **HK HoldCo Shares are illiquid and not freely transferrable:** The HK HoldCo Shares may not be quoted on any exchange and may only be transferred to third parties if this is permitted by the board of HK HoldCo in its discretion. Holders of HK HoldCo Shares may not be able to sell those HK HoldCo Shares, in which case they may not be able to realise the value of those HK HoldCo Shares.
- **HK HoldCo is not listed:** HK HoldCo is a private company and is not listed on any exchange. Private companies are subject to different requirements than publicly traded companies, for example requirements regarding disclosure and independent governance.
- **Shareholders Agreement in respect of HK HoldCo:** Shanghai Pharma, SIIC Medical Science, Primavera Capital Fund II and Primavera are party to a Shareholders Agreement in relation to the ongoing management and operation of HK HoldCo and its subsidiaries. Please see **Section 5.6(a)** for further details regarding this Shareholders Agreement. Holders of HK HoldCo Shares will not be party to the Shareholders Agreement.
- **Distributions may not be paid:** Distributions are only payable if the board of HK HoldCo decides to pay them in its absolute discretion.
- **No certainty regarding future exit event:** The board of HK HoldCo will have the right to decide whether to enter into any transaction which would constitute an exit event in respect of HK HoldCo that would permit holders of vested HK HoldCo Shares to receive the relevant consideration from such an exit event. Such an exit event may occur on dates not previously contemplated by Management Shareholders, or may not occur at all, each of which may be disadvantageous in light of market conditions or the individual circumstances of Management Shareholders and the timing may not suit the Management Shareholders. This also means that the period for which Management Shareholders will be entitled to the benefit of the rights attaching to HK HoldCo Shares (such as distributions) is unknown and may be indefinite.
- **HK HoldCo may issue further securities:** The board of HK HoldCo has the power to issue securities (including other classes of shares) in HK HoldCo in future, which may rank equally or ahead of HK HoldCo Shares. This may affect the ability of a holder of HK HoldCo Shares to be paid dividends or to be repaid on a winding-up of HK HoldCo. HK HoldCo Shares do not confer a right on holders of HK HoldCo Shares to participate in the issue of any further securities.
- **Foreign jurisdiction:** HK HoldCo is incorporated in Hong Kong and subject to the laws of Hong Kong. The provisions of Hong Kong law may be different to the provisions of Australian law which currently apply to Vitaco Shares.
- **Foreign exchange risk:** HK HoldCo's consolidated financial statements may be reported in a foreign currency whereas the financial condition and results of operations of Vitaco are currently measured and recorded in the relevant domestic currency of the jurisdiction in which Vitaco carries on business (i.e. Australia and New Zealand). As a result, HK HoldCo may be exposed to translation risks from fluctuation in foreign exchange rates. Dividends and returns of capital may also be paid in a foreign currency.
- **Dividends will not be franked/imputed:** To the extent that HK HoldCo pays any dividends, Management Shareholders should be aware that these will not be franked/imputed for Australian/New Zealand taxation purposes.



- **Tax treatment of investment in HK HoldCo Shares for NZ tax resident Management Shareholders:** The following is a high level summary of the expected New Zealand tax treatment of holding shares in HK HoldCo for New Zealand tax resident Management Shareholders. This advice is general in nature and Management Shareholders should seek their own tax advice.

NZ tax resident Management Shareholders will be taxed on their shareholding in HK HoldCo under the Foreign Investment Fund (**FIF**) rules. Under the FIF rules, Management Shareholders are required to calculate their taxable income under one of five calculation methods: fair dividend rate (**FDR**) method, cost method, comparative value method, attributed income method or deemed rate of return method.

The default method is the FDR method, under which taxable income in a tax year is 5% of the market value of the investment on the first day of the tax year. Dividends received are not separately taxed, and gains or losses on disposal of the shares are not subject to tax. Where the shares are held by individuals or qualifying family trusts, there is a 'safety net option' which allows the income on all shares held by the person (otherwise subject to FDR) to be calculated on the total return on those shares for the tax year where this is less than the deemed 5% return (but net losses cannot be claimed).

If Management Shareholders are not able to determine the market value of the shares they can apply the cost method. This treats as income an amount equal to 5% of the cost of the shares (compounding at 5% per annum).

There is an exemption from the FIF rules for individuals who have shares in foreign companies that would otherwise be subject to the FIF rules if at all times in the tax year the total cost of those investments is no more than NZ\$50,000. If the exemption applies the Management Shareholder will be taxed on any dividends received, and when shares are sold any gains will be taxable (and losses allowable) if the shareholder holds the shares on revenue account.

## 5.11 Post-acquisition intentions

This section sets out the Consortium's present intentions on the basis of facts and information concerning Vitaco and the general business environment which are known to the Consortium at the time of preparation of this Scheme Booklet. Final decisions on these matters will only be made by the Consortium in light of all material facts and circumstances at the relevant time. Accordingly, other than where the disclosure below expressly states that the Consortium has determined to do something, the statements set out in this section are statements of current intention only and may change as new information becomes available or as circumstances change.

### a. Business continuity and major changes

The Consortium's present intention is to maintain Vitaco's existing business structure in substantially the same manner as it exists today, and to continue to operate Vitaco's businesses in accordance with Vitaco management's existing strategic plans. Specifically, it is not the Consortium's present intention to segregate Vitaco's businesses into parts that are to be owned and operated by each Consortium member to the exclusion of the other, or otherwise to make any material divestments of assets.

HK HoldCo plans to incorporate a New Zealand limited liability company for the purpose of holding the shares in New Zealand incorporated subsidiaries of Vitaco after the Scheme is implemented.

The Consortium intends to nurture and preserve the 'clean and green' image and natural characteristics of Vitaco's brands, and intends to ensure that Vitaco remains focused on producing quality healthy, safe foods and nutritional products out of New Zealand.

The Consortium also intends to expand the distribution of Vitaco's products into potential new markets in the Asia Pacific region utilising Shanghai Pharma's extensive retail pharmacy distribution network, particularly in China.

### b. Vitaco to be delisted

If the Scheme is implemented, the Consortium will procure that Vitaco applies to the ASX for Vitaco to be removed from ASX's official list.

### c. Vitaco Board

If the Scheme is implemented, the Consortium intends to replace the current Vitaco Board members with nominees of Shanghai Pharma and Primavera Capital Fund II (the directors of Vitaco after the Scheme is implemented are currently intended to be the same as the directors of AcquireCo and Aus HoldCo – see **Section 5.5** above).

### d. Management, employees and incentive arrangements

The Consortium does not have any current intention to make any material changes to Vitaco's staffing levels, or to move Vitaco's manufacturing operations or head office.

The impact of the Scheme on existing Vitaco employee incentive arrangements is described in **Section 9.5**. If the Scheme is implemented, the Consortium intends to introduce new short term and long term incentive arrangements to appropriately incentivise selected management and employees of Vitaco and replace the existing arrangements. The Consortium also intends to make one-off bonus payments of up to \$2 million in aggregate to the Management Shareholders and to other key members of Vitaco management after the Scheme is implemented, including CEO Ryan d'Almeida.



## 5.12 Interests in Vitaco Shares and benefits, and interests in HK HoldCo

As at the date of this Scheme Booklet:

- Neither Shanghai Pharma nor any of its subsidiaries (including SIIC Medical Science) has any Relevant Interest in Vitaco Shares;
- Neither Primavera Capital Fund II nor any of its subsidiaries (including Primavera) has any Relevant Interest in Vitaco Shares;
- No current directors of BidCo or AcquireCo hold any Vitaco Shares, however Ryan d'Almeida (who currently holds Vitaco Shares and is a director of Vitaco) may be appointed as a director of HK HoldCo and/or AcquireCo following implementation of the Scheme; and
- None of the directors of HK HoldCo or Management Shareholders holds any shares in HK HoldCo.

During the four months before the date of this Scheme Booklet, neither Shanghai Pharma/SIIC Medical Science nor Primavera Capital Fund II/Primavera nor any of their Associates has provided, or agreed to provide, consideration for Vitaco Shares under a purchase or agreement except for the Scheme Consideration which SIIC Medical Science and Primavera, in their Relevant Proportions, have agreed to provide under the Scheme (as reflected in the Scheme Implementation Deed and the Deed Poll).

During the four months before the date of this Scheme Booklet, neither Shanghai Pharma/SIIC Medical Science nor Primavera Capital Fund II/Primavera nor any of their respective Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- vote in favour of the Scheme; or
- dispose of Vitaco Shares,

which benefit was not offered to all Scheme Shareholders (other than as may be expressly contemplated in this Scheme Booklet).

Neither Shanghai Pharma/SIIC Medical Science nor Primavera Capital Fund II/Primavera nor any of their respective Associates has made or given or will make or give any benefit (other than as may be expressly contemplated in this Scheme Booklet) to any current Vitaco Board Member as compensation or consideration for, or otherwise in connection with, any resignation from the Vitaco Board, if the Scheme becomes Effective and the Vitaco Board is accordingly reconstituted.

## 5.13 Regulatory approvals

BidCo applied to the Australian Foreign Investment Review Board for a statement of no objection from the Treasurer (or his delegate) in respect of the Transaction and received a statement of no objection in respect of the Transaction on 20 October 2016.

BidCo has applied to the New Zealand Overseas Investment Office for consent under the *Overseas Investment Act 2005* (NZ) and *Overseas Investment Regulations 2005* (NZ) in respect of the Transaction.

Shanghai Pharma has received approval from Shanghai Shangshi (Group) Co., Ltd, an entity under the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, for Shanghai Pharma / SIIC Medical Science's participation in the Transaction.

Each of these regulatory matters is a condition to the Scheme.

## 5.14 No other material information

Except as otherwise disclosed in this Scheme Booklet, there is no other information that is material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any director of either of Shanghai Pharma/SIIC Medical Science or Primavera Capital Fund II /Primavera, at the date of this Scheme Booklet, which has not previously been disclosed to Vitaco Shareholders.



# 6

## How to vote at the Scheme Meetings



## 6.1 The Scheme Meetings

The Scheme will only be implemented if the Scheme Resolutions are passed by the Requisite Majorities at both Scheme Meetings.

The Vitaco Scheme Meeting will be held at 10.00am on Wednesday, 30 November 2016 at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 and the Management Scheme Meeting will be held immediately following the conclusion of the Vitaco Scheme Meeting.

Details regarding the Scheme Meetings are set out in the Notices of Meeting, which are included in this Scheme Booklet as **Annexure D**.

## 6.2 Voting entitlement

Each Vitaco Shareholder (who is **not** a Management Shareholder) who is registered on the Register at 7.00pm (AET) on Monday, 28 November 2016 is entitled to attend and vote at the Vitaco Scheme Meeting.

Each Vitaco Shareholder (who **is** a Management Shareholder) who is registered on the Register at 7.00pm (AET) on Monday, 28 November 2016 is entitled to attend and vote at the Management Scheme Meeting.

Voting is not compulsory. However, your vote is important for the Scheme to proceed. Your Vitaco Directors strongly encourage you to exercise your right to vote.

In the case of jointly held Vitaco Shares, only one of the joint shareholders is entitled to vote. If more than one Vitaco Shareholder votes in respect of jointly held Vitaco Shares, only the vote of the Vitaco Shareholder whose name appears first in the Register will be accepted.

## 6.3 How to vote

You may vote on the Vitaco Scheme Resolution or Management Scheme Resolution (as the case may be) by:

- attending the Vitaco Scheme Meeting or the Management Scheme Meeting (as applicable) in person; or
- proxy, attorney, or (in the case of corporate Vitaco Shareholder) by corporate representative appointed in accordance with the Corporations Act.

Relevant details in respect of each of these methods are set out below.

### Voting in person

To vote in person, you must attend the relevant Scheme Meeting. If you attend, you will be admitted to the relevant Scheme Meeting and given a voting card at the point of entry to the meeting upon disclosing your name and address. Please bring a form of personal identification with you, such as your driver's licence.

### Voting by proxy

To vote by proxy, you must complete and return the personalised proxy form enclosed with this Scheme Booklet by the specified deadline, in accordance with the instructions on the form. You may appoint an individual or body corporate as your proxy.

The Proxy Form must be received by the Vitaco Registry by no later than 10.00am (AET) on Monday, 28 November 2016.

### Voting by attorney

To vote by attorney, the attorney must have a duly executed power of attorney, specifying the Vitaco Shareholder's name, the attorney, the meeting at which the appointment may be used and that the power of attorney applies in relation to Vitaco. The appointment may be a standing one and the attorney need not be a Vitaco Shareholder.

The power of attorney must be received by the Vitaco Registry by no later than 10.00am (AET) on Monday, 28 November 2016.

### Voting by corporate representative

For a body corporate to vote by corporate representative, the representative must have a duly executed form which complies with the requirements of the Corporations Act. The representative should bring this appointment to the meeting or send this appointment to the Vitaco Registry in advance of the Scheme Meetings.



## Lodgement of Proxy Forms and powers of attorney

To be effective, the relevant documents to vote by proxy or attorney must be received by the Vitaco Registry in any of the following ways at least 48 hours before the time for commencement of the Vitaco Scheme Meeting (that is, by 10.00am (AET) on Monday, 28 November 2016), or if the Scheme Meetings are adjourned, at least 48 hours before the resumption of the Vitaco Scheme Meeting:

- **By post to:**  
Vitaco Holdings Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia
- **By the internet** at the Share Registry's website ([www.linkmarketservices.com.au](http://www.linkmarketservices.com.au))
- **By facsimile** to +61 2 9287 0309

## 6.4 Your choices

As a Vitaco Shareholder, you have three choices available to you. These choices are set out below:

### a. Option 1 – Vote at the relevant Scheme Meeting

You can vote at the relevant Scheme Meeting by attending that Scheme Meeting in person, or by proxy, attorney, or (in the case of a corporate Vitaco Shareholder) by corporate representative appointed in accordance with the Corporations Act, in respect of some or all of your Vitaco Shares. Details of how to vote at the Scheme Meetings are set out in **Section 6.3** above. You may vote in favour of or against the Scheme Resolution proposed at the Vitaco Scheme Meeting or the Management Scheme Meeting (as the case may be).

If you vote against the Scheme Resolution at the relevant Scheme Meeting and the Scheme Resolution is passed by the Requisite Majorities at both Scheme Meetings (and the other conditions to the Scheme are satisfied or, where allowed, waived), then any Vitaco Shares you hold on the Scheme Record Date will be transferred to AcquireCo and you will receive the Scheme Consideration for each Scheme Share you hold on the Scheme Record Date (notwithstanding that you voted against the relevant Scheme Resolution).

### b. Option 2 – Sell your Vitaco Shares on market

You can sell your Vitaco Shares on ASX at any time before the close of trading on the Effective Date.

Vitaco will apply to ASX to suspend trading on ASX in Vitaco Shares with effect from the close of trading on the Effective Date, so you will not be able to sell your Vitaco Shares after this time.

If you sell your Vitaco Shares on ASX:

- you may pay brokerage on the sale;
- you will not receive the Scheme Consideration; and
- there may be different tax consequences compared with those that would arise if you were to remain a Vitaco Shareholder and the Scheme were to be implemented.

Vitaco Shareholders who wish to sell some or all of their Vitaco Shares on ASX should contact their broker for information on how to effect the sale.

### c. Option 3 – Do nothing

If you do not wish to vote for or against the relevant Scheme Resolution, or sell your Vitaco Shares on ASX, you may choose to do nothing.

If you do nothing and the Scheme Resolutions are passed by the Requisite Majorities at both Scheme Meetings (and the other conditions to the Scheme are satisfied or (where allowed) waived), then any Vitaco Shares you hold on the Scheme Record Date will be transferred to AcquireCo and you will receive the Scheme Consideration for each Scheme Share you hold on the Scheme Record Date (notwithstanding that you did not vote in favour of the relevant Scheme Resolution).

## 6.5 What to do next

You should read and consider the remainder of this Scheme Booklet in full before making any decision on whether to vote in favour of the Scheme Resolution. If you have any questions about this Scheme Booklet or the Scheme, please consult your broker or financial or legal adviser, or call the Vitaco Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) on Business Days between 8.30am and 5.30pm (AET).



# 7

## Risks



## 7.1 Introduction

The Vitaco Board considers that it is appropriate for Vitaco Shareholders, in considering the Scheme, to be aware that there are a number of risk factors which could materially adversely affect the future operating and financial performance of Vitaco, as well as the value of Vitaco and its dividends.

This section outlines:

- general investment risks; and
- risks specific to an investment in Vitaco.

This section describes the material risks associated with Vitaco's business, the industry in which it operates and the risks associated with an investment in Vitaco Shares. It does not purport to list every risk that may be associated with an investment in Vitaco now or in the future, and the occurrence of some of the risks described below are partially or completely outside the control of Vitaco, Vitaco Directors and management. Any or a combination of these risks may have a material adverse impact on Vitaco's business, financial performance and operations and the price of Vitaco Shares.

The selection of risks included in this section has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk on Vitaco's business or an investment in Vitaco Shares if it did occur. The assessment is based on the knowledge of the Vitaco Directors as at the date of this Scheme Booklet, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Vitaco Shareholder and will also no longer be exposed to the risks set out below. If the Scheme does not proceed, you will continue to hold your Vitaco Shares and continue to be exposed to risks associated with that investment. In making your decision to vote on the relevant Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section is general in nature only and does not take into account your individual investment objectives, financial circumstances and taxation position.

If you do not understand any part of this Scheme Booklet or are in any doubt as to your decision to vote on the relevant Scheme Resolution, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to vote in favour or against that Scheme Resolution.

## 7.2 General investment risks

### a. General market risk

Vitaco is subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in Vitaco's Share price that are not explained by the operations and activities of Vitaco.

Some of the factors which may adversely impact the price of Vitaco's Shares include fluctuations in the domestic and international market for listed securities, general economic conditions including interest rates, inflation rates, exchange rates, consumer sentiment, commodity and oil prices, changes to government fiscal, monetary or regulatory policies and settings, changes in legislation or regulation, inclusion in or removal from market indices, the nature of the markets in which Vitaco operates and general operational and business risks.

### b. General business risk

The future viability and profitability of Vitaco is dependent on a number of other business risks which are applicable to all companies, including (but not limited to) the following:

- financial failure or default by a party to any contract which Vitaco is, or may become, a party;
- insolvency or other managerial failure by any of the contractors used by Vitaco in its activities;
- industrial disputes;
- litigation;
- natural and man-made disasters including earthquakes, tsunamis and flooding;
- acts of terrorism or an outbreak of international hostilities; and
- changes in economic conditions.

### c. Liquidity and realisation risk

Vitaco's Shares are only listed on the ASX and not on any other securities market. As such, there can be no guarantee that an active market in the Vitaco Shares will continue, or that the market price of the Vitaco Shares will increase. If a market is not sustained, it may be difficult for investors to sell their Vitaco Shares, and the market price may be more volatile because of a low volume of trading.



#### d. Taxation

Changes in relevant taxes (including GST), legal and administrative regimes and government policies in Australia, New Zealand and overseas may impact the performance of Vitaco. Any change to the current rate of income tax applying to individuals and trusts will similarly impact on Vitaco Shareholder returns. In addition, any change in tax arrangements between Australia, New Zealand and other jurisdictions in which Vitaco carries on its business could, again, have an adverse impact on profit margins and the level of franking credits and imputation credits available to frank and impute any future dividends.

#### e. Shareholder dilution

In the future, should the Scheme not proceed, Vitaco may elect to issue further Vitaco Shares or other securities. While Vitaco will be subject to the constraints of the ASX Listing Rules regarding the issue of Vitaco Shares or other securities, Vitaco Shareholders may be diluted as a result of such issues of Vitaco Shares or other securities.

#### f. Dividends may not be franked

There can be no guarantee that dividends paid by Vitaco will be franked. To the extent that Vitaco pays any dividends, Vitaco Shareholders should be aware that Vitaco may not have sufficient franking credits to frank dividends, or the franking system may be subject to review or reform.

### 7.3 Risks specific to Vitaco

#### a. Customer concentration

Vitaco generated 45% of its net invoiced revenue for FY16 from its top five customers (namely, Woolworths, Coles, Progressive Enterprises, Foodstuffs and Chemist Warehouse via Sigma Pharmaceuticals) who purchase a broad range of products. These customers are large entities and could influence contractual terms with suppliers. As a result, Vitaco's arrangements with these customers are based on the customers' standard trading terms and, as such, there is no guarantee that these customers will continue purchasing Vitaco's products.

There is also a risk that Vitaco's key customers could make decisions that adversely impact Vitaco's business by using their commercial leverage to push for lower prices on Vitaco's products or demanding higher trade discounts or allowances which could lead to lower profitability. Vitaco may also be negatively affected by changes in the policies of its key customers, such as limitations on access to shelf space, delisting of Vitaco's products, replacing Vitaco's products with competitor or private label products, additional requirements related to safety, environmental, social and other sustainability issues and other commercial or operational conditions.

#### b. Reliance on suppliers and increases in raw material and packaging costs

Vitaco has a number of important arrangements with its key suppliers of packaging materials and ingredients and relies on these arrangements to manufacture and distribute its products. While Vitaco typically identifies alternate suppliers for all of its key materials, if relationships with any of its key suppliers deteriorate significantly, or the supplier ceases trading due to financial difficulties or fails to supply products at an adequate quality or in a timely fashion, and inventory (including any safety stock) is depleted, Vitaco may not be able to source alternative products immediately or, if it can do so, it may be on less favourable terms. This could have an adverse impact on the operating and financial performance of Vitaco. In addition, approximately 70–90% of Vitaco costs of goods sold are raw materials and packaging. If the cost of raw materials and packaging increases significantly and Vitaco is unable to pass those costs on to its customers, Vitaco could be adversely affected. Furthermore, the ability and speed with which Vitaco can respond to increases in the cost of raw materials and packaging by adjusting the prices charged to its customers or sourcing more competitively priced materials may be limited and may result in lower margins on the sale of its products.

#### c. Change of control consent requirements

Some contracts to which members of the Vitaco Group are a party (including leases, supply contracts, financing arrangements and customer contracts) contain change of control provisions that will, or may if certain conditions pertain, be triggered by either the entry into the Scheme Implementation Deed or the Scheme, the acquisition of Vitaco Shares by BidCo on the implementation of the Scheme or the delisting of Vitaco. Such provisions allow the counterparty to, variously, demand immediate or earlier repayment of borrowed monies or review, adversely modify or terminate the contract. Such counterparties may also seek damages, injunctive relief or specific performance in respect of breaches of these contracts as a result of or in connection with the Proposed Transaction.

Although no consent is a Condition Precedent, if a counterparty to a contract were to refuse to provide consent to the proposed change of control or seek to terminate or renegotiate a contract, or seek damages, injunctive relief or specific performance in respect of any breach of such contract, this may, individually or in aggregate, have an adverse effect on the ability to successfully implement the Scheme. Vitaco is aware of a number of consent requirements that will or may be triggered by the Transaction, and is, under the Scheme Implementation Deed, required to use its reasonable endeavours to obtain all such change of control consents to ensure that there is no adverse effect on the ability to successfully implement the Scheme arising from such requirements.



#### d. Regulatory risk

The industry in which Vitaco operates is highly regulated. The manufacture, packaging, labelling and advertising for Vitaco's products are regulated by various federal, state and local agencies in Australia and New Zealand as well as those of each foreign country in which Vitaco sells its products. There can be no assurance that existing laws to which Vitaco is subject will not be amended, repealed or replaced in the future. Any change to the existing statutory framework or the imposition of new laws, regulations, regulatory policies or changes to enforcement practices or the interpretation of laws and regulatory policies which are applicable to the industry that Vitaco operates in could result in increased costs of production, impairing the profit margins of Vitaco and may have a material adverse impact on the operating and financial performance of Vitaco.

In particular, a substantial portion of Vitaco's international sales are being driven by an increase in cross-border e-commerce demand in China, which has largely been facilitated by Chinese governmental policy allowing the import of products. There have been a number of recently announced changes to the Chinese regulatory environment, including a new tax policy on business-to-consumer cross border e-commerce sales and the introduction of a positive list of products which are eligible for cross border e-commerce retail import. While the introduction of the positive list of products has been delayed for a year (to 11 May 2017), the resulting uncertainty, coupled with the increase in taxes payable on cross border e-commerce transactions, has recently impacted Vitaco's international sales. Any additional changes in Chinese governmental policy which restrict the ability of Vitaco to distribute its products in China or any ongoing uncertainty as to the timing or scope of any proposed or speculated changes could have an adverse effect on the operations and financial performance of Vitaco.

#### e. Brand reputation

The success of Vitaco is heavily reliant on its reputation and branding. Vitaco's inability to address adverse publicity or other issues including concerns about product safety, quality, efficacy or similar matters, real or perceived, could negatively impact sentiments towards Vitaco and its products and brands. Any facts or events that diminish Vitaco's reputation, brand names or related trade marks may adversely affect the operating and financial performance of Vitaco. Consumer perception of nutritional products and Vitaco's products in particular can be substantially influenced by scientific research or findings, national media attention and other publicity about product use. Adverse publicity from these sources regarding nutritional products and Vitaco's products could harm Vitaco's reputation and the results of its operations. The publication of news articles or reports asserting that such products may be harmful or questioning their efficacy could have an adverse effect on the operating and financial performance of Vitaco.

#### f. Changing consumer preferences and market trends

Vitaco's revenues are almost entirely generated from nutrition, health and wellness products which can be subject to changes in consumer preferences. As a consequence, failure by Vitaco to predict or respond to changes in consumer preferences could adversely impact Vitaco's future financial and operating performance. If Vitaco misjudges or fails to predict consumer preferences or fails to convert market trends into appealing product offerings on a timely basis, this may result in lower revenue and margins for Vitaco and could adversely impact Vitaco's future financial performance. Furthermore, any changes in consumer preferences may also lead to an increased obsolete inventory risk for Vitaco. Notwithstanding that Vitaco expects to capitalise on the growing Asian demand for Australian and New Zealand nutritional products which are perceived as 'clean and green', the volatility of market trends within the Asian market and the resulting impact this may have on consumer preferences, particularly in light of Vitaco's product offerings, could adversely impact on the ability of Vitaco to capitalise on the anticipated growth within this market.

#### g. Failure to compete effectively

The nutrition, health and wellness industry is competitive particularly with regards to:

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

Vitaco faces competition in the nutrition, health and wellness industry from a number of large nationally known brands, private label brands and many smaller wholesalers of nutritional products. While Vitaco is competitive now, there can be no assurances that the actions of existing or new competitors or changes in consumer preferences will not adversely affect Vitaco's performance. Vitaco's response to aggressive pricing or promotional strategies of competitors differs from business to business and region to region. However, in any of these circumstances, Vitaco's net profit and cash flow from operations could decline.

#### h. Key personnel risk

Vitaco's performance reflects, to a large extent, the efforts and abilities of its senior management team. While, in most cases, these executives are party to an employment contract with Vitaco, under the terms of these contracts each executive is permitted to terminate their contract upon a certain notice period. Currently Vitaco employs a highly experienced and dedicated senior management team; however, its disbandment may have a material adverse impact on the operating and financial performance of Vitaco. Vitaco's future success will depend on its continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of its business, particularly in sales and marketing. Vitaco's continued ability to compete effectively will depend on its ability to attract new employees and to retain and motivate existing employees.



#### i. Disruptions to Vitaco's manufacturing capacity

Vitaco undertakes its own production for most of its business operations, and operates a number of plants with varying levels of capacity utilisation. There is a risk that one or all of the plants used in production will not be able to operate at its full potential due to fire, explosion, industrial dispute, contamination or industrial accident. If this occurred, there is a risk that production could not be sourced from plants operated by Vitaco. This could lead to delivery and quality control issues or Vitaco not being able to produce at all, which may have an adverse impact on the operating and financial performance of Vitaco.

Furthermore, Vitaco is in preliminary stages of assessing opportunities to expand its manufacturing and warehousing footprint in Auckland which, if actioned, would require capital investment and time to complete. Any potential disruptions, quality control issues or unanticipated costs incurred as a result of actioning any of these opportunities may have an adverse impact on the operating and financial performance of Vitaco.

#### j. Currency movements/exposure

Vitaco's consolidated financial statements are reported in Australian dollars whereas the financial condition and results of operations of Vitaco are measured and recorded in the relevant domestic currency of the jurisdiction in which Vitaco carries on business and then, as required, translated into Australian dollars for inclusion in Vitaco's consolidated financial statements. As a result, Vitaco is exposed to translation risks from fluctuations in foreign exchange rates. This is particularly relevant for fluctuations between the New Zealand dollar and the Australian dollar. Fluctuations in the exchange rates of the currencies relevant to the jurisdictions in which Vitaco carries on business may have an adverse impact on the operating and financial performance of Vitaco.

#### k. Product liability and recalls

As a marketer and distributor of products designed for human consumption, Vitaco could be subject to product liability claims if the use of its products is alleged to have resulted in injury. Some of Vitaco's products are classified as dietary supplements and others are not subject to pre-market regulatory approval in Australia, New Zealand or internationally. Vitaco has strict quality control policies; however events outside Vitaco's control could occur which could adversely affect the financial and operating performance of Vitaco. Vitaco takes all reasonable precautions to ensure that its products are free from contamination. However, in the event that a contamination of one of Vitaco's products occurs, it may lead to business interruption, product recalls or liabilities to customers. While Vitaco maintains insurance to cover for these risks, Vitaco may not be able to enforce its rights in respect of those policies and any amounts that Vitaco does recover may not be sufficient to offset any damage to the financial condition, reputation or prospects of Vitaco caused by product contamination or product liability claim or the negative publicity surrounding the claim.

#### l. Inability to protect intellectual property rights

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

The industry in which Vitaco operates is characterised by vigorous pursuit and protection of intellectual property rights, which may result in protracted and expensive litigation. Third parties may assert claims of misappropriation of trade secrets or infringement of intellectual property rights against Vitaco or against its end customers or partners for which Vitaco may be liable. As Vitaco's business expands internationally, particularly in China, the number of products and competitors in the markets in which it operates increases and product overlaps occur, and, accordingly, infringement claims may increase in number and significance. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and Vitaco cannot be certain that it would be successful in defending intellectual property claims. Further, many potential litigants have the capability to dedicate substantially greater resources than Vitaco can to enforce their intellectual property rights and to defend claims that may be brought against them. In addition, a successful claimant could secure a judgment that requires Vitaco to pay substantial damages or prevents Vitaco from distributing products or performing certain business activities.

#### m. System and technology failures

Like many companies, Vitaco's business is highly dependent upon its information technology infrastructure to manage effectively and efficiently Vitaco's operations, including order entry, customer billing, accurately tracking purchases and managing accounting, finance and inventory. The occurrences of natural disasters, security breaches or other unanticipated problems could result in interruptions to Vitaco's day-to-day business that could adversely affect Vitaco's business.

#### n. Insurance coverage and third-party indemnification rights

Vitaco currently maintains insurance at adequate levels for property, general and product liability, directors and officer's liability, and workers' compensation to protect Vitaco against potential loss exposures. In the future, insurance coverage may not be available at adequate levels or on adequate terms to cover potential losses, including on terms that meet Vitaco's requirements. If insurance coverage is inadequate or unavailable, Vitaco may face claims that exceed coverage limits or that are not covered, which could increase the costs and adversely affect Vitaco's operating results and financial performance.



#### o. Bribery and corruption in foreign operations

Vitaco may incur fines or penalties, damage to its reputation or suffer other adverse consequences if its directors, officers, employees, consultants, agents, service providers or business partners violate, or are alleged to have violated, anti-bribery and corruption laws in any of the jurisdictions in which it operates. Vitaco cannot guarantee that its internal policies and controls will be effective in each case to ensure that Vitaco is protected from reckless or criminal acts committed by its directors, officers, employees, consultants, agents, service providers or business partners that would violate Australian laws or the laws of any other country in which Vitaco carries on business. Any such improper actions could subject Vitaco to civil or criminal investigations in Australia or overseas that could lead to substantial civil or criminal monetary and non-monetary penalties against Vitaco, and could damage Vitaco's reputation. Furthermore, the allegation or appearance of improper or illegal actions could also damage Vitaco's reputation and result in significant expenditures in investigating and responding to such actions which may in turn have an adverse effect on Vitaco's financial performance and position.

#### p. Certifications and licences

Vitaco must obtain or renew appropriate permits, licences and certificates required to operate its business in the countries in which it operates. Vitaco is also subject to regular inspections, examinations, inquiries and audits by governmental authorities and certain customers to obtain or renew the various licences, certifications and permits required for its operations. In addition, Vitaco is subject to periodic and spot inspections conducted by governmental authorities at various levels in order to maintain its operating licences, certificates and permits. A finding of non-compliance or failure to obtain, maintain or timely renew the necessary licences, certificates, permits or approvals could have a negative impact on Vitaco's operations and financial condition.

#### q. Integration of acquired businesses

Vitaco has expanded through acquisitions in the past and may do so in the future. The acquired businesses could consume a large amount of management time and attention during integration, and the acquisitions may fail to meet strategic objectives, achieve forecast financial performance either due to revenue impacts should customer relationships not continue or because expected synergies do not materialise.

#### r. Environmental non-compliance

Certain activities carried on in the course of Vitaco's business are subject to regulation by environmental legislation. Environmental laws and regulations are constantly changing and, while Vitaco endeavours to ensure that its operations and activities comply with applicable environmental laws, it cannot guarantee that it will always be in compliance with applicable environmental laws and regulations, or that it will not incur additional costs to comply with such laws and regulations. Failure to comply with any of these laws and regulations could result in penalties, a delay in the delivery of goods, a need to temporarily shut down operations, delayed receipt of sales revenue, loss of income, the incurring of significant costs and fines and the suspension or termination of contracts. Any limitations or costs incurred as a result of Vitaco's non-compliance with environmental laws and regulations may have a materially adverse effect on Vitaco's business, financial condition, results of operations and reputation.

#### s. Litigation

Vitaco may, in the ordinary course of business, be involved in litigation and disputes, for example with suppliers or customers. Any litigation or dispute could be costly and damaging to Vitaco's reputation and business relationships, which could have an adverse effect on its financial performance or industry standing.

#### t. Impairment of intangibles

As a result of the acquisitions that Vitaco has made in the past, Vitaco has a substantial value of intangible assets on its balance sheet relating to goodwill and identifiable intangible assets. Under accounting standards, goodwill and indefinite life intangible assets must be tested annually for impairment. In the event that the value of any of Vitaco's intangible assets is found to be impaired to a level below their carrying value, Vitaco would need to write down the value of the intangible asset. This could have a material impact on Vitaco's financial position.



# 8

## Taxation implications



## 8.1 Introduction

The information provided below is not applicable to all Vitaco Shareholders and only considers the Australian and New Zealand income tax and goods and services tax (GST) implications for Vitaco Shareholders who are Australian and New Zealand tax residents.

The information provided below is relevant to Vitaco Shareholders who hold their Vitaco Shares on capital account for income tax purposes. The information below does not apply to Vitaco Shareholders who:

- a. hold their Vitaco Shares on revenue account (such as share trading entities) or as trading stock;
- b. are temporary residents of Australia for Australian taxation purposes;
- c. are transitional residents of New Zealand for New Zealand taxation purposes;
- d. hold their Vitaco Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- e. have received their Vitaco Shares as a result of the participation in an incentive plan of Vitaco; or
- f. are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Vitaco Shares.

The taxation overview set out below takes into account legislation enacted or proposed as at the date of this Scheme Booklet, the interpretation of such laws by the courts and relevant administrative practices.

This taxation overview does not constitute taxation advice and should not be relied upon as such. It does not purport to be a complete analysis or to identify all potential related tax consequences.

All Vitaco Shareholders are advised to obtain independent taxation advice in respect of the Scheme and the payment of both the Scheme Consideration and the Permitted Dividend which takes into account their personal circumstances.

## 8.2 Permitted Dividend

It is considered that the Permitted Dividend for the year ending 30 June 2016 should not form part of the capital proceeds received for Australian Capital Gains Tax (CGT) purposes in respect of the disposal of a Vitaco Share under the Scheme. In particular, the Scheme is not conditional on the payment of the Permitted Dividend and the Permitted Dividend will be funded from Vitaco's own resources without any participation of Shanghai Pharma, Primavera Capital Fund II or their Related Bodies Corporate, is consistent with Vitaco's annual dividend policy and does not affect the Scheme Consideration. This conclusion is consistent with the reasoning of the Australian Taxation Office Ruling TR 2010/4.

### Australian tax implications

Vitaco Shareholders who are Australian tax residents who received the Permitted Dividend should include the amount of the Permitted Dividend in their assessable income. It is expected that the Permitted Dividend will be unfranked.

### New Zealand tax implications

Vitaco Shareholders who are New Zealand tax residents and hold less than 10% of the Vitaco Shares on issue, should be taxable on the Permitted Dividend with credit for any New Zealand imputation credits and Australian withholding tax against New Zealand tax payable. This is on the basis that we expect New Zealand resident Vitaco Shareholders who hold less than 10% of the Vitaco Shares on issue should not be subject to tax on their shareholding under the New Zealand foreign investment fund rules by virtue of Vitaco's status as an ASX listed company.

Vitaco has formed a Trans-Tasman Imputation Group. It is expected the Permitted Dividend will be partially imputed.

## 8.3 Disposal of Vitaco Shares

### Australian tax implications

If the Scheme is approved and implemented, AcquireCo will acquire 100% of the Vitaco Shares.

#### **Taxation implications for Australian resident Vitaco Shareholders**

The disposal of shares is a CGT event (i.e. CGT Event A1). It is expected to occur for all Vitaco Shareholders when they dispose of their Vitaco Shares under the Scheme. The time of the event is the Implementation Date.

As a result of this CGT event, Vitaco Shareholders will realise:

- a capital gain on the Implementation Date, if the capital proceeds from the disposal of their Vitaco Shares exceeds the cost base of their Vitaco Shares; or
- a capital loss on the Implementation Date, if the capital proceeds from the disposal of their Vitaco Shares is less than the reduced cost base of their Vitaco Shares.



Capital gains and capital losses made by a Vitaco Shareholder in an income year from all sources are aggregated to determine whether they make a net capital gain or net capital loss for that income year. The net capital gain should be included in the assessable income of the Vitaco Shareholder.

#### *Cost Base*

The cost base (or reduced cost base) of Vitaco Shares should generally be the amount paid to acquire the Vitaco Shares plus incidental costs of ownership (provided the costs have not previously been claimed as an income tax deduction).

#### *Capital Proceeds*

The capital proceeds are expected to be the cash component of the Scheme Consideration amount of \$2.2204 per Vitaco Share.

#### *CGT Discount*

Vitaco Shareholders who are individuals, complying superannuation entities, trustees of trusts or (in limited circumstances) life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their Vitaco Shares if they have held their Vitaco Shares for at least 12 months before the Implementation Date (the reduction is referred to as the 'CGT discount'). The CGT discount is applied only after available current year and carried forward capital losses have been applied to reduce the capital gain.

The CGT discount rate is 50% for individuals and trustees, and 33.3% for complying superannuation entities and life insurance companies.

### **New Zealand tax implications**

New Zealand does not have a general CGT and therefore Vitaco Shareholders who hold their shares on capital account should not be subject to New Zealand tax on gains on the disposal of their Vitaco Shares, or be allowed a deduction for any loss.

## **8.4 Goods and services tax (GST)**

### **Australian GST implications**

Vitaco Shareholders should not be liable to Australian GST in respect of a disposal of the Vitaco Shares.

Vitaco Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. Vitaco Shareholders may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

### **New Zealand GST Implications**

Vitaco Shareholders should not be liable to New Zealand GST in respect of a disposal of the Vitaco Shares.



9

# Additional information



## 9.1 Interests of Vitaco Directors in Vitaco

As at the date of this Scheme Booklet, the number of Vitaco Shares held by or on behalf of the Vitaco Directors is as follows:

Director	Number of Vitaco Shares
Greg Richards	95,238
Ryan d'Almeida	357,391
Emmet Hobbs	47,619
Katrina Onishi	47,619
Andrew Lockhart	142,857
<b>Total</b>	<b>690,724</b>

No director of Vitaco has acquired or disposed of a Relevant Interest in any Vitaco Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

In addition, as at the date of this Scheme Booklet, Ryan d'Almeida also holds 343,042 Options and 67,003 Performance Rights, which are on the terms described in **Section 9.5**.

## 9.2 Interest of Vitaco Directors in BidCo, Primavera Capital Fund II and Shanghai Pharma

No director of Vitaco has a Relevant Interest in any shares in BidCo, Primavera Capital Fund II or Shanghai Pharma.

No director of Vitaco acquired or disposed of a Relevant Interest in any shares in BidCo, Primavera Capital Fund II or Shanghai Pharma in the four month period ending on the date immediately before the date of this Scheme Booklet.

## 9.3 Summary of Scheme Implementation Deed

On 3 August 2016, Vitaco, Primavera Capital Fund II, Primavera, Shanghai Pharma and SIIC Medical Science entered into a Scheme Implementation Deed under which, subject to the satisfaction or waiver of a number of conditions, it is proposed that BidCo will acquire all of the Vitaco Shares pursuant to a scheme of arrangement.

The Scheme Implementation Deed contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Vitaco's obligation to conduct its business in the ordinary course during the Scheme process.

A summary of the key elements of the Scheme Implementation Deed is set out below. A full copy of the Scheme Implementation Deed was lodged with ASX on 4 August 2016 and is included in this Scheme Booklet as **Annexure E** and can be obtained from [www.asx.com.au](http://www.asx.com.au) or from [www.vitaco.com.au/investor-centre](http://www.vitaco.com.au/investor-centre).

### a. Conditions

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order is issued by any Court or Governmental Agency or other legal restraint or prohibition preventing the Scheme is in effect at the Delivery Time;
- **Regulatory Approvals:**
  - **FIRB** – notice is received by, or on behalf of, the Federal Treasurer advising that the Commonwealth of Australia has no objections to BidCo acquiring all of the Vitaco Shares;
  - **OIO** – all required consents, approvals or clearances required under the *Overseas Investment Act 2005* (NZ) to implement the Transaction are received from the OIO;
  - **ASIC and ASX** – all consents, waivers, modifications, or approvals necessary to implement the Scheme are issued by ASIC and ASX (as applicable); and
  - **PRC approvals** – SIIC Medical Science and Shanghai Pharma have obtained all regulatory approvals and consents required to be obtained from relevant PRC governmental agencies to implement the Transaction.
- **No Vitaco Prescribed Occurrence:** no Vitaco Prescribed Occurrence occurs before the Delivery Time;
- **No Guarantor Prescribed Occurrence:** no Guarantor Prescribed Occurrence occurs before the Delivery Time;
- **No material adverse change:** no 'material adverse change' (described below) occurs or is discovered before the Delivery Time;
- **Warranties:** the representations and warranties given by Vitaco and BidCo to each other are true and correct in all material respects as at 3 August 2016 and as the Delivery Time;
- **Shareholder approval:** Vitaco Shareholders approve the Scheme;



- **Court approval:** the Court approves the Scheme; and
- **Independent Expert:** the Independent Expert does not change or publicly withdraw its independent expert's report before the Second Court Date.

A material adverse change is an event or circumstance that occurs or fails to occur, is announced or becomes known to BidCo (whether or not it becomes public) after the date of the Scheme Implementation Deed which individually, or when aggregated with another event or circumstance of a similar kind or category, has resulted in, or is reasonably likely to result in:

- a. a material and adverse effect on the business, assets, financial condition, results, operations, reputation or prospects of the Vitaco Group (as a whole); or
- b. without limiting the generality of paragraph (a):
  - i. an adverse impact of at least \$31.6 million on the Vitaco Group's consolidated revenue;
  - ii. the Vitaco Group's consolidated forecast revenue for FY17 being less than \$179 million; or
  - iii. an adverse impact of at least \$3.7 million on the Vitaco Group's consolidated EBITDA;each to be determined:
  - i. in accordance with the principles of Australian International Financial Reporting Standards and consistent with Vitaco's historical basis of preparation of financial statements; and
  - ii. after taking into account all relevant matters which offset the impact on Vitaco Group's consolidated revenue, consolidated forecast revenue for FY17 or the Vitaco Group's consolidated EBITDA (as the case may be).

The definition of 'material adverse change' is subject to certain exceptions, including for matters fairly disclosed to the ASX or ASIC prior to the date of the Scheme Implementation Deed or to BidCo. Primavera Capital Fund II or Shanghai Pharma in the materials made available to them during their due diligence investigations.

Full details of the conditions and the ability of Vitaco and BidCo to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Deed. As at the date of this Scheme Booklet, Vitaco is not aware of any reason why the conditions will not be satisfied.

## b. Exclusivity

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of BidCo. These arrangements are in line with market practice in this regard and may be summarised as follows:

- **No-shop:** Vitaco must not solicit any enquiries, proposals, discussions or negotiations that may encourage or lead to a Competing Transaction, or communicate any intention to do so.
- **No-talk:** Vitaco must not participate in any negotiations or discussions (or communicate any intention to do so) in relation to, or which may reasonably be expected to lead to, a Competing Transaction.
- **No due diligence:** Except with BidCo's consent, Vitaco must not solicit or encourage any due diligence investigations or provide any information that may encourage or lead to a Competing Transaction.
- **Notification:** If Vitaco is approached, or requested to provide information, in relation to a proposed or potential Competing Transaction, Vitaco must notify BidCo and provide certain details to BidCo including the identity of the relevant person approaching Vitaco and the nature of the approach.
- **Matching Right:** Vitaco is prohibited from entering into an agreement relating to a Competing Transaction and must ensure that none of the Vitaco Directors change or withdraw their recommendation or recommend a Competing Transaction unless, among other things, Vitaco has given BidCo at least five Business Days to provide a counter-proposal.

However, Vitaco is not required to comply with its obligations under the No-talk, No due diligence and Notification provisions in the Scheme Implementation Deed if the Vitaco Board determines in good faith that complying with those provisions would be likely to constitute a breach of the fiduciary and statutory duties owed by any Vitaco Director or the Vitaco Board.

These exclusivity arrangements are set out in full in clause 13 of the Scheme Implementation Deed.

## c. Break Fees

### *Vitaco Break Fee*

Vitaco has agreed to pay BidCo a 'break fee' of \$3,130,729 (exclusive of GST) (**Vitaco Break Fee**) in certain circumstances. Those circumstances are:

- **Withdrawal or modification of recommendation:** any Vitaco Director fails to recommend the Scheme or such number of Vitaco Directors that constitutes a majority of the Vitaco Board withdraw or adversely modify their recommendation of the Scheme and do not reinstate their recommendation within three Business Days of doing so, except where:
  - A. the Independent Expert concludes in its report that the Scheme is not in the best interests of Vitaco Shareholders or concludes in its report that the Scheme is in the best interests of Vitaco Shareholders but then changes or publicly withdraws that conclusion before the Delivery Time; or



B. a matter or circumstance has arisen that gives Vitaco the right to terminate the Scheme Implementation Deed under clause 17.1 of that deed.

- **Competing Transaction:** Vitaco enters into any agreement to undertake a Competing Transaction (or publicly announces an intention to do so) or a Competing Transaction is announced and, within six months of the End Date, the person announcing or making the Competing Transaction:
  - A. acquires a Relevant Interest in more than 50% of the Vitaco Shares; or
  - B. acquires or obtains an economic interest in all or a substantial part of the assets of the Vitaco Group.
- **Action causing failure of a condition:** (subject to certain exceptions) a condition that needs to be satisfied before the Scheme can become effective is not satisfied due to an action (or failure to act) of Vitaco or any of its Related Bodies Corporate in breach of Vitaco's obligations under the Scheme Implementation Deed, and the relevant condition is not waived in accordance with the Scheme Implementation Deed.
- **Material breach:** BidCo terminates the Scheme Implementation Deed in accordance with clause 17 of the Scheme Implementation Deed, due to a material breach of that agreement by Vitaco. For further explanation of the circumstances in which BidCo may terminate the Scheme Implementation Deed, see **Section 9.3(d)** below and clause 17 of the Scheme Implementation Deed.

The Vitaco Directors consider the Vitaco Break Fee to be appropriate in amount, structure and effect. The fee is not payable if the Scheme does not proceed merely because Vitaco Shareholders do not vote in favour of the Scheme in sufficient numbers to satisfy the legal requirements.

Vitaco is not required to pay the Vitaco Break Fee in circumstances where Vitaco has already become entitled to receive the BidCo Break Fee.

For full details of the Vitaco Break Fee, see clause 13 of the Scheme Implementation Deed.

#### *BidCo Break Fee*

BidCo has agreed to pay Vitaco a 'break fee' of \$3,130,729 (exclusive of GST) (**BidCo Break Fee**) in certain circumstances. Those circumstances are:

- **Action causing failure of a condition:** (subject to certain exceptions) a condition that needs to be satisfied before the Scheme can become effective is not satisfied due to an action (or failure to act) of BidCo, the Guarantors or any of their Related Bodies Corporate in breach of those parties' obligations under the Scheme Implementation Deed, and the relevant condition is not waived in accordance with the Scheme Implementation Deed.
- **Material breach:** Vitaco terminates the Scheme Implementation Deed in accordance with clause 17 of the Scheme Implementation Deed, due to a material breach of that agreement by BidCo or a Guarantor. For further explanation of the circumstances in which Vitaco may terminate the Scheme Implementation Deed, see **Section 9.3(d)** below and clause 17 of the Scheme Implementation Deed.
- **Failure to perform Scheme:** BidCo or the Guarantors on behalf of BidCo fail to pay the cash component of, or procure the issue of the scrip component of, the Scheme Consideration (as the case may be) in accordance with the terms and conditions of the Scheme Implementation Deed within five Business Days of the date on which the Scheme Consideration is required to be paid or issued (as the case may be).

For full details of the BidCo Break Fee, see clause 14 of the Scheme Implementation Deed.

#### **d. Termination**

BidCo or Vitaco can terminate the Scheme Implementation Deed:

- in certain circumstances where an event occurs which would, or does, prevent a condition being satisfied;
- where the other party is in material breach of its obligations under that deed and the relevant party in breach fails to remedy that breach within five Business Days' notice;
- if the Effective Date for the Scheme has not occurred before the End Date;
- in certain circumstances where the Court does not direct Vitaco to hold the Scheme Meetings; or
- where a majority of Vitaco Directors change or withdraw their recommendation to Vitaco Shareholders to vote in favour of the Scheme, or make a modification to their recommendation and do not reinstate their recommendation within three Business Days.

Vitaco can also decide to terminate the Scheme Implementation Deed in certain circumstances in the event that either Primavera or SIIC Medical Science fails to pay its Relevant Proportion of the cash component of the Scheme Consideration by the time on which it is required to do so.



## 9.4 Status of regulatory conditions

As at the date of this Scheme Booklet:

- **FIRB** – notice was received from, the Federal Treasurer on 20 October 2016 advising that the Commonwealth of Australia has no objections to the Consortium acquiring all of the Vitaco Shares;
- **OIO** – the Consortium has not received the consents, approvals and clearances required under the Overseas Investment Act 2005 (NZ) to implement the Transaction; and
- **PRC** – SIIC Medical Science and Shanghai Pharma have obtained the regulatory approvals and consents which are required to be obtained from relevant PRC governmental agencies to implement the Transaction.

## 9.5 Vitaco management incentive arrangements

Vitaco has in place a long term incentive plan under which Options and Performance Rights are offered to senior management as an incentive and reward. As at the date of this Scheme Booklet, there are on issue 1,000,918 Options which entitle the holder, on exercise, to acquire one Vitaco Share for each Option and 195,499 Performance Rights which entitle the holder to acquire one Vitaco Share for each Performance Right, subject to the satisfaction of certain performance conditions which are referable to, among other things, Vitaco's financial performance over a set time period.

As at the date of this Scheme Booklet, the current Option and Performance Rights holdings are as follows:

OPTIONS		PERFORMANCE RIGHTS	
Holder	Number	Holder	Number
Ryan d'Almeida	343,042	Ryan d'Almeida	67,003
Phillip Wiltshire	135,593	Phillip Wiltshire	26,484
Roger Scott	127,845	Roger Scott	24,971
John Stanton	123,689	John Stanton	24,159
Martin Drinkrow	142,019	Martin Drinkrow	27,739
Jay Drezner	70,619	Jay Drezner	13,793
Brent Hall	58,111	Brent Hall	11,350

A requirement under the Scheme Implementation Deed is that Vitaco must take all necessary action after the Effective Date and prior to the Scheme Record Date to ensure that all Options and Performance Rights which have not already been exercised or have not already vested do vest or are exercised (as the case may be) in accordance with the existing terms of those Options and Performance Rights and all exercise price amounts are either paid to Vitaco prior to the Scheme Record Date or deferred until the Implementation Date (**Deferred Exercise Price Amount**), and Vitaco must, prior to the Scheme Record Date, issue the number of Vitaco Shares required by the terms of those Options and Performance Rights on such exercise or vesting (as the case may be), so that the relevant former holders of the Options and the Performance Rights (as the case may be) can participate in the Scheme.

Before the Delivery Time, Vitaco will also procure that each Management Shareholder delivers to Vitaco and BidCo a written irrevocable direction to pay to Vitaco, on the Implementation Date and from the cash component of the Scheme Consideration payable to that Management Shareholder, an amount equal to the aggregate Deferred Exercise Price Amount, which payment will be in satisfaction of that Management Shareholder's obligation to pay to Vitaco the Deferred Exercise Price Amount.

## 9.6 Benefits and agreements

### a. Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Vitaco (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in Vitaco (or any of its Related Bodies Corporate) in connection with the Scheme.

### b. Agreements connected with or conditional on the Scheme

Other than as set out in **Section 5.11(d)** (with respect to the one-off bonus payment to be made to Ryan d'Almeida) and **Section 9.5** above, there are no agreements or arrangements made between any Vitaco Director and any other person in connection with, or conditional on, the outcome of the Scheme.

BidCo and each Guarantor have each agreed to indemnify each Vitaco Director from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising by reason of any breach of any of the representations and warranties given by BidCo and the Guarantors (as applicable) in clause 11 of the Scheme Implementation Deed.



### c. Interests of Vitaco Directors in contracts with BidCo, Primavera Capital Fund II and Shanghai Pharma

None of the Vitaco Directors have any interest in any contract entered into by BidCo, Primavera Capital Fund II or Shanghai Pharma.

### d. Benefits under the Scheme or from BidCo, Primavera Capital Fund II or Shanghai Pharma

Save as set out in **Section 5.11(d)**, none of the Vitaco Directors have agreed to receive, or are entitled to receive, any benefit from BidCo, Primavera Capital Fund II or Shanghai Pharma which is conditional on, or is related to, the Scheme.

## 9.7 ASIC and ASX relief

### a. ASIC relief

No ASIC relief was required for the purposes of the Scheme or the issue of this Scheme Booklet.

### b. ASX waivers

No ASX waivers were required for the purposes of the Scheme or the issue of this Scheme Booklet.

## 9.8 Consents and disclosures

### a. Consents

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- Primavera Capital Fund II in respect of the Primavera Capital Fund II Information only;
- Shanghai Pharma in respect of the Shanghai Pharma Information only; and
- KPMG Corporate Finance as the Independent Expert.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- J.P. Morgan Australia Limited as financial adviser to Vitaco;
- MinterEllison as legal adviser to Vitaco; and
- Link Market Services Pty Ltd as the Vitaco Registry.

### b. Disclosures and responsibility

Further, each party named in **Section 9.8(a)**:

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
  - Primavera Capital Fund II in respect of the Primavera Capital Fund II Information only;
  - Shanghai Pharma in respect of the Shanghai Pharma Information only; and
  - KPMG Corporate Finance, in relation to its Independent Expert's Report.
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this **Section 9.8(b)**.

## 9.9 Material litigation

To the best knowledge of the Vitaco Board and senior management, Vitaco is not currently involved in any litigation or dispute which is material in the context of Vitaco and its Subsidiaries taken as a whole.

## 9.10 No unacceptable circumstances

The Vitaco Board believes that the Scheme does not involve any circumstances in relation to the affairs of Vitaco that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.



## 9.11 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Vitaco Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Vitaco Shareholders.

## 9.12 Supplementary information

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, Vitaco becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

Vitaco will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Vitaco Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Vitaco's website at [www.vitaco.com.au/investor-centre](http://www.vitaco.com.au/investor-centre) and from the ASX website at [www.asx.com.au](http://www.asx.com.au).



# 10

## Glossary and interpretation



## 10.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
<b>1H16</b>	half year ended 31 December 2015.
<b>AcquireCo</b>	Zeus One Company Pty Limited (ACN 615 426 545), an indirect wholly owned subsidiary of HK HoldCo.
<b>Aus HoldCo</b>	Zeus One Holding Company Pty Limited (ACN 615 424 238), a direct wholly owned subsidiary of HK HoldCo.
<b>Adviser</b>	any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to Vitaco, BidCo or the Guarantors in connection with the Transaction.
<b>AET</b>	Australian Eastern Time.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>Associate</b>	has the same meaning as in section 12 of the Corporations Act.
<b>ASX</b>	ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.
<b>Authorised Person</b>	in respect of a person, including the Guarantors: a. a director, officer, partner, member or employee of the person; b. an Adviser of the person; c. a director, officer or employee of an Adviser of the person; and d. where the person is a Guarantor, a Guarantor Related Person.
<b>BidCo</b>	Primavera and SIIC Medical Science, acting severally with respect to the rights and obligations imposed on them under the Transaction, in their Relevant Proportions and subject at all times to the provisions of clause 20 of the Scheme Implementation Deed.
<b>BidCo Group</b>	BidCo and each of its Subsidiaries (excluding, at any time, Vitaco and its Subsidiaries to the extent that Vitaco and its Subsidiaries are subsidiaries of BidCo at that time). A reference to a member of the <b>BidCo Group</b> or a <b>BidCo Group Member</b> is a reference to BidCo or any such Subsidiary.
<b>BidCo Information</b>	the Primavera Capital Fund II Information and the Shanghai Pharma Information.
<b>Break Fee</b>	has the meaning given to the term 'Target Break Fee' or 'BidCo Break Fee' (as relevant) in the Scheme Implementation Deed.
<b>Business Day</b>	a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales, Australia, Hong Kong Special Administrative Region of the PRC and Shanghai, PRC.
<b>Competing Transaction</b>	has the meaning given to that term in the Scheme Implementation Deed.
<b>Conditions Precedent</b>	has the meaning given to the term 'Conditions' in the Scheme Implementation Deed.
<b>Consortium</b>	Primavera Capital Fund II and Shanghai Pharma, acting severally with respect to the rights and obligations imposed on them under the Transaction, in their Relevant Proportions and subject at all times to the provisions of clause 20 of the Scheme Implementation Deed.
<b>Control</b>	has the meaning given under section 50AA of the Corporations Act. <b>Controlled</b> has the equivalent meaning.
<b>Corporations Act</b>	the <i>Corporations Act 2001</i> (Cth).
<b>Court</b>	the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed to in writing by Vitaco and BidCo.
<b>CWMO</b>	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32, The Laws of Hong Kong).
<b>Deed Poll</b>	the deed poll executed by BidCo and the Guarantors pursuant to which they acknowledge and confirm their obligations under the Scheme. A copy of the Deed Poll is included in this Scheme Booklet as <b>Annexure C</b> .
<b>Delivery Time</b>	8.00am (AET) on the Second Court Date.
<b>EBITDA</b>	earnings before interest, tax, depreciation and amortisation.



Term	Meaning
<b>Effective</b>	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
<b>Effective Date</b>	the date on which the Scheme comes into effect pursuant to section 411(10) of the Corporations Act.
<b>End Date</b>	the later of: a. 31 March 2017; or b. such other date and time agreed in writing between BidCo and Vitaco.
<b>Equity Commitment Letters</b>	the binding, executed commitment letters dated 3 August 2016 addressed to: a. Primavera and Vitaco from Primavera Capital Fund II and agreed to, and accepted by, Vitaco and Primavera; and b. SIIC Medical Science and Vitaco from Shanghai Pharma and agreed to, and accepted by, Vitaco and SIIC Medical Science.
<b>Escrow Accounts</b>	the following settlement escrow accounts to be opened at Commonwealth Bank of Australia and operated by the Stakeholder and subject to the Escrow Agreement: a. the settlement escrow account into which Primavera will deposit its Relevant Proportion of the cash component of the Scheme Consideration, if any; and b. the settlement escrow account into which SIIC Medical Science will deposit its Relevant Proportion of the cash component of the Scheme Consideration, if any.
<b>Escrow Agreement</b>	the escrow agreement to be executed by Stakeholder, Primavera, SIIC Medical Science and Vitaco in which, amongst other things, those parties will agree their respective rights and obligations relating to the cash component of the Scheme Consideration to be held by the Stakeholder in the Escrow Accounts and the letters of credit to be delivered to, and held by, the Stakeholder.
<b>EV</b>	enterprise value.
<b>Excluded Shareholder</b>	any Vitaco Shareholder who is a member of the BidCo Group, Primavera Capital Fund II, Shanghai Pharma or a wholly-owned subsidiary of Primavera Capital Fund II or Shanghai Pharma. As at the date of this Scheme Booklet, there are no Excluded Shareholders.
<b>FATA</b>	the <i>Foreign Acquisitions and Takeovers Act 1975</i> [Cth].
<b>FIF</b>	New Zealand's Foreign Investment Fund.
<b>First Court Date</b>	the date the Court first hears the application to order the convening of the Scheme Meetings under section 411(1) of the Corporations Act.
<b>FY15</b>	financial year ended 30 June 2015.
<b>FY16</b>	financial year ended 30 June 2016.
<b>FY17</b>	financial year ending 30 June 2017.
<b>FIRB</b>	the Foreign Investment Review Board of Australia.
<b>Governmental Agency</b>	any foreign or Australian government or representative of a government or any foreign or Australian governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister, ASIC, ASX and any regulatory organisation established under statute or any stock exchange and includes any PRC Governmental Agency.
<b>Guarantor</b>	each of Primavera Capital Fund II and Shanghai Pharma, acting severally, in their Relevant Proportions.
<b>Guarantor Prescribed Occurrence</b>	has the meaning given to that term in the Scheme Implementation Deed.
<b>Guarantor Related Person</b>	in respect of a Guarantor: a. a Related Body Corporate of that Guarantor; and b. any director, officer, member or employee of that Guarantor or of a Related Body Corporate of that Guarantor.
<b>HK HoldCo</b>	Zeus Investment Limited, a private company incorporated under the laws of Hong Kong Special Administrative Region of the PRC, with company number 2419102, and held by each of Primavera and SIIC Medical Science in their Relevant Proportions.



Term	Meaning
<b>HK HoldCo Share</b>	is a management share in HK HoldCo which has the rights described in <b>Section 5.9</b> .
<b>Implementation Date</b>	the fifth Business Day, or such other Business Day as agreed between Vitaco, Primavera, Primavera Capital Fund II, SIIC Medical Science and Shanghai Pharma, following the Scheme Record Date.
<b>Independent Expert</b>	KPMG Corporate Finance.
<b>Independent Expert's Report</b>	the report prepared by the Independent Expert dated 25 October 2016, included in this Scheme Booklet as <b>Annexure A</b> .
<b>IPO</b>	Vitaco's 2015 initial public offering.
<b>KPMG Corporate Finance</b>	KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd.
<b>Listing Rules</b>	the official listing rules of ASX.
<b>Management Scheme Meeting</b>	the meeting of Vitaco Shareholders who are Management Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
<b>Management Scheme Resolution</b>	the resolution to approve the Scheme to be voted on at the Management Scheme Meeting, as set out in the Notice of Meeting for the Management Scheme Meeting.
<b>Management Share</b>	each Scheme Share held by a Management Shareholder determined using the formula in clause 5.2 of the Scheme Implementation Deed.
<b>Management Shareholder</b>	each of the following persons: a. Ryan d'Almeida; b. Phillip Wiltshire; c. Roger Scott; d. John Stanton; e. Brent Hall; f. Martin Drinkrow; and g. Jay Drezner.
<b>Next Capital</b>	Next Capital Pty Ltd (ACN 111 963 583) as trustee for The Next Capital Health Group Co-investment Trust, Next Capital (Services A) Pty Limited as trustee for Next Capital Fund IA and Next Capital (Services B) Pty Limited as trustee for Next Capital Fund IB.
<b>Notices of Meeting</b>	the notices of meeting relating to the Scheme Meetings which are included in this Scheme Booklet as <b>Annexure D</b> .
<b>OIO</b>	the Overseas Investment Office of New Zealand.
<b>Option</b>	an option issued by Vitaco to certain senior management under Vitaco's 2015 long term incentive plan.
<b>Performance Right</b>	a right granted by Vitaco to certain senior management under Vitaco's 2015 long term incentive plan.
<b>Permitted Dividend</b>	the ordinary dividend in the amount of \$0.0296 paid by Vitaco on 30 September 2016 to those Vitaco Shareholders who held Vitaco Shares on 6 September 2016.
<b>PRC</b>	the People's Republic of China.
<b>Primavera</b>	PV Zeus Limited, a subsidiary of Primavera Capital Fund II.
<b>Primavera Capital Fund II</b>	Primavera Capital Fund II L.P., acting through its general partner Primavera Capital GP II Ltd.
<b>Primavera Capital Fund II Information</b>	such information regarding: a. AcquireCo known to Primavera Capital Fund II or Primavera; b. Primavera; c. Primavera Capital Fund II; and d. Primavera's and Primavera Capital Fund II's indirect interests in HK HoldCo and AcquireCo, that is provided by, or on behalf of, Primavera Capital Fund II or Primavera or any of their Advisers to Vitaco or the Independent Expert to enable the Scheme Booklet to be prepared and completed in compliance with all applicable laws.



Term	Meaning
<b>Primavera Capital Group</b>	Primavera Capital Fund II and its affiliates.
<b>Proxy Form</b>	the proxy form which accompanies this Scheme Booklet.
<b>Register</b>	the register of members of Vitaco maintained by, or on behalf of, Vitaco in accordance with section 168(1) of the Corporations Act.
<b>Regulatory Approvals</b>	<p>a. any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, license, direction, declaration, authority, waiver, modification, or exemption from, by or with a Governmental Agency; or</p> <p>b. in relation to anything that would be fully or partly prohibited or restricted by law if a Governmental Agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.</p>
<b>Related Body Corporate</b>	<p>includes:</p> <p>a. a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted; and</p> <p>b. in respect of a Guarantor, includes any fund, limited partnership or other collective investment vehicle which is managed or controlled by that Guarantor (or its general partner) or a related body corporate (as referred to paragraph (a) above) of that Guarantor.</p>
<b>Relevant Interest</b>	has the meaning given by sections 608 and 609 of the Corporations Act.
<b>Relevant Proportions</b>	<p>the following proportions:</p> <p>a. Primavera or Primavera Capital Fund II (as the case may be): 40%; and</p> <p>b. SIIC Medical Science or Shanghai Pharma (as the case may be): 60%.</p>
<b>Requisite Majorities</b>	<p>a. unless the Court orders otherwise, a majority in number (i.e. more than 50%) of the Vitaco Shareholders and Management Shareholders (as applicable) present and voting (either in person or by proxy) at the Scheme Meetings; and</p> <p>b. at least 75% of the votes cast on the Scheme Resolutions.</p>
<b>Scheme or Scheme of Arrangement</b>	the scheme of arrangement between Vitaco and the Scheme Shareholders under which all Scheme Shares will be transferred to AcquireCo in accordance with Part 5.1 of the Corporations Act, substantially in the form set out in <b>Annexure B</b> , subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.
<b>Scheme Booklet</b>	this document, including the Annexures to it, published by Vitaco and dated 26 October 2016.
<b>Scheme Consideration</b>	<p>in respect of each Scheme Share held by:</p> <p>a. a Vitaco Shareholder (who <b>is not</b> a Management Shareholder) at the Scheme Record Date, a cash payment of \$2.2204 per Scheme Share (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend); and</p> <p>b. a Vitaco Shareholder who <b>is</b> a Management Shareholders at the Scheme Record Date, both</p> <ol style="list-style-type: none"> <li>that number of HK HoldCo Shares for each Management Share held by that Management Shareholder calculated using the following formula:  <math display="block">\frac{[2.25-P]}{V}</math> , where:  P = the amount of the Permitted Dividend; and  V = the A\$ equivalent (on the date of funding and by no later than 1 Business Day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date; and</li> <li>a cash payment of \$2.2204 (representing \$2.25 per Scheme Share less the amount of the Permitted Dividend) in respect of each Scheme Share for which that Management Shareholder (or its nominee) did not receive HK HoldCo Shares.</li> </ol>
<b>Scheme Consideration Escrow Time</b>	on or before 10.00am on the day on which the deadline falls for delivery by Vitaco Shareholders to Vitaco of proxies in respect of the Scheme Meetings, which deadline must be no more than 48 hours before the Scheme Meetings.



Term	Meaning
<b>Scheme Implementation Deed</b>	the Scheme Implementation Deed between Vitaco, Primavera, Primavera Capital Fund II, SIIC Medical Science and Shanghai Pharma dated 3 August 2016. A summary is set out in <b>Section 9.3</b> , and a copy of which is included in this Scheme Booklet as <b>Annexure E</b> . A full copy can be obtained from Vitaco's website <a href="http://www.vitaco.com.au/investor-centre">www.vitaco.com.au/investor-centre</a> .
<b>Scheme Meetings</b>	the Vitaco Scheme Meeting or the Management Scheme Meeting or both as the context requires.
<b>Scheme Record Date</b>	7.00pm (AET) on the third Business Day (or such other Business Day as Vitaco, Primavera, Primavera Capital Fund II, SIIC Medical Science and Shanghai Pharma agree in writing) following the Effective Date.
<b>Scheme Resolutions</b>	the resolutions to approve the Scheme to be voted on at the Scheme Meetings, as set out in the Notices of Meeting, and Scheme Resolution means either one of them (as the circumstances require).
<b>Scheme Share</b>	a Vitaco Share on issue as at the Scheme Record Date other than: a. any Vitaco Share then held by an Excluded Shareholder (but including any such Vitaco Share held on behalf of one or more third parties who are not Excluded Shareholders or otherwise in a fiduciary capacity on behalf of persons who are not Excluded Shareholders); or b. where the context requires, Management Shares.
<b>Scheme Shareholder</b>	a person who holds one or more Scheme Shares at the Scheme Record Date.
<b>Second Court Date</b>	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
<b>Second Court Hearing</b>	the hearing of the application made to the Court for the order under section 411(4)(b) of the Corporations Act approving the Scheme.
<b>SFO</b>	Securities and Futures Ordinance (Chapter 571, The Laws of Hong Kong).
<b>Shanghai Pharma</b>	Shanghai Pharmaceuticals Holding Co., Ltd.
<b>Shanghai Pharma Information</b>	such information regarding: a. AcquireCo known to Shanghai Pharma or SIIC Medical Science; b. SIIC Medical Science; c. Shanghai Pharma; and d. SIIC Medical Science's and Shanghai Pharma's indirect interests in HK HoldCo and AcquireCo, that is provided by or on behalf of SIIC Medical Science or Shanghai Pharma or any of their Advisers to Vitaco or the Independent Expert to enable the Scheme Booklet to be prepared and completed in compliance with all applicable laws.
<b>Shareholder Information Line</b>	1800 262 299 from within Australia and +61 1800 262 299 from outside Australia.
<b>Shareholders' Agreement</b>	the agreement between Shanghai Pharma, SIIC Medical Science, Primavera Capital Fund II and Primavera dated 3 August 2016.
<b>SIIC Medical Science</b>	SIIC Medical Science and Technology (Group) Limited.
<b>Stakeholder</b>	Perpetual Corporate Trust Limited (ABN 99 00 341 533), acting as escrow agent in accordance with the Escrow Agreement.
<b>Subsidiary</b>	has the meaning given in section 46 of the Corporations Act.
<b>Superior Proposal</b>	has the meaning given in the Scheme Implementation Deed.
<b>Transaction</b>	the acquisition by AcquireCo of the Scheme Shares for the Scheme Consideration pursuant to the Scheme.
<b>Treasurer</b>	the Treasurer of the Commonwealth of Australia.
<b>Trust Account</b>	the trust account operated by Vitaco (as agent for each Scheme Shareholder).
<b>Vitaco</b>	Vitaco Holdings Limited ACN 606 826 493.
<b>Vitaco Board</b>	the board of directors of Vitaco as constituted from time to time (or any committee of the board of directors of Vitaco constituted from time to time to consider the Transaction on behalf of Vitaco).



Term	Meaning
<b>Vitaco Director or your Director</b>	a director of Vitaco.
<b>Vitaco Group</b>	Vitaco and its Subsidiaries.
<b>Vitaco Information</b>	the information contained in this Scheme Booklet, other than the BidCo Information and the information contained in <b>Annexure A</b> .
<b>Vitaco Prescribed Occurrence</b>	has the meaning given to the term 'Target Prescribed Occurrence' in the Scheme Implementation Deed.
<b>Vitaco Registry</b>	Link Market Services Limited ACN 083 214 537.
<b>Vitaco Scheme Meeting</b>	the meeting of Vitaco Shareholders who are <b>not</b> Management Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
<b>Vitaco Scheme Resolution</b>	the resolution to approve the Scheme to be voted on at the Vitaco Scheme Meeting, as set out in the Notice of Meeting for the Vitaco Scheme Meeting.
<b>Vitaco Share</b>	an issued fully paid ordinary share in the capital of Vitaco.
<b>Vitaco Shareholder</b>	each person registered in the Register as a holder of Vitaco Shares.
<b>VWAP</b>	the volume weighted average price of Vitaco Shares for the period specified. VWAPs in this Scheme Booklet were calculated as the total value divided by the total volume of Vitaco Shares sold on ASX during the relevant period, excluding any transactions defined as 'special' crossings prior to the commencement of normal trading, crossings during the after-hours adjust phase and any overseas trades or exchange traded option exercises.

## 10.2 Interpretation

In this Scheme Booklet:

- a. words of any gender include all genders;
- b. words importing the singular include the plural and vice versa;
- c. an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- d. a reference to a Section or Annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;
- e. a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- f. headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- g. a reference to time is a reference to AET;
- h. a reference to **dollars, \$, A\$, AUD, cents, ¢** and **currency** is a reference to the lawful currency of the Commonwealth of Australia;
- i. an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- j. the words 'include', 'including', 'for example' or 'such as' when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.



# Annexure A

## Independent Expert's Report

Annexure to Scheme Booklet  
For the scheme of arrangement in  
relation to Vitaco Holdings Limited



**KPMG Corporate Finance**

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**Privileged and confidential**

The Independent Directors  
Vitaco Holdings Limited  
Level 1, 82 Waterloo Road  
North Ryde NSW 2113

25 October 2016

Dear Independent Directors

**INDEPENDENT EXPERT REPORT AND FINANCIAL SERVICES GUIDE**

**PART ONE – INDEPENDENT EXPERT’S REPORT**

**1 Introduction**

On 4 August 2016, Vitaco Holdings Limited (Vitaco) announced that it had entered into a Scheme Implementation Deed with SIIC Medical Science and Technology (Group) Limited (SIIC Medical Science), a 100% subsidiary of Shanghai Pharmaceuticals Holdings Co., Ltd (Shanghai Pharma), and PV Zeus Limited (Primavera), a 100% subsidiary of Primavera Capital Fund II L.P. (Primavera Capital Fund II) (collectively, the Consortium), under which it is proposed that SIIC Medical Science and Primavera will indirectly, through a newly established Hong Kong incorporated subsidiary (HK HoldCo), acquire 100% of the shares of Vitaco (Vitaco Shares) in their respective proportions subject to certain shareholder and regulatory approvals and other conditions (the Scheme).

Under the terms of the Scheme, the holders of Vitaco’s shares excluding certain members of Vitaco’s senior management team (Vitaco Shareholders) will receive for each Vitaco Share held on the Record Date<sup>1</sup> \$2.2204 in cash (representing \$2.25 for each Vitaco Share less the amount of the final dividend for the financial year ended 30 June 2016 of 2.96 cents per Vitaco Share (Final Dividend))<sup>2</sup> (Offer Consideration).

<sup>1</sup>Record Date refers to 7.00pm (Sydney time) on the third business day after the date on which the Scheme becomes effective (Effective Date), being the date and time which determines the entitlement of Vitaco Shareholders to Scheme Consideration for implementation of the Scheme (Record Date)

<sup>2</sup>The Final Dividend was paid to Vitaco Shareholders on 30 September 2016.

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Members of Vitaco's senior management team<sup>3</sup> who hold Vitaco Shares (Management Shareholders) will instead receive a total value equivalent to \$2.2204 per Vitaco Share (representing \$2.25 per Vitaco Share less the amount of the Final Dividend) in a combination of cash and management shares in HK HoldCo (Management Consideration).

Details of the Scheme are discussed further in Section 5 of this report.

Shanghai Pharma is a national pharmaceutical group headquartered in Shanghai, People's Republic of China, and is listed on the Shanghai Stock Exchange and the Hong Kong Exchange. Shanghai Pharma's principal business covers pharmaceutical research and development, manufacturing, distribution and retailing. With a market capitalisation of \$10.2 billion as of 21 October 2016, it is included as a reference stock in both the Shanghai Stock Exchange 180 Index and China Securities 300 Index.

Primavera Capital Fund II is a China-based global investment firm with offices located in Beijing and Hong Kong, focusing on private equity and special situations opportunities. Primavera employs a flexible strategy of growth capital, control-oriented, and restructuring investments and seeks to create long-term value by working closely with portfolio companies to improve operational efficiency, competitiveness, and earnings growth.

Vitaco has formed an Independent Board Committee in respect of the proposed Scheme which excludes Ryan d'Almeida (Chief Executive Officer and Executive Director) due to his participation in the Scheme as a Management Shareholder. The Independent Board Committee of Vitaco has requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an Independent Expert's Report (IER) for the benefit of Vitaco Shareholders and Management Shareholders (together, the Shareholders) setting out whether, in our opinion, the Scheme is in the best interests of Shareholders.

This report sets out the opinion of KPMG Corporate Finance as to the merits or otherwise of the Scheme. This report should be considered in conjunction with and not independently of the information set out in the Scheme Booklet.

The Scheme is subject to the satisfaction of a number of conditions which are outlined in Section 5.2 of this report and described in Section 9.3 of the Scheme Booklet.

Further information regarding KPMG Corporate Finance as it pertains to the preparation of this report is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

<sup>3</sup> Comprising Ryan d'Almeida (Chief Executive Officer), Phillip Wiltshire (Chief Financial Officer), Roger Scott (Chief Operating Officer), John Stanton (GM Vitamins & Supplements), Brent Hall (GM Supply Chain), Martin Drinkrow (GM Sports & Active Nutrition and Health Foods) and Jay Drezner (GM International & Business Development) (collectively, the Senior Management)

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## 2 Requirements for our report

The Independent Board Committee of Vitaco have requested that KPMG Corporate Finance prepare a report in accordance with Section 411 of the Corporations Act 2001 (Cth) (Corporations Act) and the guidance provided by the Australian Securities and Investments Commission (ASIC).

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal. Part 3 Schedule 8 of the Corporations Regulations 2001 (Cth) (Corporations Regulations) specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company; or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

Even where an independent expert's report is not strictly required by the law (as is the current situation), it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (RG 111), which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a transaction is "fair and reasonable, and therefore in the best interests" of Shareholders.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this report.



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### 3 Opinion

As the consideration payable under the Scheme is different for Vitaco Shareholders and Management Shareholders, we have considered the merits of the Scheme for each category of shareholder separately. In this regard, we note that Vitaco Shareholders hold 98.9% of Vitaco Shares and Management Shareholders hold the remaining 1.1%<sup>4</sup>.

Our opinions are set out in the sections below.

#### 3.1 Opinion to Vitaco Shareholders

In our opinion, the Scheme is **in the best interests of Vitaco Shareholders**, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- fair, by comparing the Offer Consideration to our assessed value of a Vitaco Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111
- reasonable, by assessing the implications of the Scheme for Vitaco Shareholders, the alternatives to the Scheme which are available to Vitaco and Vitaco Shareholders, and the consequences for Vitaco Shareholders of not approving the Scheme.

Our assessment has concluded that the Scheme is fair and reasonable. As such, we have in accordance with RG 111, concluded that the Scheme is in the best interests of Vitaco Shareholders.

Vitaco's relatively short life as a listed company has coincided with a period of change and uncertainty in the industry in which it operates, resulting in Vitaco experiencing first-hand the performance pressures placed on listed companies. Placed into the market via an initial public offering (IPO) by its private equity owners, Vitaco was positioned as offering investors the opportunity to participate in Australia and New Zealand's growing nutrition, health and wellness industry and the benefits offered by the 'clean and green' image of New Zealand manufacturing that is driving demand particularly from China.

On listing, Vitaco was priced at a growth multiple, with growth opportunities in its core Australian and New Zealand markets to be supplemented with accelerated growth in its international business, principally from China. In its first months of listing, Vitaco benefited from the positive market sentiment surrounding the industry sparked by the successful sale of Swisse Wellness Pty Ltd (Swisse) to Chinese owners and strong performance in the China market by competitors, such as the listed Blackmores Limited (Blackmores). Vitaco Shares traded at a post IPO high of \$3.16 on 4 November 2015. In late 2015 and early 2016, the market was notified of changes to the regulatory environment in China, which triggered a sustained decline in the price of Vitaco Shares. Vitaco's subsequent market update detailing its half year results, failed to meet market expectations, further weakening Vitaco's share price, which

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<sup>4</sup> Excludes 0.2 million of performance rights and 1.0 million of share options held by Senior Management. Under the terms of the Scheme, Vitaco must take the appropriate action as is necessary after the Effective Date of the Scheme and prior to the Record Date to ensure that all outstanding share options and performance rights which have not already been exercised or have not already vested do vest or are exercised.



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reached a low of \$1.42 on 22 April 2016. As Vitaco's first financial year as a listed entity came to a close, Vitaco delivered results in line with prospectus estimates, but continued competition in its core markets, the flagged cessation of its relationship with Trilogy and concerns over the structure and performance of its international businesses, saw Vitaco offering the market a more cautious growth outlook for FY17.

Vitaco has a clear strategy to address the market challenges it faces. The development of its international businesses is to be supported by investment in in-country sales capability. Growth in the core markets of Australia and New Zealand is to come from investment in its well-regarded brands and a focus on the distribution channels that offer the greatest opportunity for incremental sales. However, the strategy will require a commitment of both capital, which may temper short-to-medium term dividend policy, and time.

The approach by the Consortium could therefore be viewed as timely, offering Vitaco Shareholders the opportunity to exit their investment at an acceptable premium to recent volume weighted average prices (VWAP) of between 26% and 34%. It is arguable that the premium would have been higher if the Scheme had been announced to the market after Vitaco's earnings release, given that the negative market sentiment that surrounded the release would have likely further depressed the trading price of Vitaco Shares in the absence of the Scheme. Vitaco's closest listed comparable, Blackmores, released its results to the market subsequent to the announcement of the Scheme and a similar market sentiment resulted in a 19% reduction in the price of Blackmores' shares.

However, at a premium to the IPO price of only 6% and a substantial discount (30%) to Vitaco's peak trading price less than 10 months ago, the Scheme could be viewed as opportunistic by some Vitaco Shareholders.

The key question for Vitaco Shareholders in considering the merits of the Scheme is to balance the prospects for continued growth in earnings against the increased risks facing the business. Given the likely time required before the benefits of the strategy adopted are known and the likely lack of any opportunity for Vitaco Shareholders to benefit from an alternative control transaction in the short-to-medium term, the Scheme clearly represents the best opportunity for Vitaco Shareholders to realise their investment in the short-to-medium term at an acceptable premium to the likely trading price of Vitaco Shares if the Scheme is not approved.

Our analysis is set out in further detail below.

### **3.1.1 The Scheme is fair to Vitaco Shareholders**

*The Offer Consideration exceeds our assessed value range for a Vitaco Share, therefore we consider the Scheme to be fair to Vitaco Shareholders*

#### *Value of Vitaco*

We have valued 100% of the equity in Vitaco in the range of \$284 million to \$308 million, which corresponds to a value of \$2.02 to \$2.20 per Vitaco Share. Our valuation reflects 100% ownership of Vitaco and therefore incorporates a control premium.

Our valuation is set out in Section 8 of this report and summarised below.

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**Table 1: Valuation summary**

\$ million (unless otherwise stated)	Section reference	Value range	
		Low	High
Value of business operations	8.3	322.7	346.6
Less: Adjusted net debt	8.4	(38.5)	(38.5)
<b>Value of equity</b>		<b>284.2</b>	<b>308.1</b>
Fully diluted shares on issue (millions)	7.5	140.3	140.3
<b>Value per Vitaco Share (\$)</b>		<b>2.02</b>	<b>2.20</b>

Source: KPMG Corporate Finance analysis

Note: Adjusted net debt includes a negative cash adjustment to reflect the payment of the Final Dividend

The key factors considered in our assessment of the value of Vitaco are set out below.

- *Market position.* Vitaco is a mid-size participant in Australia and New Zealand's growing nutrition, health and wellness industry, leveraging the benefits offered by the 'clean and green' image of New Zealand manufacturing. Vitaco is a brand-led business with several of its brands holding market leading positions within their specific targeted channels to market. It has exposure to the key industry categories of vitamins and dietary supplements (VDS), sports and active nutrition (SN) and health foods (HF).
- *Earnings base.* Vitaco's operating business is diversified across product categories, brands and sales channels which provides a balanced earnings base with a relatively stable organic growth profile. This is further supported by Vitaco's geographical diversification, as the relatively lower growth prospects of its traditional Australian and New Zealand markets are balanced by the relatively higher growth prospects of the emerging markets in which Vitaco has established a distribution platform.
- *Vertically integrated model.* Vitaco has a vertically integrated business model with its ownership of manufacturing facilities providing a meaningful strategic advantage through better cost control, quality control and speed to market. However, the margin benefits obtained from the insourcing of product manufacturing are partly offset by higher capital expenditure intensity and the requirement to balance capacity levels and capital investment obligations.
- *Growth prospects.* Vitaco has generated a relatively stable level of moderate organic earnings growth over the last three years, although the majority of earnings growth achieved in FY16 was contributed inorganically through the acquisition of Musashi. The full year impact of the Musashi acquisition will be realised in FY17, which will be required to offset the impact from the loss of the agency contract with Trilogy. Growth from international markets is expected to be moderate, reflecting the regulatory uncertainties in China and concerns over the sales model currently adopted in that market. As a result, short-term growth expectations have been tempered.
- *Strategic investment.* To pursue the strategic initiatives identified to address the current weaknesses in its business, Vitaco requires an increased investment in operating and capital expenditure, particularly in the areas of marketing and headcount in international markets, and brand development and production capability in the core Australia and New Zealand markets. This capital requirement may temper short-to-medium term dividend policy.
- *Industry outlook.* Vitaco is well-positioned to capitalise on favourable long term industry fundamentals, such as increasingly health and wellness focused consumers, growing sports

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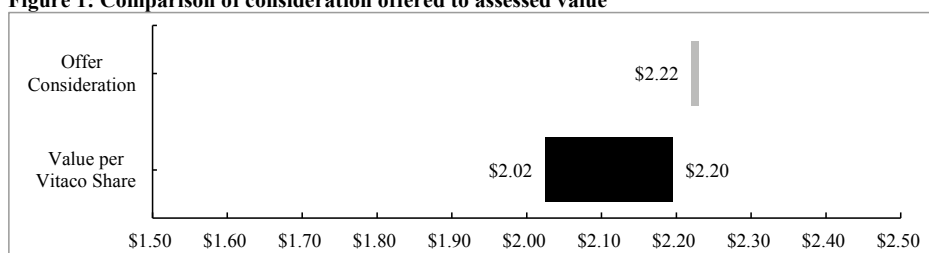
participation and gym attendance rates, an ageing population as well as growing demand from Chinese consumers. However, regulatory issues in China and continuing competition in the core Australia and New Zealand markets has dampened market sentiment in 2016, as evidenced by the market reaction to the FY16 results announcements of both Blackmores and Vitaco.

- **Synergies.** Our valuation is of 100% of Vitaco and therefore incorporates a control premium. In assessing an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Vitaco. As such, our valuation of Vitaco has been determined without regard to the specific bidder and therefore we have not included the value of special benefits that may be unique to the Consortium, particularly in relation to the development of the China business.

### *Assessment of fairness*

A comparison of our assessed value per Vitaco Share on a control basis to the Offer Consideration is illustrated below.

**Figure 1: Comparison of consideration offered to assessed value**



Source: KPMG Corporate Finance analysis

Note: In assessing the value of a Vitaco Share, we have adjusted Vitaco's cash balance as at 30 June 2016 for the Final Dividend paid on 30 September 2016 in order to enable a like-for-like fairness assessment, as the cash consideration to be received by Shareholders under the Scheme is net of the Final Dividend.

According to RG 111, the Scheme should be considered fair if the consideration offered to Vitaco Shareholders is equal to or higher than our assessed value of a Vitaco Share. As the Offer Consideration exceeds our assessed value range for a Vitaco Share, we consider the Scheme to be fair.

### **3.1.2 The Scheme is reasonable to Vitaco Shareholders**

In accordance with RG 111, an offer is reasonable if it is fair. As we consider the Scheme to be fair, this would imply that the Scheme is also reasonable. However, irrespective of the statutory obligation to conclude the Scheme is reasonable, we have considered a range of factors that are relevant to the assessment of the reasonableness of the Scheme.

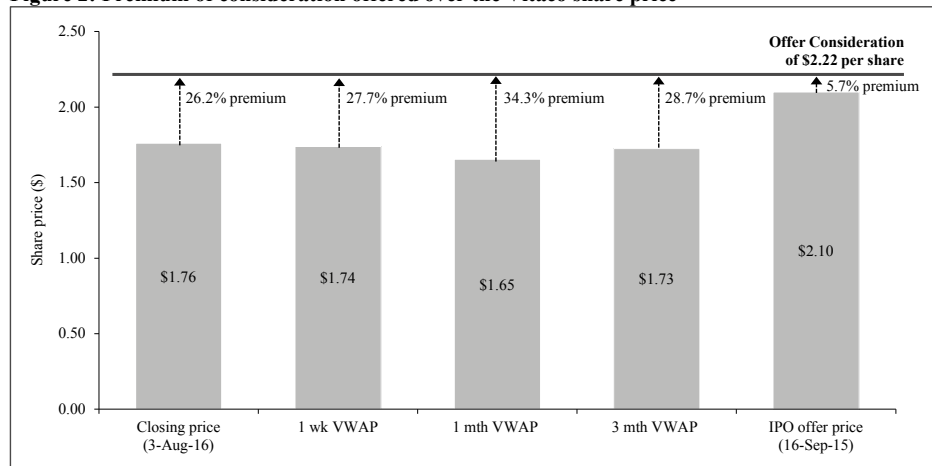
***The consideration offered under the Scheme represents an acceptable premium to the trading price of Vitaco Shares prior to the announcement of the Scheme and Vitaco's IPO price***

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The Offer Consideration represents an acceptable premium to the VWAP of a Vitaco Share one day prior (26%), one month prior (34%) and three months prior (29%) to 4 August 2016, being the day prior to the announcement of the Scheme, and to the IPO price (6%).

**Figure 2: Premium of consideration offered over the Vitaco share price**



Source: S&P CapitalIQ; KPMG Corporate Finance analysis

In assessing the premium implied by the Offer Consideration, we note:

- it is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20% and 35%<sup>5</sup> for completed takeovers, depending on the individual circumstances of the specific transaction
- in transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was typically at the upper end or in excess of this range. For Vitaco, the principle synergy opportunity offered by the Consortium is the acceleration of the China growth strategy, given Shanghai Pharma's extensive operations in that country, and the removal of costs associated with Vitaco being a listed company
- the premium to traded prices over the past three months is relatively consistent, reflecting a period of more stabilised trading post the volatility experienced earlier in the year. Whilst the Offer Consideration represents a discount of 30% to the peak traded price in the past 12 months, it also represents a 36% premium to the 12 month low traded price.

<sup>5</sup> KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2016, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.



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Post announcement of the Scheme, Vitaco Shares have traded at a level supported by the existence of the Scheme. The small discount of the traded price to the Offer Consideration reflects, in our view, the market's assessment of the potential for either the Scheme not to be approved by shareholders or for it to fail to clear the required regulatory approvals.

However, in the period since the announcement, Vitaco's closest listed comparable, Blackmores, issued results and an outlook that failed to meet the market's expectations, and consequently suffered a 19% decline in share price. Vitaco subsequently issued its results to the market, and whilst meeting earnings guidance set out in its IPO Prospectus for FY16, highlighted a decline in first quarter FY17 performance against the prior corresponding period and continuing concern in relation to its growth performance in China. If trading in Vitaco Shares was not supported by the existence of the Scheme, it is likely that the market's sentiment would have impacted trading in Vitaco Shares in a similar way to that experienced by Blackmores. In this situation, the premium implied by the Offer Consideration would have been larger.

***Material risks exist in the Vitaco business which may subdue total returns to Vitaco Shareholders in the short-to-medium term***

Vitaco's core markets in Australia and New Zealand are mature markets, with increasingly commoditised products being offered by a range of competitors. Whilst Vitaco has a strategy in place to grow its domestic markets and further develop its international business, the strategy is not without cost to Shareholders and risk to the business. In this regard:

- growth in core domestic markets is dependent upon substantial marketing investment in key brands and the relevant distribution channels. In addition, further investment may be required in Vitaco's manufacturing capacity for certain key manufacturing lines, despite the existing facilities carrying excess capacity as a whole
- growth in the international markets, particularly China, is subject to the vagaries of international markets and regulations, which can change significantly without notice. In addition, further investment is required to develop the in-country sales capability, to allow Vitaco to appropriately manage the international opportunities and achieve the growth evidenced by its competitors in international markets
- implementation of the strategy will require sustained focus from the business for a number of years, with the potential for no immediate benefits to be realised in the short-term.

As a result of the required investment and ongoing risks, it is likely that volatility will continue in the traded price of Vitaco Shares as the market seeks evidence that the strategy is delivering the anticipated outcomes. Together with the likely need to review dividend policies in light of the continued investment required, this will potentially impact the total returns accruing to Shareholders in the short-to-medium term.

***The Scheme provides an exit to Vitaco Shareholders at a price which is certain and free from transaction costs***

The Scheme offers Vitaco Shareholders an opportunity to exit their investment in Vitaco at a price that is certain and which incorporates a value for control as noted above. Whilst liquidity in the trading of Vitaco Shares is sufficient to give Vitaco Shareholders confidence that they would be able to exit their

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investment at a time of their choosing in the future, there is no certainty as to the price at which Vitaco Shareholders would realise their investment at that time. In addition, any future on-market sale by Vitaco Shareholders would likely incur transaction costs, which will be avoided by approving the Scheme.

***By exiting their investment in Vitaco, Vitaco Shareholders will not participate in the potential longer term benefits from any future development of the business***

Whilst Vitaco's strategy to grow its domestic markets and further develop its international business is not without cost to Shareholders and risk to the business (as discussed above), Vitaco is well-positioned to capitalise on favourable long term industry fundamentals, such as increasingly health and wellness focused consumers, growing sports participation and gym attendance rates, an ageing population as well as growing demand from Chinese consumers.

By exiting their investment in Vitaco, Vitaco Shareholders will not participate in the potential longer term benefits from any future development of the business (nor be exposed to any of Vitaco's future risks, including subdued total shareholder returns in the short-to-medium term, as discussed above).

***No alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low***

At the time of the IPO, a trade sale process was also undertaken by Vitaco's private equity owners. The process, whilst thorough, failed to deliver a buyer that would match the price that could be achieved by way of an IPO.

In announcing the Scheme, Vitaco signalled to the market that it was once again 'in play', but as with any active market transaction, only for a limited period. Initial speculation that a higher price may be extracted from the Consortium has failed to materialise, and no other party has signalled an interest in Vitaco. In our view, the existence of a break fee payable under certain circumstances if an alternative proposal is recommended by the board, is not of a sufficient quantum to dampen the interest of another interested party.

As a result, if Vitaco Shareholders do not approve the Scheme, they are unlikely to benefit from an alternative control transaction in the near term.

***In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, Vitaco will continue to operate in its current form and remain listed on the ASX***

As a consequence:

- Vitaco will continue to execute on its strategy as set out in Section 7.7.1 of this report
- Vitaco Shareholders will not receive the Offer Consideration and the implications of the Scheme, as summarised above, will not occur, other than with respect to the one-off transaction costs incurred, or committed to, prior to the Scheme Meeting. Vitaco is not liable to pay a break fee if the Scheme fails to be approved by shareholders
- Vitaco Shareholders will continue to be exposed to the benefits and risks associated with an investment in Vitaco, which is likely to result in a continuation of the volatile trading experienced in the first year of its listed life

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- Vitaco's share price will likely fall. The current share price of Vitaco reflects the terms of the Scheme and therefore includes a control premium. As such, in the absence of the Scheme, an alternative proposal or speculation concerning an alternative proposal, the Vitaco share price is likely to fall to levels consistent with trading prices prior to the announcement of the Scheme, or potentially lower, if the market sentiment that impacted Blackmores' trading price post its earnings announcement is also assessed against Vitaco.

### **3.1.3 Other considerations**

In forming our opinion, we have also considered a number of other factors, as detailed below, which we do not consider impacts our assessment of the reasonableness of the Scheme, but we consider it necessary for Vitaco Shareholders to be aware of.

#### ***One-off transaction costs***

Vitaco management has estimated total one-off transaction costs in relation to the Scheme to be approximately \$5.5 million on a pre-tax basis, of which approximately \$1.8 million will have been paid, or committed, prior to the Scheme Meeting.

One-off transaction costs associated with the Scheme primarily relate to adviser, legal and expert fees, as well as other costs associated with the Scheme.

#### ***The Scheme is subject to the satisfaction of a number of conditions***

There are a number of conditions which if not satisfied will result in the Scheme not being implemented. In particular, approval is required from Australia's Foreign Investment Review Board and New Zealand's Overseas Investment Office, as well as regulatory authorities in the People's Republic of China.

If the Scheme is not approved, Vitaco Shareholders would continue to hold their existing shareholding in Vitaco.

#### ***Vitaco's largest shareholder and Management Shareholders have indicated they will vote to approve the Scheme***

Next Capital Pty Limited (Next Capital), currently Vitaco's largest shareholder with an interest of approximately 15.3%, has indicated that it will vote to approve the Scheme. Next Capital is a private equity investor and the former controlling shareholder of Vitaco that exited the majority of its investment through the IPO process. Next Capital's remaining interest in Vitaco had been held in escrow from which it was just recently released with Vitaco's FY16 results announcement. The Scheme allows Next Capital to exit its remaining interest at a price higher than the IPO price. As private equity investors rarely retain minority interests in listed companies longer than required, Next Capital's alternative would have likely been to exit on-market at the prevailing trading price of a Vitaco Share at such a time.

Management Shareholders have also indicated they will vote to approve the Scheme. Management Shareholders have been offered a different form of consideration to Vitaco Shareholders, cashing out 50% of their current shareholding (including performance shares and share options) and retaining an equity interest in the business to the equivalent value of the remaining 50%. Our opinion on the merits of the Scheme to Management Shareholders is set out in Section 3.2 below.

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### 3.2 Opinion to Management Shareholders

In our opinion, the Scheme is **in the best interests of Management Shareholders**, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- fair, by comparing the Management Consideration to our assessed value of a Vitaco Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111
- reasonable, by assessing the implications of the Scheme for Management Shareholders, the alternatives to the Scheme which are available to Vitaco and Management Shareholders, and the consequences for Management Shareholders of not approving the Scheme.

Our assessment has concluded that the Scheme is fair and reasonable to Management Shareholders. As such, we have in accordance with RG 111, concluded that the Scheme is in the best interests of Management Shareholders. The commentary in the introduction to Section 3.1 of this report is also relevant to Management Shareholders.

#### 3.2.1 *The Scheme is fair to Management Shareholders*

*The value of the Management Consideration overlaps with the lower end of our assessed value range for a Vitaco Share without accounting for any available synergies specific to the Consortium, therefore we consider the Scheme to be fair to Management Shareholders*

##### *Value of Vitaco*

We have valued 100% of the equity in Vitaco in the range of \$284 million to \$308 million, which corresponds to a value of \$2.02 to \$2.20 per Vitaco Share. Our valuation reflects 100% ownership of Vitaco and therefore incorporates a control premium.

Our valuation is summarised in Section 3.1.1 above and set out in Section 8 of this report.

##### *Value of Management Consideration*

Under the terms of the Scheme, the Management Consideration comprises two elements as follows:

- a cash amount of \$2.2204 per share for 50% of the Vitaco Shares held
- shares in HK HoldCo valued at the equivalent of \$2.2204 per Vitaco Share converted for the remaining 50% of Vitaco Shares held (Converted Shares).

The appropriate regulatory framework requires the share based element of the Management Consideration to be assessed in a manner consistent with the entitlements that the Converted Shares offer to Management Shareholders. Ordinarily, as the Converted Shares represent a minority interest in an unlisted private company, the value of the Converted Shares would reflect both a minority discount and a marketability discount. However, as detailed in Section 5.1 of this report, the terms applicable to the Converted Shares provide Management Shareholders certain exit opportunities which offer Management Shareholders a realistic opportunity to realise their interest on a controlling basis at a future point in time.

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As a result, we have assessed the value of a Converted Share as a range, where the low end of the range is based on the value of a Converted Share on a minority basis (including a discount for lack of marketability) and the high end of the range is based on an assumed exit on a controlling basis, whilst acknowledging that a marketability discount remains appropriate.

We note that this range represents a minimum value for a Converted Share, as the value range does not include the value of specific synergies that will potentially be realised by the Consortium. Insufficient information on the potential synergies was made available to us to allow a value assessment to be made. However, we consider it reasonable to assume that consistent with transactions generally, the Consortium will not have 'paid away' the majority of potential value to the existing owners of the business.

We have assessed the value of the Management Consideration to be, at a minimum, in the range of \$1.82 to \$2.10 per Vitaco Share, as set out in the table below.

**Table 2: Value of Management Consideration**

\$ (unless otherwise stated)	Section reference	Value range	
		Low	High
<b>Share component of Management Consideration</b>			
Value per Vitaco Share (on a controlling basis)	8.1	2.02	2.20
Minority and marketability discount <sup>1</sup>		(30%)	(10%)
Value per Converted Share <sup>2</sup>		1.42	1.98
Portion of management shares that converts into HK HoldCo Shares	5.1	50%	50%
Value of share component of Management Consideration		0.71	0.99
<b>Cash component of Management Consideration</b>			
Cash consideration per non-converted Vitaco Share	5.1	2.22	2.22
Portion of management shares that receives cash consideration	5.1	50%	50%
Value of cash component of Management Consideration		1.11	1.11
<b>Value of Management Consideration</b>			
Value of share component of Management Consideration		0.71	0.99
Value of cash component of Management Consideration		1.11	1.11
<b>Value of Management Consideration</b>		<b>1.82</b>	<b>2.10</b>

Source: KPMG Corporate Finance analysis

Note 1: The discount applied to the low end of our assessed value of a Vitaco Share reflects a minority discount equivalent to the inverse of the upper end of our assessed control premium range of 20% to 35%, combined with a 5% marketability discount

Note 2: The value of a Converted Share does not include any value attributable to potential specific synergies which the Consortium may be able to realise

In assessing the value of the Management Consideration, we have:

- taken 50% of the cash payment of \$2.22 to reflect the 50% of consideration to be received in cash
- applied a minority discount to the low end of our assessed value of a Vitaco Share of \$2.02 per share on a controlling basis. The minority discount is the inverse of the upper end of our assessed control premium range of 20% to 35% and reflects that Management Shareholders will be receiving a minority interest in HK HoldCo in return and may not have the opportunity to realise a control value for their Converted Shares in the future. This will likely be the case if Management Shareholders were to seek to realise their interest at a point in time which does not coincide with an exit event that

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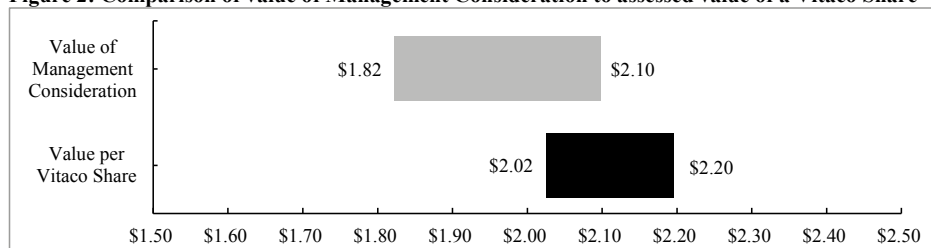
would enable them to realise their interest on a controlling basis, as we have assumed in determining the high end of our assessed value range for a Converted Share

- applied a marketability discount in the range of 5% to 10% to our assessed value range of a Vitaco Share to reflect the restricted circumstances in which Management Shareholders can realise their interest in HK HoldCo. We applied a higher marketability discount in determining the high end of our assessed value range for a Converted Share to reflect that Management Shareholders have limited opportunity and control to realise their interest on a controlling basis relative to realising their interest on a minority basis
- not included any specific synergies that may be realised by the Consortium. However, it is reasonable to expect that specific synergies will be realised by the Consortium and therefore, the assessed value of the Management Consideration represents a minimum value.

### Assessment of fairness

A comparison of our assessed value of the Management Consideration to our assessed value of a Vitaco Share on a control basis is illustrated below.

**Figure 2: Comparison of value of Management Consideration to assessed value of a Vitaco Share**



Source: KPMG Corporate Finance analysis

Note: In assessing the value of a Vitaco Share, we have adjusted Vitaco's cash balance as at 30 June 2016 for the Final Dividend paid on 30 September 2016 in order to enable a like-for-like fairness assessment, as the cash consideration to be received by Shareholders under the Scheme is net of the Final Dividend.

According to RG 111, the Scheme should be considered fair if the consideration offered to Management Shareholders is equal to or higher than our assessed value of a Vitaco Share. As the value of the Management Consideration overlaps with the lower end of our assessed value range for a Vitaco Share, with the potential for further value enhancement through the realisation of synergies, we consider the Scheme to be fair to Management Shareholders.



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### **3.2.2 The Scheme is reasonable to Management Shareholders**

In accordance with RG 111, an offer is reasonable if it is fair. As we consider the Scheme to be fair, this would imply that the Scheme is also reasonable. However, irrespective of the statutory obligation to conclude the Scheme is reasonable, we have considered a range of factors that are relevant to the assessment of the reasonableness of the Scheme to Management Shareholders.

***Management Shareholders will receive an equivalent ownership interest in HK HoldCo to that which they hold in Vitaco, allowing for the 50% of shares converted under the Scheme***

On implementation of the Scheme, Management Shareholders will hold an equivalent interest in HK HoldCo to that which they currently hold in Vitaco for the 50% of shares that they will convert. (Full details of the calculation of the HK HoldCo shares to be issued to Management Shareholders is included in Section 5.1 of this report.)

***The Scheme provides a partial exit to Management Shareholders, but their remaining interest is converted into shares in an unlisted investment with a limited liquidity mechanism***

Management Shareholders will receive a cash payment for the sale of 50% of the shares they hold in Vitaco, allowing them to realise part of their investment in Vitaco on the same terms to those offered to Vitco Shareholders. For the remaining 50% of their interest in Vitaco, Management Shareholders will receive shares in HK HoldCo. Whilst receiving shares in HK HoldCo will allow Management Shareholders to continue to benefit from the future development of Vitaco, as discussed further below, the shares will carry various restrictions which will limit Management Shareholders' ability to realise their interest in HK HoldCo as detailed in Section 5.1 of this report.

***Management Shareholders will have the opportunity to benefit from the future performance of Vitaco***

Management Shareholders will receive shares in HK HoldCo as part of the Management Consideration. As a result, Management Shareholders will have the opportunity to benefit from the future development of Vitaco, including the potential synergies available as a result of Shanghai Pharma's partial ownership of the business. Of course, Management Shareholders will also be exposed to any impact arising from the risks facing Vitaco as discussed above.

***No alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low***

The comments in Section 3.1.2 above in relation to the likelihood of an alternative proposal emerging are also relevant to Management Shareholders.

***In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, Vitaco will continue to operate in its current form and remain listed on the ASX***

The comments in Section 3.1.2 above in relation to the outcomes if the Scheme is not approved are also relevant to Management Shareholders.

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#### 4 **Other matters**

In forming our opinion, we have considered the interests of Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Shareholders. It is not practical or possible to assess the implications of the Scheme on individual Shareholders as their financial circumstances are not known. The decision of Shareholders as to whether or not to approve the Scheme is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Shareholders in considering the Scheme. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Scheme Booklet to be sent to Shareholders in relation to the Scheme, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Scheme Booklet.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Sean Collins  
Authorised Representative

Ian Jedlin  
Authorised Representative



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## 5 The Scheme

On 4 August 2016, Vitaco announced that it had entered into a Scheme Implementation Deed with SIIC Medical Science and Technology (Group) Limited (SIIC Medical Science), a 100% subsidiary of Shanghai Pharmaceuticals Holdings Co., Ltd (Shanghai Pharma), and PV Zeus Limited (Primavera), a 100% subsidiary of Primavera Capital Fund II L.P. (Primavera Capital Fund II) (collectively, the Consortium), under which it is proposed that SIIC Medical Science and Primavera, will indirectly, through a newly established Hong Kong incorporated subsidiary (HK HoldCo), acquire 100% of the shares of Vitaco in their respective proportions, subject to certain shareholder and regulatory approvals and other conditions (the Scheme).

Implementation of the Scheme will result in Vitaco being delisted from the Australian Securities Exchange (ASX). Shanghai Pharma and Primavera, through their respective subsidiaries, will hold 60% and 40% respectively of HK HoldCo (Relevant Proportions).

### 5.1 Terms of the Scheme

Under the terms of the Scheme, Vitaco Shareholders (other than Management Shareholders) will receive for each Vitaco Share held on the Record Date \$2.2204 in cash (representing \$2.25 for each Vitaco Share less the amount of the final dividend for the financial year ended 30 June 2016 of 2.96 cents per Vitaco Share (Final Dividend)).

Management Shareholders will instead receive a total value equivalent to \$2.2204 per Vitaco Share (representing \$2.25 per Vitaco Share less the amount of the Final Dividend) in a combination of cash and management shares in HK HoldCo.

The number of management shares to be converted into newly issued HK HoldCo shares will be determined, based on the following formula:

$$\frac{\left( \frac{A+B}{2.25-P} \right)}{2}, \text{ rounded to the nearest whole number, where,}$$

*A* = the number of shares held by the Management Shareholder (excluding those in *B*)<sup>6</sup> multiplied by \$2.2204 (representing \$2.25 per Vitaco Share, less the amount of the Final Dividend)

*B* = the number of shares issued to and held by the Management Shareholder pursuant to the early vesting and exercise of share options held by the Management Shareholder multiplied by \$2.2204 (representing \$2.25 per Vitaco Share, less the amount of the Final Dividend) minus the exercise price of \$2.10 for a share option

*P* = the amount of the Final Dividend.

<sup>6</sup>But which includes all shares issued to the Management Shareholder pursuant to the early vesting and exercise of all performance rights held by the Management Shareholder.



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For those management shares that will be converted into newly issued HK HoldCo shares, Management Shareholders will receive for each of those shares:

$$\frac{(2.25 - P)}{V}, \text{ where}$$

$P$  = the amount of the Final Dividend

$V$  = the \$ equivalent (on the date of funding and by no later than 1 business day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date.

For each Vitaco Share that Management Shareholders did not receive HK HoldCo shares, Management Shareholders will receive \$2.2204 in cash (representing \$2.25 for each Vitaco Share less the amount of the Final Dividend).

As described in Section 3.1 of the Scheme Booklet, following implementation of the Scheme, the Management Shareholders will receive vested HK HoldCo shares, being a separate class of shares in HK HoldCo. A summary of the key terms of the vested HK HoldCo shares is set out below:<sup>7</sup>

- to the extent permitted by law, a right to vote only as the board of HK HoldCo may determine
- a right to receive dividends as if vested HK HoldCo shares were ordinary shares in HK HoldCo, with any dividends being declared and paid in the discretion of the board of HK HoldCo
- holders of vested HK HoldCo shares are entitled to participate in certain exit events, including trade sales, share sales, and sales of all or substantially all of the business or assets of HK HoldCo and its subsidiaries. The board of HK HoldCo may decide whether the relevant vested HK HoldCo shares will be converted into ordinary shares in HK HoldCo or cashed out, in order for the Management Shareholders to receive the relevant consideration from an exit event. In the case of an initial public offering, the HK HoldCo shares may be subject to other arrangements such as lock-up or escrow rather than being realised for cash
- holders of vested HK HoldCo shares will have an option, at any time within the four year period after the fourth anniversary of the completion of the acquisition of Vitaco, to put all or part of their vested shares in HK HoldCo to SIIC Medical Science
- holders of vested HK HoldCo shares will have co-sale rights if SIIC Medical Science proposes to transfer its shares in HK HoldCo to a third party.

With regard to any outstanding share options and performance rights held by management, Vitaco must take such action as is necessary after the Effective Date and prior to the Record Date to ensure that all share options and performance rights which have not already been exercised or have not already vested

<sup>7</sup> This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of holders of vested HK HoldCo shares.



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do vest or are exercised (as the case may be) in accordance with the existing terms of those share options and performance rights.

## **5.2 Conditions of the Scheme**

The Scheme will not proceed unless each of the following conditions precedent is satisfied or waived (if applicable):

- no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or government agency or other legal restraint or prohibition preventing the Scheme
- regulatory approvals having been obtained from all relevant regulatory bodies, including the Foreign Investment Review Board, New Zealand Overseas Investment Office, ASX, ASIC and the relevant regulatory bodies of the People's Republic of China
- Vitaco Shareholders pass the resolution to approve the Scheme, being a resolution under Section 411(4)(a)(ii) of the Act. The resolution must be passed by the following requisite majorities:
  - more than 50% in number of Vitaco Shareholders who are present and voting (either in person or by proxy) at the Scheme Meeting
  - at least 75% of the total number of votes cast by Vitaco Shareholders.
- Court approval of the Scheme is obtained in accordance with Section 411(4)(b) of the Act
- the following do not occur between the date of the Scheme Implementation Deed and the Second Court Date:
  - no Material Adverse Change in relation to Vitaco (as defined in the Scheme Implementation Deed)
  - no Prescribed Occurrence in relation to Vitaco (as defined in the Scheme Implementation Deed)
  - no Prescribed Occurrence in relation to Shanghai Pharma or Primavera Capital Fund II (as defined in the Scheme Implementation Deed).
- the representations and warranties given by each of Vitaco and the Consortium are true and correct as required under the Scheme Implementation Deed
- the Independent Expert provides the Independent Expert's Report to Vitaco, stating that in its opinion the Scheme is in the best interests of Vitaco Shareholders, on or before the date on which the Scheme Booklet is registered with ASIC under the Corporations Act, and the Independent Expert does not change or publicly withdraw this conclusion prior to the Second Court Date.

## **5.3 Transaction costs**

Vitaco management has estimated total one-off transaction costs in relation to the Scheme to be approximately \$5.5 million on a pre-tax basis, of which approximately \$1.8 million will have been paid, or committed, prior to the Scheme Meeting.

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One-off transaction costs associated with the Scheme primarily relate to adviser, legal and expert fees, and other costs associated with the Scheme.

#### **5.4 Break fees**

Should the Scheme not proceed due to certain circumstances, a break fee of \$3.13 million (exclusive of GST) would be payable either by Vitaco to SIIC Medical Science and Primavera (in their respective proportions) or vice versa. The break fee represents compensation for advisory costs, costs of management and directors' time, out-of-pocket expenses and reasonable opportunity costs incurred by the recipient in pursuing the Scheme. The circumstances under which the break fee would be payable by Vitaco include any Independent Director failing to recommend the Scheme or Vitaco entering into an agreement to undertake a competing transaction. Full details of when the break fee is payable by either Vitaco or SIIC Medical Science and Primavera (in their respective proportions) are described in Section 9.3 of the Scheme Booklet.

The Scheme Implementation Deed also contains customary exclusivity provisions including no shop and no talk restrictions, a notification obligation and a matching right, subject to Vitaco Directors' fiduciary obligations.

### **6 Scope of the report**

#### **6.1 Purpose**

The Independent Directors of Vitaco have requested KPMG Corporate Finance to prepare a report in accordance with Section 411 of the Corporations Act and the guidance provided by ASIC.

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 Schedule 8 of the Corporations Regulations specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company; or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

As the Scheme will result in different consideration being paid to Vitaco Shareholders and Management Shareholders, each shareholder group will be treated as a separate class. Therefore, where necessary, we have stated if our analysis is not relevant to a particular class but in all other respects, our analysis should be read as applying to both classes.

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Even where an independent expert's report is not strictly required by the law (as is the situation with respect to the Scheme), it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

This report is to be included in the Scheme Booklet to be sent to Vitaco Shareholders and has been prepared for the purpose of assisting the Vitaco Shareholders in their consideration of the Scheme.

## **6.2 Basis of assessment**

Regulatory Guide (RG) 111 "Content of expert reports", issued by ASIC, indicates the principles and matters which it expects a person preparing an independent expert report to consider. RG 111.18 states that where a scheme of arrangement is used as an alternative to a takeover bid, the form of analysis undertaken by the expert should be substantially the same as for a takeover bid. That form of analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of Vitaco, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Vitaco. As such, we have not included the value of special benefits that may be unique to the Consortium. Accordingly, our valuation of Vitaco has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder's pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity of the market in the target's shares

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- any special value of the target to the bidder
- the likely market price of the target's shares in the absence of the offer
- the likelihood of an alternative offer being made
- any other advantages, disadvantages and risks associated with accepting the offer.

RG 111.20 states that if an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is 'in the best interests' of the members of the company. Further, RG 111.21 states that if an expert would conclude that the proposal was 'not fair but reasonable' it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'.

In forming our opinion, we have considered the interests of Vitaco Shareholders as a whole. As an individual Vitaco Shareholder's decision to vote for or against the proposed resolutions may be influenced by their particular circumstances, we recommend they each consult their own financial advisor.

### **6.3 Limitations and reliance on information**

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Vitaco for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with Vitaco's management in relation to the nature of Vitaco's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Vitaco has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Vitaco. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Vitaco remains responsible for all aspects of this forward-looking

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financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

## **6.4 Disclosure of information**

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Vitaco has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Vitaco and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Vitaco. As such, the information in this report has been limited to the type of information that is regularly placed into the public domain by Vitaco.

## **7 Profile of Vitaco**

### **7.1 Background**

Vitaco is a leading manufacturer and distributor of vitamins, supplements, sports nutrition and health foods. From its origins in New Zealand (the company was established in 1904 under the Healtheries brand) it has grown through the development of new brands and products, and the acquisition of brands and businesses across Australia and New Zealand. Next Capital Pty Limited (Next Capital), an independent Australian private equity firm, acquired Healtheries in December 2006, followed by the acquisition of Nutra-Life Health and Fitness in February 2007, merging the two businesses to form Vitaco.

Next Capital exited its majority shareholding in Vitaco through the listing of Vitaco on the ASX on 16 September 2015, but remained the largest shareholder with an interest of 15.3% as at 25 October 2016.

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Vitaco currently has national headquarters in both Sydney, Australia and Auckland, New Zealand, and had a market capitalisation of \$244.9 million as at 3 August 2016 (the day prior to the announcement of the Scheme).

**Table 2: Corporate history**

Year	Event
1904	Healtheries established in New Zealand. The businesses commenced operations as a flour mill
1967	Nutra-Life commenced operations
1967	Healtheries continued its expansion into vitamins and health supplements through the purchase of a tableting machine
1985	Balance brand launched
1995	Nutra-Life acquired Wagner Brands
2005	Healtheries acquired Aussie Bodies
2007	Next Capital acquired both the Healtheries and Nutra-Life businesses and merged the two entities to create the precursor to Vitaco
2009	Vitaco consolidated its New Zealand manufacturing sites at East Tamaki
2013	Vitaco began manufacturing its range of sports and health bar products
2014	Vitaco acquired Bodytrim, a weight loss snacking range sold throughout Australia
2015	Vitaco acquired Musashi, a leading provider of sports supplements and nutrition products
2015	On 16 September 2015, Vitaco listed on the ASX
2016	On 4 August 2016, Vitaco announced it had entered into a Scheme Implementation Deed with the Consortium

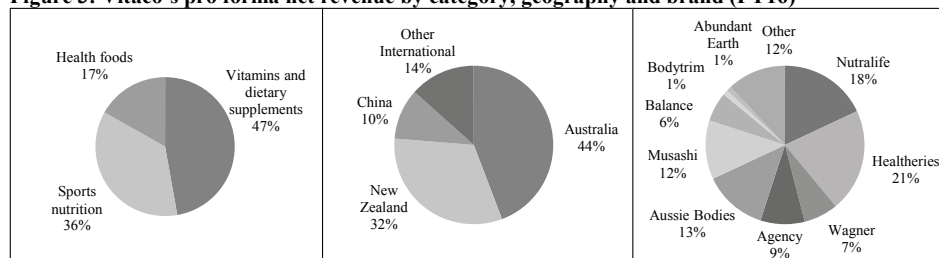
Source: Vitaco prospectus and announcements

## 7.2 Business operations

### 7.2.1 Overview

Vitaco operates as a nutritional products business that aims to empower healthier lives by developing, manufacturing and distributing a range of branded products within the broader nutrition, health and wellness industry. Whilst Vitaco's major markets are Australia and New Zealand (contributing 44.2% and 32.1% of FY16 pro forma net revenue respectively), it has a long-established and growing international business, particularly in the Middle East and Asia. The following figure illustrates the breakdown of Vitaco's FY16 pro forma net revenue by category and geography.

**Figure 3: Vitaco's pro forma net revenue by category, geography and brand (FY16)**



Source: Vitaco management

Note: China includes sales to China traders and Daigou customers located within New Zealand and Australia.



Vitaco's business model is centred around the following key elements:

- diversified brand portfolio with multiple channels to market
- vertically integrated manufacturing capabilities
- in-house product development capabilities
- established international distribution platform.

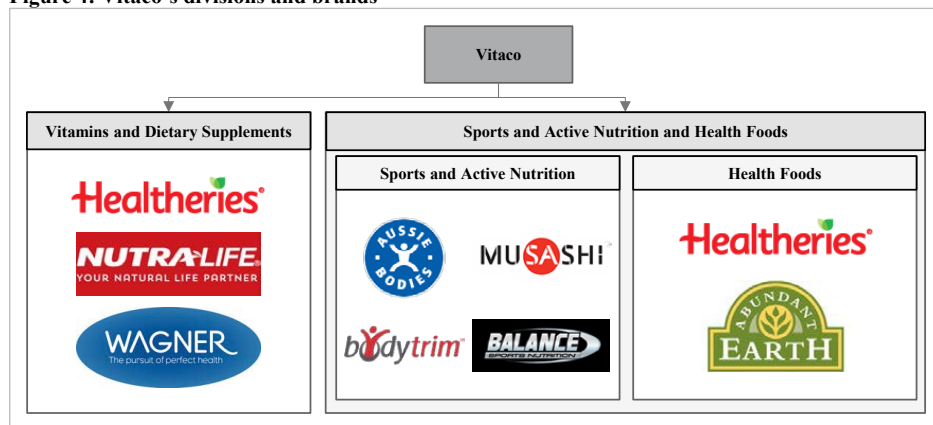
Each of these elements are further discussed below.

### 7.2.2 Brand portfolio

Vitaco generates the majority of its income through the sale of products within the vitamins and dietary supplements (VDS) category, the sports and active nutrition (SN) category and the health food (HF) category. Vitaco considers itself a brand-led business with several of its brands holding leading positions within their targeted channels to market, supported by their differentiated premium quality product offering. Vitaco's brand portfolio is diversified across product categories, sales channels and geographies, whilst the marketing for each brand targets specific consumer segments and/or market channels.

The figure below illustrates the structure of Vitaco's business operations outlining its categories and brands as well as the segments that have been defined for reporting purposes (i.e. the SN category and the HF category have been combined into one reporting segment).

**Figure 4: Vitaco's divisions and brands**



Source: Vitaco prospectus

#### *Vitamins and dietary supplements category*

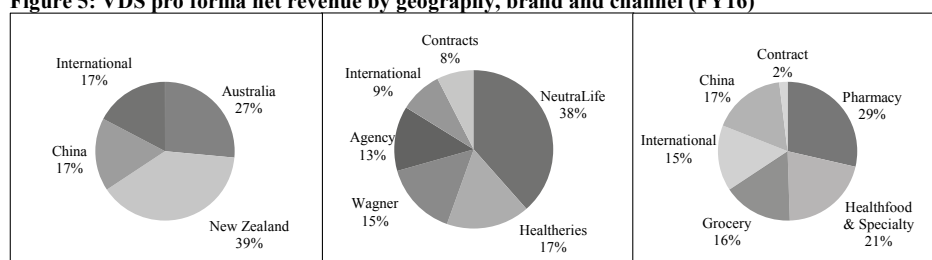
The VDS category comprises vitamins, minerals, herbs and specialty supplements. These products generally compete on either brand strength and/or appeal, product formulation or price. Vitaco's exposure to the VDS category is through its Healththeries, Nutra-Life and Wagner brands. With each brand targeting differing segments of the market, Vitaco's VDS products are primarily distributed through the grocery,



pharmacy and health food and sports speciality channels in Australia and New Zealand. Approximately 34.3% of the FY16 pro forma net revenue within Vitaco's VDS category was generated internationally.

The following figure illustrates the breakdown of Vitaco's FY16 pro forma net revenue for the VDS category by geography, brand and channel.

**Figure 5: VDS pro forma net revenue by geography, brand and channel (FY16)**



Source: Vitaco management

A brief overview of Vitaco's brands in the VDS category is outlined below.

#### Healththeries

The Healththeries brand was established in 1904, with its product range covering both the VDS and HF categories in New Zealand. Vitamin and dietary supplements sold under the Healththeries brand are primarily distributed through the mass-market grocery channel, where Vitaco has a leading market position and longstanding relationships with the major supermarket chains.

Supported by its longevity, the Healththeries brand strategy in the VDS category is built around its brand loyalty, the trust it has accrued with its consumer base and its value proposition.

In more recent years, Vitaco commenced the development and production of a range of Healththeries products targeted to Asian consumers which are distributed through the souvenir channel in Australia and New Zealand, and direct to consumers in China via the Healththeries TMall Global flagship store.

#### Nutra-Life

Nutra-Life is a premium VDS brand, with a broad range of products. The brand has close to a 50 year history, having commenced operations in 1967 in Australia.

Nutra-Life is distinguished from the Healththeries brand by virtue of its different market and channel focus. Its specialist products are marketed as high potency and effective formulations, and as such target health food specialty and pharmacy channels within Australia and New Zealand. Nutra-Life's marketing initiatives have historically included trade marketing, in-store merchandising, training programs for health food store and pharmacy employees and other co-operative advertising media, including the establishment of a preferred partners program, which provides support to existing core health food specialty partners as well as allowing for the pursuit of new distribution opportunities in the pharmacy channel. More recently, Nutra-Life has also developed a range of products targeted at Asian consumers.



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### Wagner

Wagner is a premium Australian pharmacy brand which was established over 35 years ago. The Wagner brand is largely focused on products that utilise either branded ingredients or superior formulations that are supported by clinical research to create a key competitive advantage. Wagner's product portfolio mix is targeted at specific sub-categories within the broader VDS category, including joint health, heart and circulation, digestive health, immunity, colds and flus, and muscle cramps and tension.

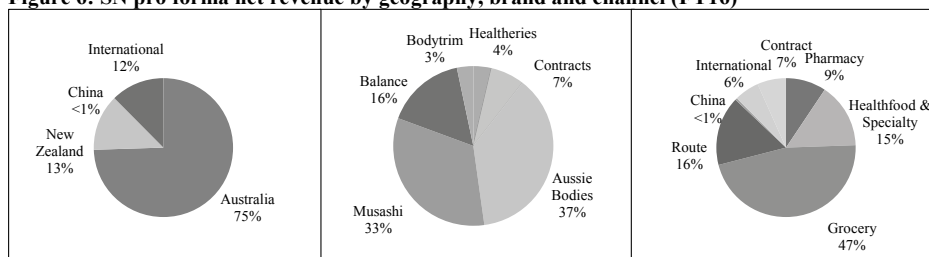
### Sports and active nutrition category

The SN category includes protein based products in three distinct formats, being bars, powders and ready to drink (RTD) beverages, and non-protein products such as pre-workout energy, mass gainers and amino acid supplements. These products are used by a variety of consumers, from professional and amateur athletes through to the general consumer with an interest in physical fitness, sporting performance and/or weight management.

Vitaco's exposure to the SN category is through its Aussie Bodies, Musashi, Balance and Bodytrim brands. The Bodytrim brand is focused on weight management, whilst the remaining brands target the sports nutrition category. Vitaco leverages its brand portfolio to target different consumer segments through both mass-market channels and more targeted channels, depending on each brand's target market. Accordingly, marketing campaigns are brand specific, with more consumer-orientated advertising for mass-market positioned brands (such as Aussie Bodies), whilst marketing expenditure for brands focused on health foods specialty channels (such as Balance) are more trade-oriented.

The following figure illustrates the breakdown of Vitaco's FY16 pro forma net revenue for the SN category by geography, brand and channel.

**Figure 6: SN pro forma net revenue by geography, brand and channel (FY16)**



Source: Vitaco management

A brief overview of Vitaco's brands in the SN category is outlined below.

### Aussie Bodies

Aussie Bodies is the leading brand in the Australian sports nutrition market and has been operating for 24 years. Its product offering ranges across multiple formats, including bars, protein powder, RTD beverages and snacks. Aussie Bodies seeks to target 'everyday' consumers who do not necessarily associate with either the traditional weight loss or sports performance nutritional sub-categories, but rather align to the active nutrition sub-sector. As such, these products are held in most mainstream channels in Australia and



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New Zealand, including grocery, pharmacy and specialty health food, as well as being recently introduced into convenience stores.

With an increasing awareness of the benefits of good health and wellness/wellbeing in Australia, the Aussie Bodies brand has seen significant growth in recent years as consumers view it as a healthier alternative to traditional snacks and beverages. Within the Aussie Bodies brand, there are three primary sub-brands, being Lo Carb, Protein Revival and Perfect Protein, with each sub-brand individually positioned to target the concerns and needs of different areas of the active nutrition market.

#### *Musashi*

Musashi was established in 1987 and is one of Australia's leading sports nutrition brands. Its products include protein powders, functional bars, drinks and amino acids, distributed primarily through the grocery channel, and to a lesser extent the pharmacy channel. Musashi has also established a significant export business, primarily with Japan.

Musashi's products are designed to assist with the performance needs of athletes, from those competing at the elite level through to everyday athletes, and to assist with muscle development, energy, recovery, toning and general vitality. Accordingly, its products target a wide range of consumers that have diverse athletic and health goals. With a broad target market, Musashi markets its products through traditional mass-market advertising mediums, including sponsorship agreements with well-known franchises across a number of popular sporting codes.

Overall, the Musashi product range complements the balance of Vitaco's product offering in the SN category, as it targets areas within this category that are not covered by the other Vitaco brands, particularly outside of New Zealand.

#### *Balance*

The Balance brand is over 30 years old and is a sports performance-focused brand which targets athletes and physical fitness enthusiasts. Its product portfolio is diversified across powders, RTD beverages and bars. Whilst Balance has a long heritage in the protein powder market, its RTD beverage range has only been recently introduced to address the fast growing consumer appetite for on-the-go protein drinks.

Vitaco also established a sub-brand 'Physique' which specifically targets the female market. The Physique sub-brand is consistent with Vitaco's brand portfolio strategy of capturing diverse demographics through multiple brands.

Balance has a higher market share in New Zealand relative to the Australian market, reflecting its focus on New Zealand distribution. Due to the specialist nature of the Balance brand, its distribution channels focus on health food speciality stores and "on route" locations, such as gyms, supported by active athlete sponsorship programmes for high performance athletes across several sporting disciplines.

#### *Bodytrim*

Bodytrim is focused on the weight management segment, offering consumers a scientific approach to fast and sustainable weight loss via an online weight loss programme and branded snack foods. Bodytrim targets middle-aged females seeking to lose weight through dietary regimes as opposed to strenuous exercise routines. The online weight loss programme is marketed through a combination of online



marketing as well as advertorial television advertising. Bodytrim commenced operations over eight years ago and originated as a direct-to-consumer offering, but has since expanded into retail distribution (primarily via the grocery channel) through the introduction of its branded snack foods.

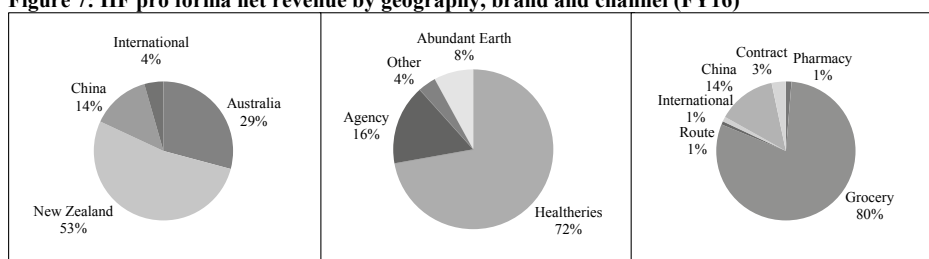
### Health foods category

The HF category encompasses products within the health and wellness packaged food category, including pre-made, packaged products and ingredients used in cooking, such as cooking mixes and individual ingredients for health conscious consumers. Aspects of the product offering include foods that are considered 'better for you', including 'free from' products, food intolerance products and organic products.

Vitaco's exposure to the HF category is through its Healtheries and Abundant Earth brands. Healtheries and Abundant Earth branded health food products are primarily distributed through the grocery and health food specialty channels in Australia and New Zealand.

The following figure illustrates the breakdown of Vitaco's FY16 pro forma net revenue for the HF category by geography, brand and channel.

**Figure 7: HF pro forma net revenue by geography, brand and channel (FY16)**



Source: Vitaco management

A brief overview of Vitaco's brands in the HF category is outlined below.

### Healtheries

Healtheries has a strong shelf presence in the HF category within the New Zealand grocery channel, holding a leading position in a number of specialist grocery channel sub-categories, such as total herbal and green tea, fruit tea and functional tea.

Key products sold under the Healtheries brand include teas, snacks (including healthier kids snacks), cereals and pre-packaged cooking mixes (including both cake and bread mixes). Notwithstanding Healtheries' strong brand loyalty and longevity in the New Zealand market, the brand has shaped its product offering around changing consumer tastes, as evidenced by the development of products including bircher muesli, wheat and gluten free products, and 'real food bars'.

### Abundant Earth

The Abundant Earth brand has been operating for over 35 years and is a natural foods brand that specialises in the distribution of certified organic and natural foods products in Australia through grocery and specialty health food channels. The business is focused on products that are environmentally friendly



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for the health conscious consumer looking for 'natural' and 'authentic' products, with a targeted product line focused on cereals, drinking chocolates and tamari sauces.

### **7.2.3 Manufacturing, warehousing and distribution**

Vitaco operates a vertically integrated business model developing, manufacturing, distributing and marketing its products. This vertical integration is considered to provide a competitive advantage relative to those market participants who outsource their manufacturing as it provides Vitaco with:

- broader control and oversight of product quality throughout the entire value chain
- better cost management supported by direct relationships with ingredient and service suppliers
- increased flexibility and speed to market in terms of product innovation and differentiation.

Vitaco's manufacturing footprint currently comprises three manufacturing facilities located in Auckland, New Zealand. The utilisation of its manufacturing facilities is currently at or below 50% for certain manufacturing lines including bulk tablets, capsules and bars, and therefore provides further capacity to support future volume growth in these types of products. Manufacturing in New Zealand also allows Vitaco to benefit from New Zealand's reputation as a 'clean and green' source of products, which appears to be particularly attractive to consumers in Asia.

Vitaco currently manufactures approximately 60% of its product range in-house, with the remaining 40% supplied through third-party manufacturers. Vitaco also has the potential to expand its manufacturing footprint in the future, either through the use of additional sites adjacent to its existing facilities or by acquiring larger or more efficient capital equipment for use at its existing sites.

Both of Vitaco's manufacturing sites in East Tamaki, Auckland, provide primary warehousing capacity. Those warehouses also provide export services, including container shipping, customer service, documentation and permit functions.

In Australia, Vitaco uses a third-party logistics provider that warehouses and distributes Vitaco products across the country. The partnership provides Vitaco with flexibility and capabilities to enable pick/pack to both national/regional distribution centres, as well as action small parcel deliveries to meet the requirements of its direct-to-store customers.

In New Zealand, Vitaco primarily supplies customers direct-to-store in the grocery, pharmacy and health food specialty channel, with a small amount of product delivered via customer distribution centres. Vitaco management considers that maintaining a largely direct-to-store model facilitates lower distribution costs, improved visibility, better shelf inventory and greater shelf presence as a result of improved ordering and merchandising execution.

Vitaco also acts as the sales and distribution agent for Comvita Limited in the New Zealand grocery channel, a company that also operates in the nutrition, health and wellness industry. Until it ceased on 30 June 2016, Vitaco also maintained an agency agreement with Trilogy International Limited.



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#### **7.2.4 New product development**

As the majority of Vitaco's products represent discretionary purchases, innovation is the key to maintaining and expanding Vitaco's market share. Vitaco has a history of successfully taking targeted products to the mass-market and its vertically integrated business model provides the basis to innovate and support this transition.

Therefore new product development is an important part of Vitaco's business, with approximately 26% of FY16's net revenue generated from products released in the preceding three years. Vitaco places a strong emphasis on new product development, employing 17 dedicated staff who have supported the release of approximately 118 new products to the market during FY16.

To keep abreast of changing consumer preferences, Vitaco takes an iterative approach to innovation, with new products that produce stronger sales growth being retained and their range expanded upon, while those whose performance is not as strong are quickly discontinued. Vitaco also undertakes product 'renovation' by extending existing lines and re-launching existing product ranges.

Within the VDS category, product innovation is typically driven by ingredient suppliers who conduct research regarding new health benefits and claims for both existing and new ingredients. As such, strong direct supplier relationships with ingredient manufacturers are critical for Vitaco to gain a competitive advantage through securing exclusively licensed product ingredients or being first to market with a new health claim or ingredient.

#### **7.2.5 International distribution platform**

Vitaco has a long history of exporting into select international markets outside of Australia and New Zealand. During this time, Vitaco has built a network of partners, distributors and on the ground specialists, and gained experience operating in international regulatory environments. In FY16, Vitaco sold its products within 39 countries globally.

Historically, Vitaco's largest direct export regions have been South East Asia, Japan and the Middle East. In recent years China has become an increasingly important market for Vitaco having an established presence in China through its Healtheries brand. In addition, Asian consumers are also targeted within Australia and New Zealand through specific product offerings under the Nutra-Life and Healtheries brands, which get distributed either through the souvenir channel or via exporters.

In South East Asia, Vitaco has a longstanding relationship with Cambert in (Malaysia and Singapore) where Vitaco contract manufactures the Kordel's brand in these markets. VDS products and dairy products are also sold in Singapore under the Healtheries brand.

In Japan, Vitaco has an agreement with a local Japanese distributor for the sale and marketing of its Musashi branded product range.

In the Middle East, Vitaco has been selling VDS products under the Kordel's brand (licensed from Cambert) for over ten years in five Gulf Coast Cooperative countries, primarily through the pharmacy channel.

Vitaco has also recently entered the United Kingdom market via an agreement with Boots UK to provide a range of Aussie Bodies protein bars.

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Overall, Vitaco's in-house development and manufacturing capabilities combined with New Zealand's reputation for producing 'clean and green' goods and the increased demand for nutrition, health and wellbeing products globally has resulted in an increase in global demand for Vitaco products, particularly from the Chinese consumer.

### **7.3 Pro forma financial performance**

Prior to its IPO, Vitaco was a New Zealand domiciled company that reported in New Zealand Dollars (NZD) and had a March financial year end. With its listing on the ASX, Vitaco changed its domicile to Australia, its reporting currency to Australian Dollars and shifted its financial year end from March to June. As a result, the latest audited financial statements are for the 15 month period ended 30 June 2016.

In addition to the audited statutory historical financial information, Vitaco also prepared pro forma historical financial information for the years ended 30 June 2014 and 30 June 2015 for the purposes of its IPO Prospectus, as well as for the year ended 30 June 2016 as part of its results announcement on 30 August 2016. Whilst the pro forma historical financial information was only reviewed by PricewaterhouseCoopers and not audited, we consider it forms a more relevant basis for our valuation assessment as it provides annual earnings figures normalised for significant items. Vitaco disclosed a reconciliation between its pro forma and statutory historical financial performance.

The table below summarises the pro forma financial performance of Vitaco for the 12 months to 30 June 2014, 2015 and 2016.



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**Table 3: Pro forma financial performance**

Period	12 months to	12 months to	12 months to
\$ million unless otherwise stated	30-Jun-14	30-Jun-15	30-Jun-16
Vitamins and supplements	69.0	79.5	100.2
Sports and active nutrition and health foods	78.7	92.3	112.2
Other	0.7	0.6	0.4
<b>Total net revenue</b>	<b>148.4</b>	<b>172.4</b>	<b>212.8</b>
COGS	(79.3)	(97.3)	(126.9)
<b>Gross margin</b>	<b>69.1</b>	<b>75.1</b>	<b>85.9</b>
Marketing	(11.4)	(12.6)	(13.2)
Distribution and commission	(13.7)	(14.7)	(18.0)
SG&A	(24.3)	(27.2)	(30.9)
<b>EBITDA</b>	<b>19.7</b>	<b>20.6</b>	<b>23.9</b>
Depreciation and amortisation	(2.8)	(3.1)	(3.1)
<b>EBIT</b>	<b>16.9</b>	<b>17.5</b>	<b>20.8</b>
Net interest expense	(1.4)	(1.8)	(2.4)
<b>PBT</b>	<b>15.5</b>	<b>15.7</b>	<b>18.4</b>
Tax expense	(4.5)	(4.6)	(5.3)
<b>NPAT</b>	<b>11.0</b>	<b>11.1</b>	<b>13.1</b>
Significant items	(2.9)	(5.2)	(24.1)
<b>Statutory NPAT</b>	<b>8.1</b>	<b>5.9</b>	<b>(11.0)</b>
<b>Statistics</b>			
Revenue growth	1.5%	16.2%	23.4%
Gross margin growth	7.8%	8.7%	14.4%
EBITDA growth	13.9%	4.6%	16.0%
EBIT growth	11.9%	3.6%	18.9%
Gross margin	46.6%	43.6%	40.4%
EBITDA margin	13.3%	11.9%	11.2%
EBIT margin	11.4%	10.2%	9.8%

Source: Vitaco IPO Prospectus, FY16 Annual Report, FY16 Annual Results Presentation; KPMG Corporate Finance analysis

Note: Figures may not sum due to rounding

In relation to Vitaco's pro forma financial performance set out above, we note:

- net revenue grew at a compound annual growth rate (CAGR) of 19.8% from \$148.4 million in FY14 to \$212.8 million in FY16. The VDS segment contributed revenue growth at a CAGR of 20.5% over this period, which was largely driven by strong organic growth in traditional VDS markets and China VDS sales, whilst growth in FY15 was also supported by growth in contract manufacturing and agency sales. The sports nutrition and health food (SNHF) segment contributed revenue growth at a CAGR of 19.4% over this period, which was largely driven by solid organic growth from Vitaco's core brands, increased Asian demand for Nutra-Life and Healtheries branded products, new private label contracts and increased availability of Comvita Manuka Honey. The achieved organic growth rates were complemented by inorganic growth derived from the successful integration of the acquisitions of Bodytrim and Musashi in FY15 and FY16 respectively
- Vitaco's China sales increased by 38.4% to \$22.0 million in FY16, supported by significant investment in sales and marketing infrastructure over this period. However, there was also evidence of increased volatility in the second half of FY16 driven by uncertainty surrounding the regulation of,

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and an increase in taxes payable on, Chinese cross border e-commerce. Whilst China remains a key growth strategy for Vitaco, management expects this volatility will remain

- gross margins have fallen as a percentage of revenue from 46.6% in FY14 to 39.6% in FY16, largely driven by increased promotional activities (particularly for the Aussie Bodies brand), changes in the product/revenue mix, the Musashi acquisition (lower margins in FY16 due to a higher cost base pre-integration), and unfavourable foreign exchange impacts as a weaker AUD adversely affects costs of goods sold (COGS) denominated in NZD as well as raw materials denominated in US dollars
- operating expenditure (excluding COGS) increased in line with business growth from \$49.4 million in FY14 to \$62.0 million in FY16 as a result of increased marketing and distribution expenses. Salary costs also increased as a result of higher bonus payments and increased headcount to support the growth of the business, particularly within the China sales team where headcount increased from three to twelve fulltime staff
- as a result of the factors discussed above, EBITDA grew at a CAGR of 10.1% from \$19.7 million in FY14 to \$23.9 million in FY16, whilst EBITDA margins fell from 13.3% to 11.2%
- EBIT grew at a CAGR of 10.9% from \$16.9 million in FY14 to \$20.8 million in FY16, whilst EBIT margins fell from 11.4% to 9.8%. On a divisional level, EBIT margins in the VDS segment increased from 14.5% in FY14 to 18.2% in FY16, primarily driven by strong organic growth in traditional VDS markets and China VDS sales, partially offset by investment in sales and marketing infrastructure and a negative impact from currency fluctuations. EBIT margins in the SNHF segment fell from 23.5% in FY14 to 20.3% in FY16, reflective of lower sales of milk biscuits, changes in the product/revenue mix, increased promotional activity and the discontinuing of the Bodytrim subscription scheme, combined with a negative impact from currency fluctuations
- Vitaco announced that the Musashi integration has been fully completed ahead of schedule, with an incremental contribution to EBITDA and EBIT of \$2.4 million (excluding an allocation of corporate expenses) in FY16 (excluding transaction costs of \$9.1 million)
- on 23 February 2016, the sales agreement with Trilogy Natural Products Limited was terminated, effective 1 July 2016. The FY17 EBIT impact of this contract loss is estimated to be \$1.7 million.

The composition of significant items excluded by Vitaco in arriving at the pro forma historical financial performance is set out below.



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**Table 4: Significant items**

Period \$ million unless otherwise stated	Notes	12 months to 30-Jun-14	12 months to 30-Jun-15	12 months to 30-Jun-16
Offer transaction costs expensed	1	-	-	14.3
Incremental public company costs	2	(1.5)	(1.5)	-
Net interest adjustment	3	5.2	4.4	-
Musashi transaction and integration costs	4	-	-	9.1
Amortisation adjustment	5	0.9	-	-
Unrealised foreign exchange (gains)/losses	6	(3.0)	2.7	(1.0)
Impact of closing hedge contracts	7	-	-	1.7
Other non-recurring items	8	2.6	1.5	-
Tax adjustments	9	(1.3)	(1.9)	-
<b>Total significant items</b>		<b>2.9</b>	<b>5.2</b>	<b>24.1</b>

Source: Vitaco IPO Prospectus, FY16 Annual Report, FY16 Annual Results Presentation; KPMG Corporate Finance analysis

Note: Figures may not sum due to rounding

In relation to the significant items, we note:

- offer transaction costs* relate to expenses associated with Vitaco's listing, including advisor fees, one-off senior management cash bonuses, the cancellation/buyback of its Mandatory Convertible Notes and Convertible Preference Shares, and the cost associated with the issue of shares
- incremental public company costs* relate to indicative annual costs that Vitaco would have incurred if it were a listed public entity during these periods. These expenses reflect Chairman and other Non-Executive Director remuneration, additional audit and legal costs, listing fees, share registry costs, Directors' and Officers' insurance premiums as well as investor relations, annual general meeting and annual report costs. The adjustments applied to FY14 and FY15 result in incremental costs of \$1.5 million being included in the pro forma historical results
- net interest adjustment* relates to an adjustment to Vitaco's interest expenses to reflect the impact from the refinancing of its debt structure in part by proceeds raised through the IPO and in part by new banking facilities entered into upon completion of the IPO
- Musashi transaction and integration costs* relate to an adjustment to remove one-off transaction, redundancy and integration costs relating to the acquisition of Musashi
- amortisation adjustment* has been made to exclude an amortisation charge incorrectly recorded in FY13 and FY14 which was corrected in the FY15 audited statutory financial statements
- unrealised foreign exchange (gains)/losses* removes the impact of unrealised mark to market foreign currency gains and losses included within the statutory financial statements for FY14 and FY15 in relation to forward currency contracts. It also removes the impact of unrealised gains and losses arising on foreign currency debt. In FY16, management adopted hedge accounting three months earlier than assumed in its IPO Prospectus, leading to a one-off gain of \$1.0 million, which has been excluded from the pro forma financial performance
- impact of closing hedge positions* relates to costs incurred in connection with the repayment of foreign denominated debt facilities as part of the IPO process

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- 8 *other non-recurring items* largely relate to one-off costs associated with an earlier sale process of \$2.1 million and \$0.8 million in FY14 and FY15 respectively as well as some restructuring expenses
- 9 *tax adjustments* have been calculated as the difference between the pro forma tax expense (calculated using a tax rate of 29%, reflective of the estimated blended Australian and New Zealand rate across the Group) and the statutory tax expense.

## 7.4 Financial position

The financial position of Vitaco as at 31 March 2015 and 30 June 2016 is summarised below.

**Table 5: Financial position**

As at	31-Mar-15	30-Jun-16
<b>\$ million unless otherwise stated</b>		
Cash and cash equivalents	3.8	9.9
Trade and other receivables	29.1	34.0
Inventories	36.0	46.5
Derivative financial instruments	1.4	0.2
Current tax receivable	0.3	2.9
<b>Total current assets</b>	<b>70.6</b>	<b>93.5</b>
Property, plant and equipment	18.7	19.3
Deferred tax assets	3.6	2.6
Intangible assets	113.7	108.4
<b>Total non-current assets</b>	<b>136.0</b>	<b>130.2</b>
<b>Total assets</b>	<b>206.6</b>	<b>223.8</b>
Trade and other payables	25.7	31.1
Derivative financial instruments	4.4	0.2
Provisions	2.4	4.2
Borrowings	76.8	6.0
Current tax payable	-	1.4
<b>Current liabilities</b>	<b>109.3</b>	<b>42.9</b>
Borrowings	0.8	40.4
Provisions	0.3	1.2
<b>Total non-current liabilities</b>	<b>1.1</b>	<b>41.6</b>
<b>Total liabilities</b>	<b>110.3</b>	<b>84.4</b>
<b>Net assets</b>	<b>96.3</b>	<b>139.3</b>
<b>Equity</b>		
Contributed equity	77.4	288.2
Reserves	4.5	(152.9)
Retained earnings	14.4	4.1
<b>Total equity</b>	<b>96.3</b>	<b>139.3</b>

Source: FY16 Annual Report, KPMG Corporate Finance analysis

Note: Figures may not sum due to rounding

In relation to the financial position of Vitaco as at 30 June 2016, we note:

- working capital (being trade debtors plus inventory less trade creditors and provisions) increased by 22% since 31 March 2015 due to the impact of the Musashi acquisition, organic revenue growth and China specific inventory



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- property, plant and equipment increased as a result of Vitaco's continued investment in its manufacturing facilities. During FY16, \$1.3 million of growth capital expenditure and \$1.7 million of maintenance capital expenditure has been invested
- intangible assets of \$108.4 million comprise \$32.4 million in goodwill, \$0.9 million in software and \$75.0 million in trademarks. In FY16, goodwill increased by \$1.1 million and trademarks increased by \$1.9 million as a result of the Musashi acquisition
- net debt as at 30 June 2016 was \$36.4 million, comprised of total borrowings of \$46.4 million less cash and cash equivalents of \$9.9 million. The decrease in net debt from \$44.5 million as at 31 December 2015 was driven by trading profits and improvements in working capital (\$4.3 million) as excess inventories and buffer stocks were reduced.

#### 7.4.1 Borrowings

Vitaco's financing facilities as at 30 June 2016 are set out below.

**Table 6: Financing facilities**

<b>\$ million unless otherwise stated</b>	<b>Total facility</b>	<b>Amount drawn</b>	<b>Available facility</b>
Revolving cash advance facility	62.0	40.1	21.9
Working capital facility	8.0	5.7	2.3
<b>Total financing facilities</b>	<b>70.0</b>	<b>45.8</b>	<b>24.2</b>

Source: FY16 Annual Report; KPMG Corporate Finance analysis

In relation to Vitaco's financing facilities, we note:

- Vitaco has available a \$62 million revolving cash advance facility and a \$8 million working capital facility provided by a syndicate of lenders comprising ANZ Bank New Zealand Limited, Westpac New Zealand Limited and their Australian affiliates. At 30 June 2016, Vitaco has used \$40.1 million and \$5.7 million respectively of these two facilities, resulting in \$24.2 million of undrawn facilities
- the \$70 million of total commitments can be drawn down either in AUD or NZD. At 30 June 2016, all drawn down amounts were denominated in NZD
- the facilities have a three year tenor and mature in September 2018
- in addition to its bank loans, Vitaco had finance company loans of approximately \$0.7 million as at 30 June 2016.

Details of the financial covenants relating to Vitaco's financing facilities are set out below, together with Vitaco's performance with respect to each covenant.



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**Table 7: Financial covenants**

Financial covenant	Threshold	31-Dec-15	30-Jun-16
Interest cover	Greater than 3.00x	6.37x	8.50x
Net debt coverage	Less than 3.00x	1.99x	1.44x

*Source: FY16 Annual Report, HY16 Half-Year Financial Results presentation, KPMG Corporate Finance analysis*

As set out above, Vitaco has operated well within its financial covenants since its facility agreements were renegotiated as a result of its listing in September 2015. Vitaco has also significant headroom and debt capacity to continue pursuing growth opportunities.

## 7.5 Capital structure and ownership

As at 22 August 2016, Vitaco's issued capital comprised the following:

- 139,143,525 ordinary fully paid shares on issue
- 1,000,918 share options issued under Vitaco's long term incentive plan
- 195,499 performance rights issued under Vitaco's long term incentive plan.

Under the terms of the Scheme, Vitaco must take the appropriate action as is necessary after the Effective Date of the Scheme and prior to the Record Date to ensure that all outstanding share options and performance rights which have not already been exercised or have not already vested do vest or are exercised. The share options and performance rights must exercise or vest in accordance with the existing terms of the share options and performance rights and all exercise price amounts must be either paid to Vitaco prior to the Record Date or deferred until the Implementation Date, and Vitaco must, prior to the Record Date, issue the number of Vitaco Shares required by the terms of the share options and performance rights on such exercise or vesting. Accordingly, upon implementation of the Scheme, the total number of shares on a fully diluted basis is expected to be 140,339,942.

### 7.5.1 Substantial shareholders

The substantial shareholders of Vitaco as at 22 August 2016 are set out below.

**Table 8: Substantial shareholders**

Name of substantial unitholder	Number of stapled securities held	Percentage of issued capital
The Next Entities <sup>1</sup>	21,288,933	15.30%
Westpac Banking Corporation and its associated entities	14,788,634	10.63%
BT Investment Management Limited	13,737,196	9.87%
Commonwealth Bank and its related bodies corporate	7,201,868	5.18%
<b>Total stapled securities on issue</b>	<b>139,143,525</b>	<b>40.98%</b>

*Source: FY16 Annual Report*

*Note 1: All 21,288,933 shares of the Next Entities were held in escrow until post 30 June 2016 results announcement.*



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## 7.5.2 Shareholder distribution

The profile of Vitaco's shareholder base as at 22 August 2016 is set out below.

**Table 9: Number of ordinary shares on issue and distribution of holdings**

Range	Number of Holders	% of holders	Number of shares	% of shares
100,001 and Over	59	1%	94,276,576	68%
10,001 to 100,000	1030	14%	23,839,083	17%
5,001 to 10,000	1,299	18%	10,430,796	7%
1,001 to 5,000	3,239	44%	9,516,875	7%
1 to 1,000	1,701	23%	1,080,195	1%
<b>Total</b>	<b>7,328</b>	<b>100%</b>	<b>139,143,525</b>	<b>100%</b>

*Source: FY16 Annual Report*

As at 22 August 2016, approximately 68% of Vitaco's shares were held by 1% of shareholders and 67% of Vitaco Shareholders (by number of shareholders) held less than 5,000 shares.

## 7.5.3 Interests held by Directors and Senior Management

Vitaco's Directors and Senior Management hold interests in the company in the form of ordinary shares, performance rights and share options. Details of interests held by these individuals are set out below.

### *Vitaco Shares*

As at 30 August 2016, the Directors and Senior Management of Vitaco held the following Vitaco Shares (either directly or indirectly).

**Table 10: Director's and Senior Management relevant interests**

Name of director and management shareholder	Number of ordinary shares held
<i>Non-executive directors</i>	
Greg Richards	95,238
Emmet Hobbs	47,619
Sandy Lockhart	142,857
Katrina Onishi	47,619
<i>Executive KMP</i>	
Ryan d'Almeida	357,391
Phillip Wiltshire	355,113
Roger Scott	358,936
John Stanton	186,941
Martin Drinkrow	47,619
Jay Drezner	35,714
Brent Hall	254,865
<b>Total interest held by Directors and Senior Management</b>	<b>1,929,912</b>

*Source: FY16 Annual Report*

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### *Vitaco performance rights and share options*

Vitaco's remuneration framework includes the issue of performance rights and share options which vest or are exercised if certain performance hurdles are met. As at 30 August 2016, performance rights and share options held by Senior Management were as follows.

**Table 11: Performance rights and share options on issue to Vitaco's Senior Management**

<b>Name of management shareholder</b>	<b>Options over ordinary shares</b>	<b>Rights over ordinary shares</b>
Ryan d'Almeida	343,042	67,003
Phillip Wiltshire	135,593	26,484
Roger Scott	127,845	24,971
John Stanton	123,689	24,159
Martin Drinkrow	142,019	27,739
Jay Drezner	70,619	13,793
Brent Hall	58,111	11,350
<b>Total</b>	<b>1,000,918</b>	<b>195,499</b>

*Source: FY16 Annual Report*

We note that all outstanding share options were issued based on an exercise price of \$2.10 to Senior Management.

## **7.6 Share price performance**

In assessing Vitaco's share price performance, we have:

- analysed Vitaco's share price and trading volume since its listing on the ASX on 16 September 2015
- compared the share price performance of Vitaco to the ASX 200 Index and Blackmores Limited (Blackmores), the most relevant listed comparable to Vitaco
- analysed the trading liquidity of Vitaco Shares.

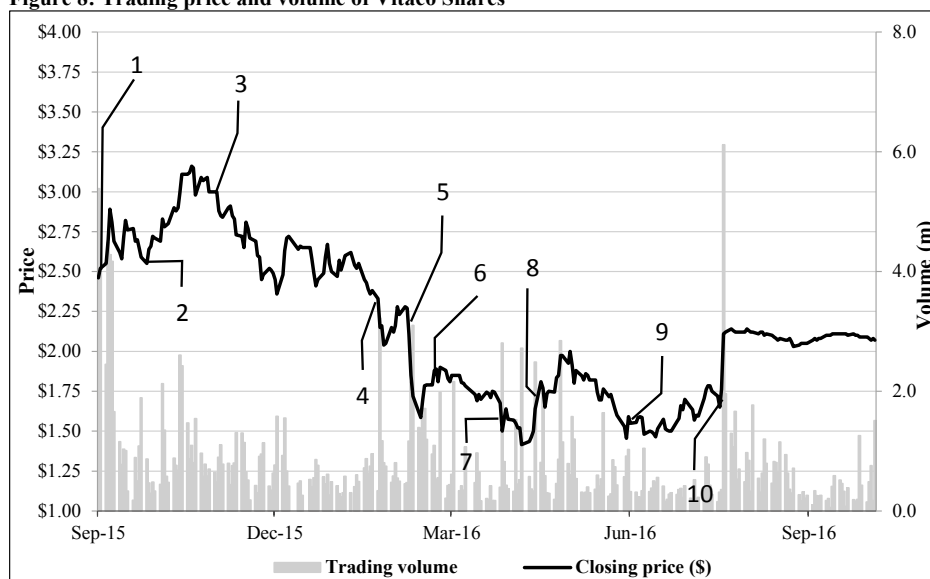
### **7.6.1 Share price and trading volume**

Vitaco's share price and trading volume since its listing on the ASX on 16 September 2015 is illustrated below.



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**Figure 8: Trading price and volume of Vitaco Shares**



Source: S&P CapitalIQ; KPMG Corporate Finance analysis

Since listing, Vitaco's share price ranged between a low of \$1.42 on 22 April 2016 and a high of \$3.16 on 4 November 2015. Key events which influenced the trading price and volume of Vitaco Shares during this period include:

- 1 On 16 September 2015, Vitaco listed on the ASX at a listing price of \$2.10 per share. Trading opened at \$2.50 a share and closed at \$2.38 on the first day of trading, which represented a 13.3% increase over the IPO price. Vitaco's share price continued to increase to \$2.52 by the end of the first week of trading. This share price performance was supported by the positive market sentiment in the industry at the time and coincided with the announcement of the acquisition of Swisse Wellness Pty Ltd (Swisse) by Biostime on 17 September 2015.
- 2 On 13 October 2015, Vitaco announced the finalisation of a dispute with HZ Limited and HZ Sol Pty Limited with no impact on its financial performance or position. As such, Vitaco's strong share price performance subsequent to this announcement was more likely linked to a buoyant market in the vitamins and health foods sector as evidenced by the strong share price performance of Blackmores at the time (refer to Figure 9).
- 3 On 17 November 2015, Australian press<sup>8</sup> reported that Chinese Food and Beverage Authorities would consider imposing stricter regulation on e-commerce transactions, including stringent checks

<sup>8</sup> China cracks down on infant formula smugglers, Australian Financial Review, 17 November 2015.



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on seaborne baby formula cargo and tougher requirements for labelling and food safety. Vitaco Shares fell in line with the broader sector.

- 4 On 9 February 2016, Vitaco updated the market with regard to its stock price volatility at the time. Vitaco stated that it had no new information to update the market in relation to recent trading activity, and reaffirmed that earnings were in line with the forecasts provided in the IPO Prospectus.
- 5 On 24 February 2016, Vitaco released its results for HY16, announcing the development of a sales base in China, 8% organic growth in existing markets and 37.6% growth in revenue which included the impact from the acquisition of Musashi. The results were perceived as below market expectations, leading to a share price fall of 18.5% by the close of trading on 26 February 2016.
- 6 On 11 March 2016, S&P Dow Jones Indices added Vitaco to the official list of the S&P/ASX 300 Index and the All Ordinaries Index.
- 7 On 13 April 2016, Vitaco updated the market in relation to media speculation regarding the release by Chinese Authorities of a Cross Border e-commerce list for imported consumer products and associated regulatory changes. Vitaco confirmed that the only product that will be affected by the changes to Chinese regulation relate to Goats Milk Powder, and that the associated potential loss of sales would be immaterial.
- 8 On 29 April 2016, Vitaco announced an operational update in relation to its domestic and international businesses, including the appointment of a General Manager China, the launch of Aussie Bodies in the United Kingdom through the Boots pharmacy chain, and the successful integration of the Musashi acquisition.
- 9 On 23 June 2016, the United Kingdom voted to exit the European Union, which was largely unanticipated by financial markets. The S&P/ASX 200 Index fell 3.2% on the news, corresponding to a 6.6% fall in the Vitaco Share price.
- 10 On 4 August 2016, Vitaco announced that it had entered into a Scheme Implementation Deed with the Consortium to acquire 100% of the shares of Vitaco for a total cash consideration of \$2.25 per share.

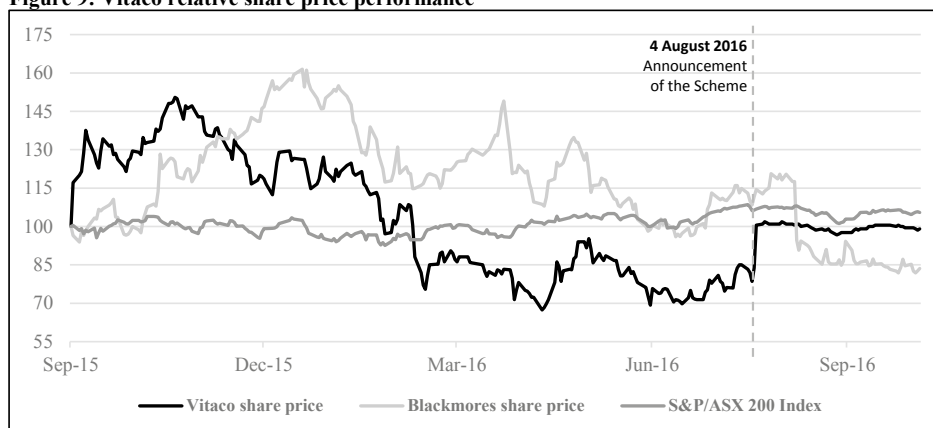
## **7.6.2 Relative share price performance**

The trading performance of Vitaco over the period from 16 September 2015 to 21 October 2016 relative to Blackmores and the S&P/ASX 200 Index is illustrated below.



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**Figure 9: Vitaco relative share price performance**



Source: S&P CapitalIQ; KPMG Corporate Finance analysis

On the back of strong investor sentiment immediately after its IPO, Vitaco outperformed the market and reached a peak trading price of \$3.16 on 4 November 2015, largely in line with the price appreciation in Blackmores. The investor sentiment was driven by strong public interest in the industry following growth in Blackmores and a buoyant M&A market, as evidenced by the sale of Swisse Wellness to Biostime. However, following speculation around changes to the Chinese food regulations and the release of the China General Administration of Quality Supervision, Inspection and Quarantine draft rules on cross-border e-commerce, Vitaco underperformed both Blackmores and the S&P/ASX 200 Index.

From late March 2016 until the announcement of the Scheme on 4 August 2016, Vitaco traded largely in line with the S&P/ASX 200 index, although price volatility in both Vitaco and Blackmores was significantly higher than the market. Following the announcement of the Scheme, Vitaco Shares increased from \$1.76 to \$2.11 per share, an increase of 19.9%.

On 24 August 2016, Blackmores' share price fell more than 19% as a result of its earnings outlook not meeting market expectations. The observed increased share price volatility within the industry is a reflection of increased uncertainty as to the short-to-medium term outlook for the industry, particularly in relation to the growth profile of the Chinese market.

### **7.6.3 Liquidity and volume weighted average price**

The trading liquidity and Volume Weighted Average Price (VWAP) of Vitaco Shares is summarised below for the approximate 11 month period since listing on 16 September 2015 to 3 August 2016 (the day prior to the announcement of the Scheme).

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**Table 12: Liquidity and VWAP**

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
<b>Period ended 3 August 2016</b>						
1 week	1.65	1.82	1.74	2.6	1.5	1.1
1 month	1.48	1.82	1.65	13.0	7.9	5.6
3 months	1.46	2.02	1.73	59.0	34.2	24.6
6 months	1.40	2.41	1.78	162.8	91.2	65.6
Post-IPO	1.40	3.23	2.27	421.3	185.9	133.6

Source: S&P CapitalIQ; KPMG Corporate Finance analysis

We consider the percentage of shares traded since the IPO to 3 August 2016 indicates that Vitaco Shares are sufficiently liquid. In assessing the liquidity in trading of Vitaco Shares, it is noted that Vitaco's free float is currently approximately 80%.

#### 7.6.4 Dividends

Vitaco has adopted a dividend policy with a long term target dividend payout ratio of between 50% and 60% of the group's underlying profit. This level may vary between periods depending on a number of factors, including the general business environment, the operating results and the financial condition of Vitaco, future funding requirements, capital management initiatives and taxation considerations (including the level of franking credits and imputation credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Vitaco Group and any other factors the Directors may consider relevant.

**Table 13: Dividends**

	<b>HY16</b>	<b>FY16</b>
<b>Profit</b>		
Pro forma normalised profit (\$ million)	5.6	13.1
Pro forma normalised profit before tax (\$ million)	7.9	18.4
<b>Earnings per share</b>		
Reported earnings per share (cents)	4.02c	9.41c
Dividend per share (cents)	1.69c	2.96c
Total dividends paid (cents)	1.69c	4.65c

Source: FY16 Annual Report; HY16 Half-Year Financial Results presentation

On 24 February 2016, Vitaco has announced an interim dividend of 1.69 cents a share on earnings of 4.02 cents a share (representing 55% of pro forma NPAT, excluding the impact of non-recurring legacy Musashi operating costs). This dividend was paid on 31 March 2016. The interim dividend was not franked due to the tax impact of Vitaco's IPO transaction costs and Musashi integration costs.

Vitaco announced a final dividend for FY16 of 2.96 cents per share, taking the total dividend for FY16 to 4.65 cents per share. The final dividend will also have attached New Zealand imputation credits of NZD0.0108 per share which are only relevant for New Zealand resident taxpayers who meet certain requirements. The final dividend had a record date on 6 September 2016, and was paid on 30 September 2016.



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## **7.7 Outlook**

### **7.7.1 Strategy**

Vitaco is well-positioned to capitalise on favourable long term industry fundamentals, such as increasingly health and wellness focused consumers, growing sports participation and gym attendance rates, an ageing population as well as growing demand from Chinese consumers driven by the 'clean and green' credentials of health and wellness products manufactured within Australia and New Zealand, the opening up of free trade zones and the rise of cross-border e-commerce. The strength of Vitaco's business model and market position is underpinned by the following key elements:

- portfolio of well-established and trusted consumer brands, a number of which hold market leading positions within their specific targeted channels to market
- diversified product portfolio with exposure to attractive categories (in terms of strong end-market fundamentals) and multiple channels to market which supports a balanced earnings and growth profile
- vertically integrated business model which provides key competitive advantages through better cost control, quality control and speed to market
- proven new product development capability, which is a key driver of growth as it ensures a differentiated and premium quality product offering
- 'clean and green' credentials attributed to Vitaco's manufacturing footprint which concentrates in New Zealand
- established international distribution platform with leverage to high growth international markets.

However, due to the relatively fragmented and competitive market environment, Vitaco is also exposed to weaknesses as its business is currently:

- underpenetrated in the Australian pharmacy channel, which is expected to continue its recent trend of increasing market share in the VDS category, at the cost of the speciality retail channel
- underinvested in certain brands in terms of the marketing investment, particularly with regard to its Aussie Bodies and Nutra-Life brands, required to maintain or expand their market position
- underrepresented in the Australian VDS market, with a relatively small market share and competing against two dominant players in Blackmores and Swisse
- underutilised in terms of manufacturing capacity, which limits its ability to fully realise potential operating efficiencies, but also provides capacity for future growth
- sub-scale in the health foods category.

Accordingly, Vitaco's strategic vision is focused on the following three core pillars to address its identified weaknesses:

- *Stronger brands.* Vitaco is a brand-led business and as such, its key strategic priority is to strengthen its brands within their targeted and underpenetrated distribution channels through increased

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marketing investment, strategic alliances and continued new product development. A specific focus area for Vitaco is to increase its investment in developing and growing its supplements position within the Australian pharmacy channel.

- *More volume.* Vitaco is committed to increasing the investment required to develop and grow its international distribution platform, particularly in China, where strong growth is expected in the long term, albeit volatility will likely persist in the near term due to continued regulatory uncertainty. Accelerated growth is also targeted in the Middle East through an enhanced product offering, and the UK market, where it will invest in strategic partnerships and marketing to grow brand awareness and sales volumes. Further, the relatively fragmented nutrition, health and wellness industry combined with Vitaco's capacity to leverage its balance sheet, provides inorganic growth opportunities through selective acquisitions, as evidenced by the successful integration of the Musashi business. In particular, Vitaco's health foods category may benefit from selective acquisitions to grow its portfolio into adjacent categories and increase the scale of this business.
- *Operating leverage.* Vitaco has identified better utilisation of its manufacturing capacity as a strategic priority to improve its operating leverage and drive improved operating margins, quality control and speed to market. Key initiatives identified in this regard include further insourcing of products that are currently manufactured by third parties and strategic contract manufacturing. The initiatives to grow the sales volume of in-house manufactured products will also improve the utilisation of existing manufacturing capacity. However, capital investment may still be required to enhance the capacity of certain manufacturing lines that are already running at capacity or to add new manufacturing capabilities required for insourcing of products and strategic contract manufacturing.

As Vitaco seeks to implement its strategic vision, it will be required to appropriately monitor and manage the key risks it is exposed to, including:

- changing consumer preferences and market trends, particularly within the volatile Asian market environment. However, its vertically integrated business model and new product development capability may enable Vitaco to quickly react to changing market trends and to differentiate from its competitors
- diminishing brand reputation which may arise from product quality issues, that result in product liability claims and Vitacos. However, by manufacturing a large portion of its products in-house, Vitaco has better control over quality throughout its value chain
- adverse regulatory changes, particularly any change in Chinese governmental policy which restricts the ability of Vitaco to distribute its products in China
- increased competition through aggressive discounting or marketing strategies by competitors or new private label offerings. Under this scenario, Vitaco's vertically integrated business model and new product development capability may provide a key competitive advantage
- adverse foreign exchange movements, given a significant portion of Vitaco's revenue, expenditures and cash flows are denominated in NZD, and raw materials and finished goods are also sourced in US Dollars. Vitaco has policies in place to hedge its foreign exchange exposures but this will not fully mitigate the impact of long term currency trends.

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### 7.7.2 Guidance

Whilst Vitaco has not provided any specific financial guidance for FY17, it expects its business to continue to deliver solid performance from its core brands and traditional markets. However, Vitaco is also forecasting an increase in operating costs as it continues to invest in its business including:

- increased consumer marketing costs and increased headcount to support growth in China. Whilst Vitaco remains positive about the long term thematic for its brands into China, sales are expected to be volatile in the near term due to the continued regulatory uncertainty in China
- greater marketing support for key brands across the New Zealand and Australian markets
- increased investment in developing and growing its supplements position within the Australian pharmacy channel.

Further capital investment may also be required if the identified opportunities to expand Vitaco's manufacturing and warehousing footprint in Auckland are pursued.

Accordingly, despite the predicted solid performance from its core business, Vitaco expects that the continued regulatory uncertainty in China, the loss of the Trilogy contract and increasing business investment will impact on sales and earnings in the short term. However, the proposed increase in investment in Vitaco's brands is expected to ensure that long term growth both domestically and in its key international growth markets will be maximised.

### 7.7.3 Broker consensus forecasts

In order to provide an indication of the expected future financial performance of Vitaco, we have considered brokers' forecasts for Vitaco. Summarised below are the consensus forecasts for Vitaco for FY17, FY18 and FY19 by brokers that follow Vitaco.

**Table 14: Broker consensus forecasts**

<b>\$ million unless otherwise stated</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Revenue	229.4	250.0	265.4
EBITDA	25.7	30.1	34.0
EBIT	22.6	26.4	30.4
Normalised NPAT	13.5	17.0	19.5
Capital Expenditure	(4.0)	(4.1)	(4.8)
<b>Statistics</b>			
Revenue growth	7.8%	9.0%	6.2%
EBITDA growth	7.5%	17.1%	13.0%
EBITDA margin	11.2%	12.0%	12.8%
EBIT growth	8.7%	16.8%	15.2%
EBIT margin	9.9%	10.6%	11.5%
Capital expenditure to revenue ratio	1.7%	1.6%	1.8%

Source: Broker reports; KPMG Corporate Finance analysis

Note: Based on the median of broker forecasts

In relation to the table above, we note:

- Vitaco appears to be followed by 5 brokers, which are all represented in the above consensus forecasts for FY17 and FY18

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- the consensus forecasts represent the latest available broker forecasts for Vitaco. However, only one broker released an updated report (including forecasts for FY19) after Vitaco announced its results for FY16 on 30 August 2016. This broker downgraded its earnings outlook for Vitaco by approximately 5% on an EBITDA level over the next three years, primarily driven by weaker revenue growth forecasts associated with the recent slowdown in China.



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## 8 Valuation of Vitaco

### 8.1 Summary

We have valued the equity in Vitaco in the range of \$284 million to \$308 million, which corresponds to a value of \$2.02 to \$2.20 per Vitaco Share. Our valuation assumes 100% ownership of Vitaco and therefore incorporates a control premium. Given the inclusion of a control premium, we would expect the valuation to be in excess of the value of Vitaco implied by its trading price in the absence of a takeover offer.

The assessed value for Vitaco reflects the estimated market value of Vitaco's business operations less net debt. Our valuation of Vitaco is summarised in the table below and detailed in the remainder of this section.

**Table 15: Valuation summary**

\$ million (unless otherwise stated)	Section reference	Value range	
		Low	High
Value of business operations	8.3	322.7	346.6
Less: Adjusted net debt	8.4	(38.5)	(38.5)
<b>Value of equity</b>		<b>284.2</b>	<b>308.1</b>
Fully diluted shares on issue (millions)	7.5	140.3	140.3
<b>Value per Vitaco Share (\$)</b>		<b>2.02</b>	<b>2.20</b>

Source: KPMG Corporate Finance analysis

Note: Table may not sum due to rounding

## 8.2 Methodology

### 8.2.1 Overview

Our valuation of Vitaco has been prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value that should be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

Our valuation has had regard to the additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to the Consortium. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (Capitalised Earnings)
- the discounting of expected future cash flows to present value (DCF)
- the estimation of the net proceeds from an orderly realisation of assets (Net Assets)
- trading prices for the company's shares on ASX.

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These methodologies are discussed in greater detail in Appendix 4. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is typically adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as Capitalised Earnings and DCF are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any.

### **8.2.2 Selection of methodology**

We have assessed the value of Vitaco by adopting Capitalised Earnings as our primary methodology. This was based on the following considerations:

- a Capitalised Earnings approach is a commonly used method for the valuation of businesses with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential, which is the case for Vitaco. Further, we consider there is sufficient market evidence available from which a meaningful earnings multiple can be derived. In particular, Blackmores is reasonably comparable in terms of operating profile and geographic presence subject to appropriate adjustments for differences such as its stronger growth profile and larger size relative to Vitaco. Additionally, a number of transactions have occurred involving companies operating in the nutrition, health and wellness industry within Australia and internationally, of which the Swisse transaction provides the most relevant reference point to value Vitaco
- a DCF approach is also widely used in the valuation of established businesses. However, apart from a medium term strategic plan, we have not been provided with a detailed financial model from which an in-depth, value driver based DCF analysis could be undertaken. Further, given the current regulatory uncertainty in China, considerable judgement is required in estimating future cash flows associated with Vitaco's growth strategy in China. This may reduce the robustness of any results derived from a DCF analysis as evidenced by the wide range and volatility in broker forecasts for Vitaco. Whilst we have not utilised a DCF approach as our primary valuation approach, we have undertaken a DCF analysis based on the company's strategic plan as a cross-check
- a Net Assets approach is not considered appropriate in Vitaco's case as this method would not capture the growth potential and goodwill associated with the business
- trading prices for Vitaco Shares have been highly volatile since listing on the ASX on 16 September 2015. Accordingly, considerable judgement is required in deriving conclusions on the fundamental value of a Vitaco Share in the absence of a takeover offer based on an analysis of Vitaco's recent share price performance. Further, post announcement of the Scheme, share prices of key competitors, particularly Blackmores, have fallen significantly due to the increased uncertainty in China and the associated deterioration in the near term growth outlook, whilst Vitaco's share price has been supported by the Scheme. Nevertheless, we have also had regard to trading prices for Vitaco Shares in our analysis of the control premium offered to Shareholders through the Scheme.



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Ultimately, the value of the business operations of Vitaco has been determined through an iterative process, ensuring the value derived from our primary Capitalised Earnings methodology is consistent with the outcomes of our high-level DCF cross-check and our analysis of Vitaco's share price performance.

### **8.2.3 Selection of earnings metric**

Application of the Capitalised Earnings approach involves the capitalisation of the earnings or cash flows of a business at a multiple that reflects the risks of the business and the future growth prospects of the income it generates. Application of this methodology requires professional judgement as to:

- a level of earnings or cash flows expected to be maintainable into perpetuity that takes into account historic and forecast operating results, adjusted for non-recurring items and other known factors likely to impact on future operating performance
- an appropriate capitalisation multiple that is supported by market evidence derived from comparable transactions and sharemarket prices for comparable companies, whilst also considering the specific characteristics of the business being valued.

A Capitalised Earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. All are commonly used in the valuation of businesses and should provide a similar result.

We consider EBITDA to be an appropriate earnings metric as it removes differences in depreciation and amortisation policies adopted by market participants in various jurisdictions and therefore provides a measure of earnings that is not distorted by the impact of non-cash items.

### **8.2.4 Control premium considerations**

With regard to the multiples applied in a Capitalised Earnings approach, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing Vitaco we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the share prices for listed comparable companies.

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Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20% and 35%<sup>9</sup> for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums can vary significantly between individual transactions as the final price paid will reflect to varying degrees:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder, i.e. financial investor versus trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

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<sup>9</sup> KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2016, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.

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## 8.3 Value of business operations

### 8.3.1 Summary

As summarised in the table below, KPMG Corporate Finance has determined the enterprise value of Vitaco's business operations to be in the range of \$323 million to \$347 million.

**Table 16: Valuation of business operations**

\$ million	Section reference	Value range	
		Low	High
Maintainable earnings (EBITDA)	8.3.2	23.9	23.9
EBITDA multiple (on a controlling basis)	8.3.3	13.5	14.5
<b>Value of business operations</b>		<b>322.7</b>	<b>346.6</b>

*Source: KPMG Corporate Finance analysis*

The valuation of Vitaco's business operations was determined using a Capitalised Earnings approach, based on a maintainable EBITDA of \$23.9 million and a capitalisation multiple of 13.5 to 14.5 times. The basis for each of these assumptions is discussed in the sections below.

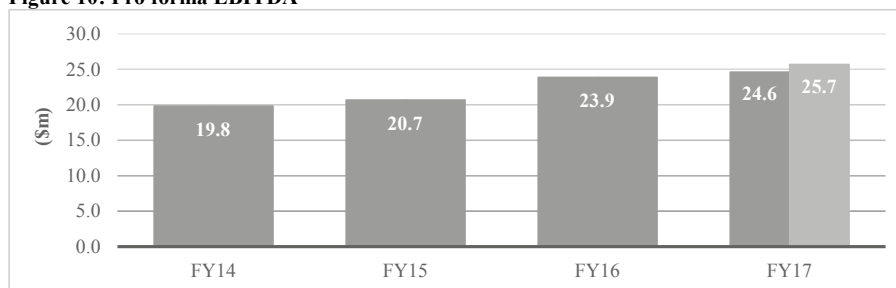
The selected EBITDA multiple range factors in a control premium, and hence the enterprise value of Vitaco's business operations has been determined on a controlling basis.

### 8.3.2 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. We consider Vitaco's recently released FY16 pro forma EBITDA of \$23.9 million to provide a reasonable proxy for the company's maintainable earnings. In making this assessment, we have had regard to the following:

- as illustrated in the figure below, Vitaco has generated a relatively stable level of moderate organic earnings growth over the last three years when taking into account that the majority of the earnings growth achieved in FY16 was contributed inorganically through the acquisition of Musashi.

**Figure 10: Pro forma EBITDA**



*Source: Vitaco IPO Prospectus, FY16 Annual Report, FY16 Annual Results Presentation; Broker Reports*

*Note: The current median broker consensus forecast for Vitaco's FY17 EBITDA is \$25.7 million, albeit the only broker who updated its earnings estimates subsequent to Vitaco's FY16 results release on 30 August 2016 has downgraded its estimate of Vitaco's FY17 EBITDA by 5.0% from \$25.9 million to \$24.6 million.*



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Vitaco's operating business is diversified across product categories, brands and sales channels which provides a balanced earnings base with a relatively stable organic growth profile. This is further supported by Vitaco's geographical diversification, as the relatively lower growth prospects of its traditional target markets are rebalanced by the relatively higher growth prospects of the emerging markets in which Vitaco has established a distribution platform, even though foreign exchange rate fluctuations may adversely affect the financial performance of Vitaco. Further, Vitaco's vertically integrated business model enhances the robustness of its earnings profile as it provides better cost control, quality control and speed to market

- pro forma EBITDA excludes the impact of one-off significant items, such as transaction and integration costs relating to the acquisition of Musashi and transaction costs associated with Vitaco's listing. Further detail in relation to Vitaco's significant items is included in Section 7.3 of this report
- the loss of the agency contract with Trilogy which contributed approximately \$1.7 million to Vitaco's earnings in FY16 is expected to be broadly offset by the successful completion of the Musashi acquisition, as Musashi's earnings contribution in FY16 did not fully reflect its current annualised earnings run-rate of approximately \$4.0 million EBITDA
- the current median broker consensus forecast for Vitaco's FY17 EBITDA is \$25.7 million, albeit the only broker who updated its earnings estimates subsequent to Vitaco's FY16 results release on 30 August 2016 has downgraded its estimate of Vitaco's FY17 EBITDA by 5.0% from \$25.9 million to \$24.6 million. If the other brokers were to update their earnings estimates for Vitaco, we would expect similar trends particularly when considering the recent significant fall in Blackmores' share price subsequent to its FY16 results release, which indicated increased uncertainty and a deteriorated near term growth outlook in China, a concern which was also raised recently in Vitaco's earnings release
- whilst Vitaco's growth outlook has weakened in the near term, it is well-positioned to capitalise on long term favourable industry fundamentals, such as increasingly health and wellness focused consumers, growing sports participation and gym attendance rates, an ageing population as well as growing demand from Chinese consumers driven by the 'clean and green' credentials of health and wellness products manufactured within Australia and New Zealand, the opening up of free trade zones and the rise of cross-border e-commerce. This is underpinned by Vitaco's strategic initiatives to strengthen its brands, increase sales volumes and improve its operating leverage as outlined in Section 7.7.1 of this report. These factors, as well as any potential downside risks to future profitability, such as the trend to increased competition within the highly fragmented nutrition, health and wellness industry and continued regulatory uncertainty in China, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We note that we have not adjusted maintainable earnings for potential cost savings associated with being a publicly listed company and/or duplicated head office functions which are available to any acquirer of 100% of Vitaco, as these types of general synergies are commonly subsumed within a premium for control that we have incorporated in our selection of the appropriate multiple.

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### 8.3.3 EBITDA multiple

The multiple applied in a Capitalised Earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

#### Sharemarket evidence

The nutrition, health and wellness industry in Australia and New Zealand (being the core traditional markets of Vitaco) is highly fragmented, comprising a large number of small, privately held businesses and only a few major competitors which are listed public companies, with many of these being subsidiaries of major multinational organisations, making a direct trading multiple comparison difficult.

Accordingly, we consider Vitaco's closest listed comparable companies as being Blackmores which is a major competitor in Vitaco's VDS category, and to a lesser extent Bellamy's, Freedom Foods, Vita Life Sciences, The a2 Milk Company, Synlait Milk and Comvita given their focus on health and wellness and their exposure to China. The implied EBITDA multiples of the identified listed comparable companies are summarised in the table below and set out in more detail in Appendix 5.

**Table 17: Sharemarket evidence**

Company	Country	Market cap (\$m)	EBITDA margin		EBITDA growth <sup>1</sup>		EBITDA multiple <sup>2</sup>	
			LTM		CAGR +3Y		LTM	NTM
Blackmores Limited	Australia	1,970	26.4%		9.6%		12.6	12.6
Bellamy's Australia Limited	Australia	1,276	23.5%		42.7%		21.7	14.2
Freedom Foods Group Limited	Australia	884	12.1%		42.0%		44.3	26.7
Vita Life Sciences Limited	Australia	85	17.7%		n/a		11.7	n/a
The a2 Milk Company Limited	Australia	1,429	15.5%		40.3%		26.7	16.1
Synlait Milk Limited	New Zealand	556	11.4%		11.1%		12.9	9.2
Comvita Limited	New Zealand	399	14.8%		15.5%		18.6	12.4

Source: S&P CapitalIQ (data as at 21 October 2016); KPMG Corporate Finance analysis

Note 1: EBITDA growth (CAGR) is based on broker consensus forecasts over the next three years

Note 2: EBITDA multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for minority interests, preferred equity, plus borrowings less cash) divided by EBITDA

LTM = Last Twelve Months, NTM = Next Twelve Months

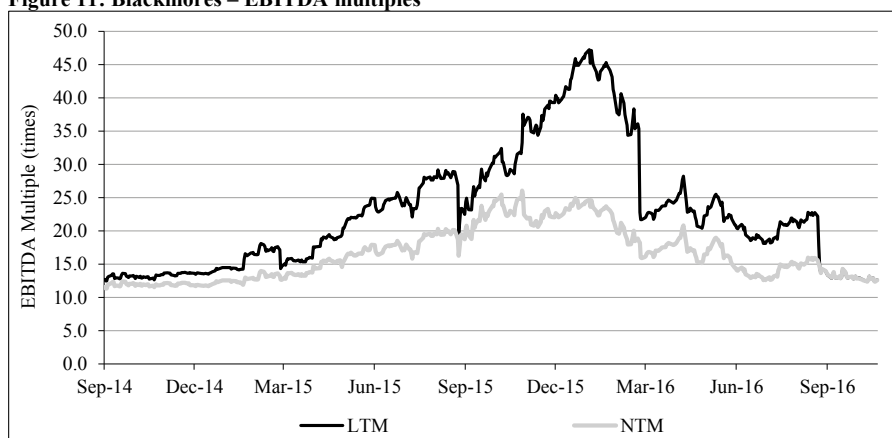
In relation to the trading multiples of the identified listed comparable companies, we note:

- the multiples at which the comparable companies are currently trading are primarily driven by the size, diversification and most importantly the growth prospects of the respective companies
- Blackmores is the most comparable listed company. However, the EBITDA multiples implied by its share price experienced significant volatility over the last two years as illustrated in the figure below.



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**Figure 11: Blackmores – EBITDA multiples**



Source: S&P CapitalIQ; KPMG Corporate Finance analysis

Blackmores is currently trading at an EBITDA multiple of 12.6 times, which is comparable to the levels it was trading at two years ago. However, significant volatility in its trading multiples was experienced over that period, with a strong increase in its multiples in 2015 to highs of around 45 and 25 times LTM and NTM EBITDA respectively, which was primarily driven by highly accelerated growth prospects fuelled by new product developments, such as the Blackmores infant formula brand, and a rising demand for 'clean and green' products from Chinese consumers, combined with the benefits from a depreciating Australian Dollar and the realisation of increased operational efficiencies. The rise in Blackmores growth prospects is also evident in the figure above as the LTM and NTM EBITDA multiple continued to diverge over the course of 2015. However, in 2016, the China growth story was significantly impacted by the introduction of regulatory changes, which created uncertainty in the market and led to sales becoming more volatile. This, combined with the build-up of high inventory levels held by private distributors, led to a significant deterioration of Blackmores growth prospects in the near term, which is reflected in the declining trend in its EBITDA multiples over the course of 2016. The latest correction in its trading multiples was triggered by Blackmores FY16 results release on 24 August 2016, when its share price fell approximately 19% driven by an earnings outlook that failed to meet market expectations

- listed peers with strong exposure to the health and wellbeing market in China typically have significantly higher growth prospects and as a result higher EBITDA multiples, relative to those that have limited or no exposure. This is evident through the EBITDA broker consensus forecasts (3-year CAGR) for Bellamy's, Freedom Foods and The a2 Milk Company of 42.7%, 42.0% and 40.3% respectively
- The a2 Milk Company's LTM EBITDA margin is lower relative to its peers. Whilst we recognise The a2 Milk Company is entering the Chinese market, as well as owning the intellectual property in relation to the process in developing a2 milk, they are also embarking on a broader international expansion strategy, which includes entry into the UK and the US market. Execution of this strategy

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would require significant short term operational expenses in order to establish a presence within these markets, which impacts upon short term margins. The multiples at which The a2 Milk Company is currently trading are supported by continued takeover speculation after a recently rejected takeover attempt from Freedom Foods (The a2 Milk Company's largest shareholder) and US dairy group Dean Foods Company

- whilst Vita Life Sciences produces a product range that is highly comparable to Vitaco's range, Vita Life Sciences is significantly smaller in size relative to its listed peers, with a market capitalisation below \$100 million. Additionally, whilst Vita Life Sciences is exposed to the Asian market, with Malaysia and Singapore contributing over 50% of its total sales, it has yet to establish a direct distribution platform in China. As such, we would expect Vita Life Sciences to trade at a discount relative to its listed peers, which is evident in its lower LTM EBITDA multiple of 11.7 times
- Synlait Milk is a specialised dairy company that focuses upon manufacturing milk based ingredients and nutritional milk powders. It also supplies key milk based ingredients for a number of dairy companies, including The a2 Milk Company, which recently entered into a 5 year supply agreement with Synlait Milk to produce the a2 Platinum infant formula product. Whilst Synlait Milk will also benefit from the 'clean and green' thematic and growing demand from Chinese consumers, its growth prospects are lower than those attributed to most of its peers. Further, its positioning in the value chain exposes Synlait Milk to more primary commodity risk and hence volatility in earnings. Therefore, we would expect Synlait Milk to trade at a discount to its listed peers as evident in its relatively lower NTM EBITDA multiple of 9.2 times
- Comvita has a strong brand recognition in China, via Tao Bao (#1 honey brand) and T-Mall (#2 honey brand), has a diverse range of products (including table top honey, medicinal honey products, products using raw materials made by honey bees), and has recently entered into a joint venture with a long term distribution partner in China to enhance its distribution platform in this market. Comvita's EBITDA multiples are at the lower end of the range of its listed peers, reflecting amongst others its relatively lower growth prospects in the short to medium term, which has been confirmed by management's recent announcement that the business would require an additional year (to 2021) to achieve its long term revenue target of NZ\$450 million.

### *Transaction evidence*

The price paid in transactions is widely considered to represent the market value of a controlling interest in the target company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. The quantum of this premium will vary dependent on the specific circumstances of each transaction, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

Recently there has only been one sizeable transaction completed in the Australian nutrition, health and wellness industry, being the acquisition of Swisse. However, this transaction provides a highly relevant reference point in the valuation of Vitaco. Other transactions observed within this industry in Australia primarily involve small privately held businesses and, as a consequence, the information available regarding these transactions is limited. Therefore, we have also considered recent transactions involving

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sizeable international businesses operating in the nutrition, health and wellness industry, although these multiples will be influenced by the market outlook in the countries they operate, as well as other company specific factors.

The table below sets out the EBITDA multiples implied by recent transactions that involved companies operating in the nutrition, health and wellness industry within Australia and internationally, for which sufficient financial data is publicly available.

**Table 18: Transaction evidence**

Close Date	Acquirer	Target	Percentage acquired	Transaction value (\$m) <sup>1</sup>	EBITDA multiple LTM <sup>2</sup>	NTM <sup>3</sup>
<b>Australia</b>						
May-16	Blackmores Limited	Global Therapeutics Pty Ltd	100%	23.0	7.7	n/a
Sep-15	Biostime Healthy Australia Pty	Swisse Wellness Pty Ltd.	83%	1,746.9	15.5	n/a
Jul-12	Blackmores Limited	FIT-BioCeuticals Ltd.	100%	40.0	8.7	n/a
<b>International</b>						
Feb-14	Consortium led by Permira Funds	Atrium Innovations Inc.	100%	1,073.7	11.0	9.9
Dec-12	Reckitt Benckiser LLC	Schiff Nutrition International	100%	1,352.8	29.4	21.6
Nov-12	Nestlé S.A.	Pfizer Nutrition Inc.	100%	11,367.1	23.7	15.6 <sup>4</sup>
Oct-12	Church & Dwight Co. Inc.	Avid Health, Inc.	100%	627.8	11.2	n/a
Feb-11	Koninklijke DSM N.V.	Martek Biosciences Corp	100%	1,073.3	9.3	8.4
Oct-10	The Carlyle Group LP	NBTY, Inc.	100%	3,726.3	7.2	8.0

Source: Company financial statements and announcements; S&P CapitalIQ; KPMG Corporate Finance analysis

Note 1: Transaction value refers to enterprise values as of the date of completion

Note 2: LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

Note 3: Based on EBITDA broker consensus forecasts for the twelve months following the transaction announcement date

Note 4: Sourced from Nestlé's investor presentation on the acquisition, representing a NTM EBITDA multiple post expected run rate of synergies

Each of the above transactions is described in Appendix 5.

Whilst the business operations of the target companies are broadly comparable to those of Vitaco, in assessing the comparability of the implied multiples it is necessary to consider the particular attributes of the target companies and the specific circumstances surrounding each transaction, including:

- *the size of the business.* The transactions relating to Global Therapeutics Pty Ltd and FIT-BioCeuticals Ltd. were significantly smaller in size and less diversified relative to the other transactions. These transactions were executed at historical multiples of between 7.7 and 8.7 times EBITDA, which are at the low end of the implied EBITDA multiples observed for comparable transactions. It is evident that larger businesses typically attract higher multiples largely due to the benefits associated with greater scale and diversification, and a stronger market position supported by leading brands within a highly fragmented and competitive industry
- *the growth prospects of the business.* In circumstances where the growth prospects of the target are relatively strong, the transaction multiple will tend to be higher, and vice versa. During recent years, the organic growth prospects for businesses operating in emerging markets have tended to be favourable relative to businesses operating in fairly mature developed markets. The targets with the largest exposure to emerging markets were Pfizer Nutrition Inc. and Swisse, and the associated favourable growth outlook for emerging markets was reflected in their historical EBITDA multiples

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of 23.7 and 15.5 times respectively, which are at the high end of the implied EBITDA multiples observed for comparable transactions

- *the level of synergies available to the acquirer.* In transactions where it was expected that the combined entity would be able to achieve substantial synergies, takeover premiums, and consequently implied EBITDA multiples, are likely to be higher. This is evident in Nestlé's acquisition of Pfizer Nutrition, where substantial synergies were expected to be realised as indicated by its significantly lower implied NTM EBITDA multiple of 15.6 times (relative to its implied LTM EBITDA multiple of 23.7 times), which in addition to high growth expectations also reflected the expected run rate of synergies. On the other hand, NBTY Inc. was acquired by a financial buyer whose ability to realise synergies is typically limited, which among other factors is reflected in the relatively low historical EBITDA multiple of 7.2 times implied by this transaction
- *the prevailing economic conditions when the transaction was undertaken.* The transactions in relation to NBTY Inc. and Martek Biosciences Corporation occurred at a time when the impact of the Global Financial Crisis was still reflected in the slow recovery of global sharemarkets and the depressed earnings growth prospects of listed companies, as evidenced by the deterioration in earnings expected for NBTY Inc. at the time (NTM multiple higher than LTM multiple). These transactions were executed at historical multiples of between 7.2 and 9.3 times EBITDA, which are at the low end of the implied EBITDA multiples observed for comparable transactions
- *the competitive tension in the sales process.* Bayer HealthCare LLC initially signed a merger agreement to acquire Schiff Nutrition International, Inc. at a price of US\$34 per share in cash before Reckitt Benckiser LLC stepped in with an offer to acquire all of the outstanding shares of Schiff Nutrition International, Inc. at a price of US\$42 per share in cash, 23.5% higher than the initial offer, which partly explains the high multiples recorded for this transaction. Irrespective of the competitive tension in this sales process, the higher multiples were also supported by the strong growth prospects attributed to Schiff Nutrition International, Inc. at the time
- *the level of vertical integration.* Avid Health, Inc. and Martek Biosciences have substantial in-house manufacturing capabilities, which results in better EBITDA margins relative to the other target companies, but at a cost of higher capital expenditure intensity which was likely a contributing factor to the lower EBITDA multiples recorded for these transactions.

### *Selection of an appropriate multiple*

#### ***Company specific considerations***

In determining an appropriate EBITDA multiple for Vitaco, it is necessary to consider the specific attributes of the business being valued. In this regard, we note:

- Vitaco is more diversified than most of its closest listed peers. The diversification of its brand portfolio across product categories, sales channels and geographies provides the advantage of a more balanced earnings and risk profile, which contributes to lower levels of volatility in earnings. However, whilst Vitaco's exposure to sports nutrition and health foods is attractive, on face value these categories do not provide the same growth opportunity that its VDS category offers in China



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- Vitaco's vertically integrated business model with ownership of manufacturing facilities provides a meaningful strategic advantage and mitigates some of the value chain risk which could impact the 'clean and green' thematic that is driving demand particularly from China. However, the margin benefits obtained from the insourcing of product manufacturing are partly offset by higher capital expenditure intensity, which is not captured within EBITDA and therefore would justify a lower multiple relative to competitors which outsource more of their manufacturing (all else being equal)
- Vitaco is well-positioned to capitalise on favourable long term industry fundamentals, such as increasingly health and wellness focused consumers, growing sports participation and gym attendance rates, an ageing population as well as growing demand from Chinese consumers. Key factors contributing to Vitaco's long term growth prospects include its:
  - portfolio of well-established and trusted consumer brands, a number of which hold market leading positions within their specific targeted channels to market. Although, Vitaco is underrepresented in the Australian VDS market, with a relatively small market share and competing against two dominant players in Blackmores and Swisse
  - proven new product development capability, which is a key driver of growth as it ensures a differentiated and premium quality product offering
  - 'clean and green' credentials attributed to Vitaco's manufacturing footprint in New Zealand, which appears to be a key driver for the growing demand from Chinese consumers
  - established international distribution platform with leverage to high growth international markets, though its presence in China is less developed than the platforms established by most of its closest peers.
- however, as evidenced by brokers' consensus forecasts, Vitaco's earnings growth prospects over the short term are less favourable than those attributed to its closest listed peers. This is primarily driven by an increased investment in operating and capital expenditure required to pursue the strategic initiatives that Vitaco identified to address the current weaknesses in its business, including:
  - increased consumer marketing costs and increased headcount to support growth in China. Whilst Vitaco remains positive about the long term prospects for its brands in China, sales are expected to be volatile in the near term due to the continued regulatory uncertainty in China and the evolving sales model adopted
  - greater marketing support for key brands across the New Zealand and Australian markets to strengthen Vitaco's market position within its highly competitive core traditional markets
  - increased investment in developing and growing its supplements position within the Australian pharmacy channel, which may also cannibalise the earnings derived from its traditional target channels within this category.

#### ***Control premium considerations***

When assessing the available market information to determine a value for Vitaco on a controlling interest basis, it is necessary to consider an appropriate control premium to apply. We consider an appropriate

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control premium for Vitaco to concentrate around the 20% to 35% range (on an equity value basis) typically observed in successful takeovers in Australia, having regard to:

- the level of pure control premium considered to be appropriate in respect of the acquirer's ability to utilise full control over the strategy and cash flows of Vitaco
- the level of general synergies available to all acquirers, such as the removal of costs associated with Vitaco being a listed entity and/or costs related to duplicated head office functions
- the fragmented nature of the nutrition, health and wellness industry, which is characterised by a large number of competitors, most of which are smaller than Vitaco and privately held
- the strategic importance of Vitaco within its competitive market environment, as a sizeable industry participant with leading brands, a diversified product offering, vertically integrated business model and an established international distribution platform which can leverage the 'clean and green' credentials attributed to Vitaco's manufacturing footprint in New Zealand
- the control premiums observed for the identified international comparable transactions involving listed target companies, which were not inconsistent with our adopted 20% to 35% range (on an equity value basis), when considering the prevailing economic conditions at the time of the respective transactions, the level of specific synergies available to the acquirer, and treating the Schiff Nutrition International transaction as an outlier due to the competitive tension in the sale process
- the current ownership structure of Vitaco, which is not expected to constrain the level of control premium considered to be appropriate in valuing Vitaco on a controlling basis.

#### ***Consideration of market evidence***

Multiples based on share prices of listed comparable companies reflect the value of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control.

Based on the sharemarket evidence derived from listed comparable companies operating in the nutrition, health and wellness industry in Australia and New Zealand, the following considerations are relevant in determining an appropriate EBITDA multiple for Vitaco's business operations:

- Blackmores is the most comparable listed company as it is a major competitor to Vitaco in its VDS category (which accounted for 47% of Vitaco's pro forma net revenue in FY16), and also offers an established international distribution platform particularly in China. Blackmores is currently trading at an implied EBITDA multiple of 12.6 times which is the same on an LTM and NTM basis, indicating that brokers expect Blackmores' earnings to consolidate around current levels over the next twelve months, primarily driven by the experienced slowdown in the growth of its China business and the expectation that this market will remain volatile as regulatory uncertainty persists. Whilst Vitaco faces similar challenges and a comparable growth outlook over the short to medium term, Blackmores is significantly larger in size, generates higher margins, benefits from a superior market position in the Australian VDS market (through its relationship with Chemist Warehouse), and offers a better brand recognition and penetration in China. Accordingly, we would expect Vitaco to trade at a discount to Blackmores, albeit we believe these factors should be partially offset by Vitaco's more balanced earnings and risk profile which is supported by its more diversified and vertically integrated business model

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- Vita Life Sciences also provides a relevant reference point for Vitaco given their similarities in terms of diversified product offering (with exposure to both the VDS and SN category), geographical diversification (with Australia as the largest revenue contributor, whilst Vita Life Sciences also has a large presence in Malaysia and Singapore, but only small exposure to China), and near term growth prospects as indicated by the company's guidance. Vita Life Sciences is currently trading at an implied LTM EBITDA multiple of 11.7 times, however, given Vitaco's larger size, vertically integrated business model, and superior brand recognition and penetration in China, we would expect Vitaco to trade at a premium to Vita Life Sciences
- the other listed peers are less comparable, particularly in terms of their larger size, significantly higher growth prospects and larger exposure to China, which justifies the significantly higher multiples they are currently trading at.

The price paid in transactions is widely considered to represent the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control.

Based on the market evidence derived from transactions involving companies operating in the nutrition, health and wellness industry, the following considerations are relevant in determining an appropriate EBITDA multiple for Vitaco's business operations:

- Biostime's acquisition of Swisse is the most recent and relevant comparable transaction for Vitaco given their similarities in terms of diversified product offering (with exposure to both the VDS and SN category), brand recognition and geographical diversification (with Australia as the largest revenue contributor). However, Swisse is significantly larger in size and has a larger penetration of the China market, which translates into superior growth prospects<sup>10</sup>. Accordingly, we would expect the multiple selected for Vitaco to be at a discount to the multiple implied by the Swisse transaction, albeit we believe these factors should be partially offset by Vitaco's more balanced earnings and risk profile which is supported by its more diversified and vertically integrated business model. The LTM EBITDA multiple implied in the Swisse transaction was 15.5 times
- the other transactions identified in the Australian market (for which sufficient information was publicly available to calculate a multiple) are less comparable due to their significantly smaller size, less diversified product portfolio and lack of international distribution platform, which justifies the significantly lower multiples recorded for these transactions
- the multiples recorded for the identified international transactions are useful to identify and analyse the key underlying value drivers (as discussed earlier in this section), but cannot provide further relevant guidance in selecting an appropriate multiple for Vitaco's business operations. This reflects our assessment that the multiples recorded for the identified international transactions are either significantly higher (driven by superior growth prospects and synergy expectations) or significantly lower (driven by a lack of exposure to higher growth markets and the prevailing economic conditions

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<sup>10</sup> As evidenced by the 34.9% growth in revenue reported by Biostime for Swisse for the six months ended 30 June 2016 relative to the prior corresponding period (source: Biostime's half year report as at 30 June 2016).



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at the time) than what we consider to be an appropriate multiple for Vitaco when considering the specific attributes of its business operations.

#### ***Selected multiple range***

On balance, having regard to the factors detailed above, and including a premium for control, we consider an appropriate LTM EBITDA multiple for Vitaco's business operations to be in the range of 13.5 to 14.5 times.

### **8.4 Adjusted net debt**

Vitaco's adjusted net debt for valuation purposes is \$38.5 million as set out in the table below.

**Table 19: Adjusted net debt**

<b>\$ million</b>	<b>30-Jun-16</b>
Total debt	46.4
Less: Cash at 30 June 2016	(9.9)
Cash adjustment for payment of Final Dividend	4.1
Cash adjustment for share options to be exercised	(2.1)
<b>Adjusted net debt</b>	<b>38.5</b>

*Source: Vitaco Annual Report 2016, KPMG Corporate Finance analysis*

In relation to the adjustments applied to Vitaco's net debt position as at 30 June 2016, we note:

- *cash adjustment for payment of Final Dividend.* We have adjusted Vitaco's cash balance as at 30 June 2016 for the payment of the Final Dividend on 30 September 2016 in order to enable a like-for-like fairness assessment, as the total consideration to be received by Vitaco Shareholders under the Scheme is net of the Final Dividend
- *cash adjustment for share options to be exercised.* In calculating the value per Vitaco Share, we have applied the total number of fully diluted shares on issue in accordance with the terms of the Scheme, i.e. Vitaco must take the appropriate action as is necessary after the Effective Date of the Scheme and prior to the Record Date to ensure that all outstanding share options and performance rights which have not already been exercised or have not already vested do vest or are exercised. As at 22 August 2016, there were 1,000,918 share options outstanding at an exercise price of \$2.10, which were included in the calculation of the total number of fully diluted shares on issue and for which we have incorporated the proceeds to be received by Vitaco from the exercise price as a cash (and ultimately net debt) adjustment in our valuation.

### **8.5 Other considerations**

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. Based on our discussions with Vitaco management, we are not aware of any material surplus assets or liabilities that require consideration in our valuation of Vitaco.



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## **8.6 Valuation cross-check**

### **8.6.1 High-level DCF analysis**

A DCF approach is widely used in the valuation of established businesses. However, apart from a medium term strategic plan, we have not been provided with a detailed financial model from which an in-depth, value driver based DCF analysis could be undertaken. Further, given the current regulatory uncertainty in China, considerable judgement is required in estimating future cash flows associated with Vitaco's growth strategy in China. This may reduce the robustness of any results derived from a DCF analysis as evidenced by the wide range and volatility in broker forecasts for Vitaco. Whilst we have not utilised a DCF approach as our primary valuation approach, we have undertaken a DCF analysis based on the company's strategic plan as a cross-check.

For this purpose, a high-level financial model has been developed by KPMG Corporate Finance that allows the key drivers of value to be modelled. The model is based on a number of key assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of Vitaco. A number of different scenarios have been analysed to reflect the impact on value of various key assumptions relating to revenue growth, operating margins, capital expenditure and other factors, including synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Vitaco.

We have utilised the company's strategic plan as a basis for our high-level DCF analysis and made adjustments to reflect our judgement on certain matters. The key assumptions underlying our high-level DCF analysis include:

- nominal, ungeared post tax cash flow forecasts have been discounted using a weighted average cost of capital (WACC), resulting in an equity value for Vitaco (on a controlling interest basis) after deducting Vitaco's adjusted net debt position
- the cash flow forecasts comprise an explicit forecast period of 10 years (based on an extrapolation of the company's strategic plan) and a terminal value assumption thereafter (based on a Gordon Growth Model)
- revenue to grow at a CAGR of approximately 8.9% over the explicit forecast period, supported by Vitaco's strategic initiatives including increased investment in developing and growing its supplements position within the Australian pharmacy channel and its international distribution platform, particularly in China
- EBITDA margin to increase from 11.2% in FY16 to approximately 14.5% over the explicit forecast period, driven by increased economies of scale and Vitaco's strategic initiatives to improve its operating leverage through a better utilisation of its manufacturing capacity
- an allowance for general synergies in the form of \$1.5 million per annum in cost savings associated with being a listed company, which we would expect to be available to more than one potential purchaser (or a pool of potential purchasers) of Vitaco

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- a long term capital expenditure to sales ratio of approximately 1.7%. In the short term, additional one-off capital expenditure to be incurred in relation to Vitaco's strategic initiatives, particularly those associated with improving its operating leverage
- working capital requirements to grow at a rate of approximately 2.7% of net revenue to support the assumed growth in Vitaco's operating business
- effective corporate tax rate of 29% for Vitaco on a consolidated basis
- terminal growth rate of 3.0%
- discount rate (WACC) in the range of 8.5% to 9.5% as detailed in Appendix 6.

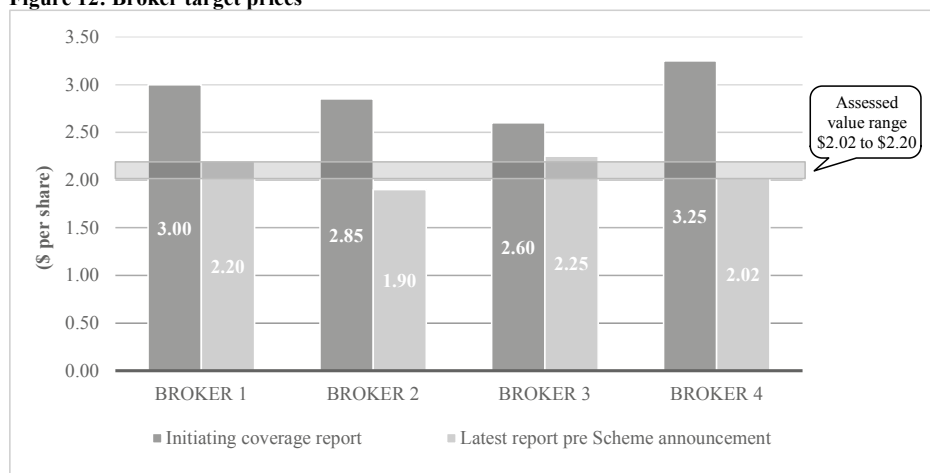
Our DCF analysis assumes that the business operates on an "as is" basis, with no major changes to the competitive and regulatory environment.

The resultant value range under our high-level DCF analysis supports our assessed valuation of Vitaco derived from our primary Capitalised Earnings methodology and therefore we consider our valuation of Vitaco to be appropriate.

## 8.6.2 Comparison to broker target prices

As a final valuation cross-check, we have compared our assessed valuation range for Vitaco Shares to broker target prices prior to the announcement of the Scheme. This comparison is illustrated below.

**Figure 12: Broker target prices**



Source: Broker reports, KPMG Corporate Finance analysis

Note: One of the five brokers that are covering Vitaco has not provided any target prices to date.

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With regard to the above comparison, we note:

- we have focussed our analysis on the broker reports available prior to the announcement of the Scheme, as broker reports that are released subsequent to an announcement of a scheme typically tend to align their target prices with the consideration offered under the scheme
- we have also included the initial target prices released by brokers as part of their initiating coverage reports associated with the listing of Vitaco on the ASX to illustrate that brokers have significantly reduced their target prices (on average by approximately 28%) since then
- the target prices available prior to the announcement of the Scheme ranged from \$1.90 to \$2.25, with a mean and median of \$2.09 and \$2.11 respectively
- at its closing price of \$1.76 on the day prior to the announcement of the Scheme, Vitaco was trading below all broker target prices. However, it is noted that the target prices represent forward looking twelve month targets
- post announcement of the Scheme, share prices of key competitors, particularly Blackmores, have fallen significantly due to the increased uncertainty in China and the associated deterioration in the near term growth outlook, which was also reflected in the results release and guidance provided by Vitaco on 30 August 2016. These events are not reflected in the broker target prices noted above. Accordingly, we would have expected broker target prices for Vitaco to be further revised downwards in the absence of the Scheme to reflect the deterioration in its earnings outlook. Whilst to-date only one broker has released an updated report post Vitaco's results release on 30 August 2016, this broker downgraded its EBITDA forecast for Vitaco by approximately 5% over the next three years
- broker target prices reflect the forward looking value of a share on a minority basis and therefore, an appropriate premium for control needs to be included when comparing broker target prices to our assessed value range per Vitaco Share.

We do not consider the broker target prices available prior to the announcement of the Scheme to be inconsistent with our assessed value range per Vitaco Share, when taking into account the forward looking nature of the target prices, the recent deterioration in Vitaco's earnings outlook and the offsetting effect from including a control premium.



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## **Appendix 1 – KPMG Corporate Finance Disclosures**

### *Qualifications*

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Sean Collins and Ian Jedlin. Each has a significant number of years' experience in the provision of corporate financial advice including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

### *Disclaimers*

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Scheme is in the best interests of Vitaco Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Vitaco Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Scheme Booklet or any other document prepared in respect of the Scheme. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole or other documents prepared in respect of the Scheme.

We note that the forward-looking financial information prepared by Vitaco does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

### *Independence*

KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Vitaco for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

### *Consent*

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Scheme Booklet to be issued to the shareholders of Vitaco. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

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## **Appendix 2 – Sources of information**

In preparing this report we have been provided with and considered the following sources of information:

### *Publicly available information:*

- the Scheme Booklet (including earlier drafts)
- the Scheme Implementation Deed released to the ASX on 4 August 2016
- Annual Report of Vitaco for the 15 month period ended 30 June 2016
- Vitaco's IPO Prospectus dated 4 September 2015
- press releases, public announcements, media and analyst presentations material and other public filings by Vitaco, including information available on the company's website
- brokers' reports and recent press articles on Vitaco
- security market data and related information regarding listed companies engaged in the nutrition, health and wellness industry and on acquisitions of companies and businesses in this industry
- financial information from S&P Capital IQ, Bloomberg, ThomsonONE and Connect4.

### *Non-public information*

- Board papers, presentations, working papers and other confidential documents of Vitaco.

In addition, we have held discussions with, and obtained information from, the senior management of Vitaco and its advisors.



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## **Appendix 3 – Nutrition, health and wellness industry overview**

### **Industry overview**

Vitaco is a major producer of products within the nutrition, health and wellness industry, with exposure to a range of industry channels and consumer categories as described in section 7.2 of this report. Consumer awareness in relation to the ingredients used in the production of foods, along with more widespread use of supplements and vitamins, have led to sustained growth in the market in the decade to 2016. It is anticipated that there will continue to be strong growth prospects in the industry, particularly due to the maturing of markets in developing countries (such as the development of Asian markets) and a shift in consumer tastes in developed markets towards healthier food and beverage products.

In order to provide context with regard to the current economic and industry factors relevant to Vitaco, we have provided an overview of the nutrition, health and wellness industry with considerations specifically to the market in Australia, New Zealand, and at a higher level in the international environment. We have had specific regard to the industry categories that Vitaco operates within, being:

- *Vitamins and dietary supplements.* The vitamins and dietary supplements category comprises vitamins, minerals, herbs and specialty supplements. These products will typically compete either upon price, if the products are simple with limited proprietary or intellectual value, or on complex formulas which have been scientifically proven to improve health outcomes.
- *Sports and active nutrition.* The sports nutrition category includes products used by professional and amateur athletes, as well as a broader base of consumers with an interest in physical fitness, sporting performance and weight management. Products within this category include protein based products in three distinct formats: bars, powders, and drinks (including RTDs). The category also includes non-protein products such as pre-workout, energy, mass gainers and amino acid supplements.
- *Health and wellness, including packaged foods.* This category encompasses a diverse range of products, including 'better for you' products, 'free from' products, food intolerance products and organic products. The analysis of this category includes particular focus on packaged food, as Vitaco specifically operates in this category.

### **Key drivers**

The key drivers across the broader industry relate to the increased awareness of health related issues by consumers, including concerns as to the positive and negative ingredients contained in foods, and the influence of individual vitamins and ingredients to achieve improved health outcomes.

The ageing population in both Vitaco's core markets of Australia and New Zealand, and also in other international markets, has led consumers to become more health conscious. Consumers seeking both preventative health outcomes, along with increasing consumption of supplements by a larger market of older age consumers, has led to a sustained growth in the industry. Further to this, consumers are

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becoming increasingly self-reliant<sup>11</sup>, seeking alternative information sources for health advice, such as the internet, and looking to purchase more holistic and broadly 'healthy' food.

In analysing the industry we have had specific regard to the category thematics Vitaco is exposed to, and have analysed each category as follows:

#### *Vitamins and dietary supplements*

The vitamins and dietary supplements category has grown as a result of strong customer interest in traditional products, along with increasing interest in new products which are regularly introduced to the market. Brands typically compete in this category on two core themes: complex formulations and price.

Brands that compete in complex formulations typically develop sophisticated proprietary formulas that are unique and held as valuable intellectual property. These products are typically marketed as niche vitamins and supplements that provide beneficial health outcomes to specific deficiencies and are higher margin products. Alternatively, products focused on simple formulas and ingredients are increasingly becoming commoditised and thus, price sensitive. The commoditisation of these products has resulted in market participants having difficulty differentiating basic products that address a consumers health needs, such as omega 3, vitamin D or lutein<sup>11</sup>.

Key considerations in the vitamins and dietary supplements category include:

- *Competitive environment.* The Australian and New Zealand vitamins and dietary supplements category is relatively fragmented and competitive. In Australia, Swisse Wellness and Blackmores are the market leaders, whilst in New Zealand, Bayer New Zealand is the second largest market participant after Vitaco.
- *Brand positioning.* With the increasing prominence of eCommerce, simple vitamins with no proprietary formulas has seen a diminishing of brand loyalty, both domestically and internationally. Thus, the development and manufacture of proprietary products, will generally provide a basis for a strong market branding position.
- *Industry threats.* The domestic industry is characterised by key threats from internationally licenced retailers with strong market share globally and the dominant position retailers hold, in particular within the pharmaceutical channel. Multinational brands often design and licence proprietary formulas to licenced third party producers, exposing them to changes in licence pricing. The Australian pharmacy industry is highly fragmented, with a significant number of individual 'pharmacist owned' pharmacies. However the industry is dominated by Chemist Warehouse, with an estimated market share of 25%<sup>12</sup>. With such strength in the market, Chemist Warehouse is able to

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<sup>11</sup>Cashing in on the booming market for dietary supplements, McKinsey and Company *Consumer and Shopper Insights*, December 2013.

<sup>12</sup> <http://www.smh.com.au/business/how-chemist-warehouse-put-swisse-blackmores-under-pressure-from-healthy-care-20160511-gos97z.html>, How Chemist Warehouse put Swisse, Blackmores under pressure from Healthy Care, Simon Evens, 11 May 2016.



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command material market power over its suppliers. Both of these issues pose core threats to manufacturers and vitamin wholesalers.

- *Regulatory environment.* Businesses in the category are regulated by the Therapeutic Goods Administration (TGA) in Australia and the Natural Health and Supplementary Products Authority in New Zealand. These bodies are responsible for the regulation over the development and sale of health and wellness products in their respective marketplace, and have the authority to set health standards over the market. Changing standards are a core risk to market participants, as is the failure to maintain quality standards.

#### *Sports and active nutrition*

The Australian and New Zealand sports and active nutrition markets are some of the largest in the world, on a per capita basis, as consumers are well informed and aware of the benefits of a high protein diet with moderate carbohydrate intake. As such, these marketplaces are sophisticated, with products differentiated based on quality, and increasingly, the specific type of nutrition required by the consumer (including muscle bulking, weight loss, and body shaping).

Given the large and well-educated marketplace, the category has recently focused on the development of mass market products aimed at a more generalised market, rather than specific bulking products that are common in the international marketplace. This is evidenced in the increasing relevance and sale of sports bars and RTD protein products in the domestic market, which has led to growth in the sub-categories, with increasing investment and new product development in products such as weight management and sports performance, in place of traditional products aimed at simple muscle mass development.

Key considerations in the sports and active nutrition category include:

- *Competitive environment.* The Australian sports nutrition market is relatively fragmented, with Vitaco (including Musashi) and Nutrition Systems, an importer of sports nutrition products through a large portfolio of brands, the two largest providers in the Australian market place. Other market participants each make up a relatively small share of the market, with consumers increasingly purchasing sports nutrition products from niche and specialist businesses, to focus on their individual needs. In New Zealand, Vitaco and Etika (Horley's), the two largest market participants, hold over a third of the market share.
- *Brand positioning.* Consumers are likely to develop loyalty to specific sports and active nutrition brands. Brands typically compete based on the perception of product quality. As such, professional athletes are more likely to invest in high quality sports nutrition products, while amateur sports professionals and sporting enthusiasts are less likely to invest in high quality products. Brand loyalty is also developed in the tailoring of products towards specific customer needs and nutritional objectives.
- *Industry threats.* Sports nutrition is heavily dependent on dairy suppliers for the manufacture of milk powder and milk products that are used in the development of both protein powders, and RTD products. In Australia, the milk processing market is highly concentrated with 84.4% of industry revenue generated by its three largest participants Murray Goulburn (42.5%), Fonterra (30.9%) and

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Warrnambool Cheese and Butter (11.0%)<sup>13</sup>. Given the consolidated nature of the milk processing industry, each supplier maintains significant power over manufacturers who use processed milk products.

- *Industry drivers.* Increasingly health conscious and knowledgeable consumers are a key growth target in both the Australian and New Zealand domestic markets, as well as the international markets. The strong market perception of quality health products and powdered milk produced in Australia and New Zealand has supported the recent growth seen in the marketplace, and this trend is likely to continue in the future.
- *Regulatory environment.* Similarly to vitamins and other supplements, sports and active nutrition products are regulated by the TGA, though to a lesser degree, as the body provides limited guidance and regulation around the health impacts and composition of sports nutrition products. As sports nutrition supplements predominantly fall into the potion and powder category (including protein powders and drinks), they predominantly fall into the 'listable' items category<sup>14</sup>, which requires that they do not contain products that are banned by customs laws.

#### *Health and wellness foods, including packaged foods*

Health and wellness food consumption has grown steadily over the past decade as consumers today have a better understanding of the ingredients that are within the food they eat, an increased interest in their own health and wellbeing and are increasingly concerned with the environmental impact from the development, production and manufacturing of food products.

More broadly, consumers are increasingly motivated to purchase packaged and 'ready to eat' products that are healthy and compliment their busy schedules. As such, a range of packaged foods have been developed to meet consumer needs by offering products that have reduced quantities of ingredients with negative health impacts, such as salts, fats and sugars.

Key considerations in the health and wellness foods (including packaged foods) category include:

- *Competitive environment.* The health and wellness foods category is highly fragmented in Australia and New Zealand, with Lion Pty Ltd the largest participant in the Australian market, whilst Goodman Fielder holds the leading market share in New Zealand.
- *Industry threats.* Health and wellness foods traditionally have a degree of revenue volatility, as consumers rapidly switch to products that are more fashionable, or may be perceived to have specific health benefits. The rise of diets that include health and wellness foods, such as the paleo diet in the Australian market, may temporarily support growth in particular products in the industry, however it is unlikely to support sustained growth in the industry as a whole.
- *International markets.* Australian and New Zealand exports are over represented in the international food market, relative to their size, which is partly due to the positive perception of products produced in the region. While historically Australia has maintained strong export links with North America and

<sup>13</sup>Milk Powder Manufacturing in Australia, IBIS World, February 2016.

<sup>14</sup>Australian Sports Commission, Supplements in Sport FAQ, May 2014.



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Europe, there has been sustained growth in the export of Australian health and wellness foods to developing markets in Asia, particularly China.

- *Regulatory environment.* Despite limited government regulation in excess of traditional food regulation in both Australia and New Zealand, the market is self-regulated through industry certification bodies, including the 'Australian Organic' certification body, and the New Zealand certification body, BioGro. These bodies ensure a base level of conduct and control in the production of food that can be sold using organic labels and brand signatures. Snacking labels are encompassed by these self-regulation bodies, and can choose to seek certified organic status for their products.

### **Industry outlook**

The key themes shaping the outlook of the nutrition, health and wellness industry include:

- *eCommerce.* Consumers in both domestic and international markets are increasingly making purchases through internet based product providers. Traditional sales channels, which have typically included sales teams and local distributors, have altered over time, with an increasing portion of sales originating from online sales platforms. This has been particularly influential for international sales, with businesses in Australia and New Zealand being able to grow international sales by selling their products through global eCommerce sites, such as Alibaba and JD Worldwide.
- *Market volatility.* Changing consumer trends, including rapidly fashionable 'fad' diets, and the rapid development of new products is likely to lead to continued market volatility going forward. This is likely to result in new product development being a key competitive advantage in the industry.
- *Growth in international markets.* The maturing of tastes in developing economies, particularly China, is expected to lead to future growth in the global nutrition, health and wellness industry. Short term factors, including the opening of free trade zones with China, and a lower Australian dollar are likely to continue to support growth in the industry.
- *Industry consolidation.* As a result of the highly fragmented nature of the nutrition, health and wellness industry, key market players have supported sales growth with bolt on acquisitions. Industry consolidation is expected to continue going forward, leading to industry players with greater market share and stronger industry influence.
- *Industry reputation.* With Australia and New Zealand's reputation as a 'clean and green' producer of high quality nutrition, health and wellness products, any diminishing brand reputation, which may arise from product quality issues, that result in product liability claims and recalls, may adversely affect the outlook for the industry. It is therefore critical for industry players to weight up the benefits of outsourced versus in-house manufacturing which provides better control over product quality.
- *Industry regulation.* With both domestic and international governing bodies overseeing the industry, any regulatory uncertainty or changes in guidance or regulation provided by any of these bodies may negatively impact on the industry. The draft regulatory changes in relation to the importation of health food products into China released by the China Food and Drug Administration in late 2015 created uncertainty and volatility for the near term outlook of exports into China from the Australian and New Zealand health food industry, highlighting the risk, and potential impact, of regulatory change.

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## **Appendix 4 – Overview of valuation methodologies**

### *Capitalisation of earnings*

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

### *Discounted cash flow*

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

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In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

#### *Net assets or cost based*

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

#### *Enterprise or equity value*

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.



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## Appendix 5 – Market evidence

### Sharemarket evidence – Nutrition, health and wellness industry

The table below summarises selected trading multiples of listed companies that are broadly comparable to Vitaco.

**Table 20: Sharemarket evidence**

Company	Country	Market cap (\$m)	EBITDA margin		EBITDA growth <sup>1</sup>		EBITDA multiple <sup>2</sup>	
			LTM		CAGR +3Y	LTM	NTM	
Blackmores Limited	Australia	1,970	26.4%		9.6%	12.6	12.6	
Bellamy's Australia Limited	Australia	1,276	23.5%		42.7%	21.7	14.2	
Freedom Foods Group Limited	Australia	884	12.1%		42.0%	44.3	26.7	
Vita Life Sciences Limited	Australia	85	17.7%		n/a	11.7	n/a	
The a2 Milk Company Limited	Australia	1,429	15.5%		40.3%	26.7	16.1	
Synlait Milk Limited	New Zealand	556	11.4%		11.1%	12.9	9.2	
Comvita Limited	New Zealand	399	14.8%		15.5%	18.6	12.4	

Source: S&P CapitalIQ (data as at 21 October 2016); KPMG Corporate Finance analysis

Note 1: EBITDA growth (CAGR) is based on broker consensus forecasts over the next three years

Note 2: EBITDA multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for minority interests, preferred equity, plus borrowings less cash) divided by EBITDA

LTM = Last Twelve Months, NTM = Next Twelve Months

**Table 21: Beta analysis**

Company	Country	Levered beta		Unlevered beta		Debt to equity		Debt to value	
		2-year weekly		2-year weekly		2-year avg		2-year avg	
Blackmores Limited	Australia	0.80		0.79		2%		2%	
Bellamy's Australia Limited	Australia	0.60		0.60		0%		0%	
Freedom Foods Group Limited	Australia	0.70		0.67		5%		5%	
Vita Life Sciences Limited	Australia	0.35		0.35		0%		0%	
The a2 Milk Company Limited	Australia	n/a		n/a		n/a		n/a	
Synlait Milk Limited	New Zealand	0.70		0.54		43%		30%	
Comvita Limited	New Zealand	0.52		0.47		17%		14%	

Source: S&P CapitalIQ (data as at 21 October 2016); KPMG Corporate Finance analysis

Note 1: "n/a" represents companies that have not been listed for a sufficient period to calculate a 2-year beta

Note 2: Outliers have been shaded due to the lack of statistical robustness, based on the results of a statistical t-test

A brief description of each comparable company is outlined below.

#### Blackmores Limited

Blackmores Limited (Blackmores) is a health and wellbeing company that produces vitamins, supplements and herbal products for both human and animal consumption in Australia, New Zealand and Asia under the Blackmores brand. Blackmores' core vitamins and supplements range is focused on supporting a range of health conditions, including arthritis, immunity, digestive health and stress relief. Blackmores outsources the manufacture of its products through supply contract agreements to partners located in Germany and Canada. Blackmores' products are distributed through a range of channels, including pharmacies, health food and grocery stores, along with practitioners, vets, wholesalers, and through online sales mediums. For the 12 month period ended 30 June 2016, Blackmores generated the majority of its revenue from the sale of vitamins (87.1%) from its established markets in Australia



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(69.1%) and Asia (18.0%), with the remaining revenue generated from the sale of BioCeuticals products (9.6%) and from other markets/products currently being developed (3.3%), which includes the New Zealand market and the production of infant formula.

#### ***Bellamy's Australia Limited***

Bellamy's Australia Limited (Bellamy's) is a producer of organic foods and baby formula products, under the Bellamy's brand, to wholesale customers and direct to retail consumers in Australia and internationally. Bellamy's focuses on the infant and baby food category, offering a range of infant formulas, toddler milk products, and ready to eat pouches, along with cereals, pastas and other snacks. For the 12 month period ended 30 June 2016, Bellamy's major market, by revenue, was Australia (73.0%), followed by China (25.4%), with the remaining revenue generated from South East Asia (1.6%).

#### ***Freedom Foods Group Limited***

Freedom Foods Group Limited (Freedom Foods) is a food and beverage manufacturer that produces a range of allergen free cereals, snack foods, dairy and non-dairy beverages under its own portfolio of proprietary brands (including Australia's Own Organic, Almond Breeze, Brunswick and Paramount Salmon) as well as for third parties across Australia and internationally. The company is vertically integrated and produces all its foods within Australia. For the 12 month period ended 30 June 2016, Freedom Foods generated the majority of its revenue in Australia (86.0%), with the remaining revenue sourced from China, South East Asia and North America. Freedom Foods largest shareholder is Arrovest Pty Limited, who holds a 54.6% equity interest in the company as at 30 June 2016.

#### ***Vita Life Sciences Limited***

Vita Life Sciences Limited (Vita Life Sciences) is a health and wellbeing company, producing vitamins and supplements to customers in Australia and internationally under the VitaHealth and Herbs of Gold brands. Vita Life Sciences specialises in the formulation and packaging of vitamins, supplements, minerals, meal replacements, sports nutrition products and herbal products, with contract manufacturers in Australia, the US and New Zealand, and packaging and shipping facilities in Australia, Singapore and Malaysia. Vita Life Sciences' products are predominately found in health food stores and pharmacies. For the 12 month period ended 31 December 2015, Vita Life Sciences generated the majority of its revenue in Australia (40.4%) and Malaysia (37.3%), with the remaining revenue generated from Singapore (16.3%) and the rest of Asia (6.0%).

#### ***The a2 Milk Company Limited***

The a2 Milk Company Limited (a2 Milk) is a dairy company that produces A2-only products in Australia and internationally under the a2 brand. The company owns intellectual property that enables the identification and production of milk products that do not contain the A1 protein, but does contain the A2 protein commonly found in other milk. Key products sold are infant nutrition products and liquid milk, which makes up approximately 61% and 34% of total revenue respectively. For the 12 months ended 30 June 2016, the majority of revenue was generated from sales in Australia and New Zealand (84.0%), with the remaining revenue sourced from Asia (11.4%), the US and the UK (together, 5.2%). a2 Milk was formerly known as A2 Corporation Limited and changed its name in April 2014.

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### ***Synlait Milk Limited***

Synlait Milk Limited (Synlait) is a dairy processing company that sources and manufactures general and specialised milk products under its own brand and for third parties (including The a2 Milk Company) for sale within New Zealand and internationally. Synlait's core products are milk based ingredient products, milk powders (infant and adult) and speciality milk products, which are all produced at in-house manufacturing facilities across New Zealand. For the 6 month period ended 31 January 2016, the company's products were sold in a range of geographies, including (by revenue) New Zealand (35%), Asia (ex China) (32%), the Middle East and Africa (20%), China (8%) and the rest of the world (5%). In volume terms, Synlait's key product category is ingredients (83.8%), with nutritional product volume (16.2%) representing the remainder of products sold. Bright Dairy Holding Limited, a subsidiary of Bright Food (Group) Co. Ltd, is Synlait's largest shareholder, with a 39.12% equity interest in Synlait.

### ***Comvita Limited***

Comvita Limited (Comvita) is a natural health food products company engaged in the production and sale of honey and other honey based products in New Zealand, Australia and internationally. The company's key products, which are sold under the Comvita brand, include bee pollen, children's lollipops, Manuka tablets, and children honey products. Comvita manufactures the majority of its products in-house, and markets the business as a world leader in the manufacturing of Manuka honey. Comvita's primary markets (by revenue) are the functional foods category (65%) and healthcare (25%), with medical and personal care products representing the remaining products sold. For the 15 month period to 30 June 2016, Comvita generated revenue from Australia (32.3%), New Zealand (24.6%), Asia (32.6%), the UK (4.4%) and the US (6.1%). The company sells its products through a range of channels, including retailers, e-commerce websites and third party outlets.



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### Transaction evidence – Nutrition, health and wellness industry

The table below sets out the EBITDA multiples implied by recent transactions that involved companies operating in the nutrition, health and wellness industry within Australia and internationally, for which sufficient financial data is publicly available.

**Table 22: Transaction evidence**

Close Date	Acquirer	Target	Percentage acquired	Transaction value (\$m) <sup>1</sup>	EBITDA multiple LTM <sup>2</sup>	NTM <sup>3</sup>
<b>Australia</b>						
May-16	Blackmores Limited	Global Therapeutics Pty Ltd	100%	23.0	7.7	n/a
Sep-15	Biostime Healthy Australia Pty	Swisse Wellness Pty Ltd.	83%	1,746.9	15.5	n/a
Jul-12	Blackmores Limited	FIT-BioCeuticals Ltd.	100%	40.0	8.7	n/a
<b>International</b>						
Feb-14	Consortium led by Permira Funds	Atrium Innovations Inc.	100%	1,073.7	11.0	9.9
Dec-12	Reckitt Benckiser LLC	Schiff Nutrition International	100%	1,352.8	29.4	21.6
Nov-12	Nestlé S.A.	Pfizer Nutrition Inc.	100%	11,367.1	23.7	15.6 <sup>4</sup>
Oct-12	Church & Dwight Co. Inc.	Avid Health, Inc.	100%	627.8	11.2	n/a
Feb-11	Koninklijke DSM N.V.	Martek Biosciences Corp	100%	1,073.3	9.3	8.4
Oct-10	The Carlyle Group LP	NBTY, Inc.	100%	3,726.3	7.2	8.0

Source: Company financial statements and announcements; S&P CapitalIQ; KPMG Corporate Finance analysis

Note 1: Transaction value refers to enterprise values as of the date of completion

Note 2: LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

Note 3: Based on EBITDA broker consensus forecasts for the twelve months following the transaction announcement date

Note 4: Sourced from Nestlé's investor presentation on the acquisition, representing a NTM EBITDA multiple post expected run rate of synergies

A brief description of each transaction is outlined below.

#### Acquisition of Global Therapeutics Pty Ltd by Blackmores Limited

On 6 May 2016, Blackmores Limited acquired Global Therapeutics Pty Ltd (Global Therapeutics) for a total cash consideration of \$23 million (pre-transaction adjustments). Global Therapeutics provides retail Chinese herbal medicine formulations through the Fusion and Oriental Botanicals brands. Its product range is based on the combination of herbal extracts used in China for more than 2,000 years with those validated by modern science, and is distributed through health food stores and pharmacies across Australia.

#### Acquisition of Swisse Wellness Pty Ltd by Biostime Healthy Australia Pty Ltd

On 30 September 2015, Biostime Healthy Australia Pty Ltd, an Australian subsidiary of Biostime International Holdings Limited, acquired an 83% equity stake in Swisse Wellness Pty Ltd (Swisse), for a total consideration of \$1.4 billion, which was comprised of \$1.2 billion in cash, \$50 million of shares in Biostime International Holdings Limited, \$22.6 million of post-transaction adjustments, and \$164.3 million for a settlement of a loan. Swisse is engaged in the development, manufacture and distribution of vitamins, supplements and other health products in Australia and internationally under the Swisse brand. The company is focused on the development of lifestyle health products, particularly vitamins such as multivitamins and simple formula products, along with nutrition products including both superfoods brands and protein products. Swisse has a leading market share in Australia and continues to increase its

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presence in China through online sales and marketing platforms, including Tmall. For the 12 month period ended 30 June 2015, Swisse generated the majority of its revenue from the vitamins segment (87.1%), with the remainder sourced from the superfoods segment (12.9%).

***Acquisition of FIT-BioCeuticals Ltd. by Blackmores Limited***

On 5 July 2012, Blackmores Limited acquired 100% of the equity of FIT-BioCeuticals Ltd. (FIT-BioCeuticals) for a total cash consideration of \$40 million. FIT-BioCeuticals is a manufacturer and supplier of nutritional products and therapeutic supplements in Australia. The company's core products focus on the treatment of speciality disorders, including allergies, antioxidants, children's health and energy support, which are sold through a variety of channels, including health clinics, health food stores and specialised pharmacies within Australia.

***Acquisition of Atrium Innovations Inc. by a consortium led by Permira Advisers Ltd.***

On 13 February 2014, a consortium consisting of Permira Advisers Ltd., Caisse de dépôt et placement du Québec, and Fonds de solidarité FTQ acquired Atrium Innovations Inc. (Atrium Innovations) under a cash reinvestment transaction, resulting in Permira Advisers Ltd. acquiring its holding for a total cash consideration of CAD\$750 million, whilst Caisse de dépôt et placement du Québec and Fonds de solidarité FTQ, as pre-existing shareholders, remained invested in the firm. Atrium Innovations is engaged in the development, manufacture and commercialisation of health and nutrition products aimed at both adults and children in Canada, the US and internationally. The company generates the majority of its revenue in the US (63.3%), with other markets in Germany (17.1%), Canada (11.5%) and the Netherlands (8.1%). Atrium Innovations' brand portfolio includes Pure Encapsulations, Douglas Laboratories, Wobenzym and Trophic. The company produces general multi-vitamins as well as condition-specific nutrient formulas that are supported by clinical and scientific research. The company distributes its products through healthcare practitioners, health food and specialty stores.

***Acquisition of Schiff Nutrition International Inc. by Reckitt Benckiser LLC***

On 14 December 2012, Reckitt Benckiser LLC acquired the remaining 99.99% outstanding equity interest in Schiff Nutrition International Inc. (Schiff Nutrition International) it did not own for a total cash consideration of approximately US\$1.2 billion. Schiff Nutrition International is engaged in the development, manufacture and distribution of a range of vitamins, nutritional supplements and nutritional snacks in the US and internationally. For the 12 month period ended 31 May 2012, Schiff Nutrition International generated the majority of its revenue in the US (94.4%), with the remainder sourced from international markets (5.6%). The company's brand portfolio includes MegaRed, Move Free, Airborne, Tiger's Milk and Schiff Vitamins and is mainly distributed through mass market channels, such as clubs, and to a lesser extent, health food stores. The company provides a range of specialty products in its core categories, including joint care, omega-3, probiotic digestive health and various other speciality supplements under the Schiff brand. The company is predominantly focused on the manufacture and sale of its products directly to retail customers and through a network of brokers and independent distributors.



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***Acquisition of Pfizer Nutrition Inc. by Nestlé S.A.***

On 30 November 2012, Nestlé S.A. acquired 100% of the equity in Pfizer Nutrition Inc. (Pfizer Nutrition) for a total cash consideration of US\$11.85 billion from Pfizer Inc. Pfizer Nutrition is a manufacturer and supplier of nutritional products for infants, children and pregnant women in the US and internationally, with a specific focus on emerging markets. For the 6 month period ended 30 June 2012, Pfizer Nutrition generated 85% of its revenue from emerging markets, with core markets in China, the Philippines, Thailand, India, the Middle East and Mexico. The company manufactures both specialised infant and child-bearing products, such as METERNA and S-26 MAMA, along with multivitamin/mineral supplements that are used for young children and child-bearing mothers. Pfizer Nutrition also manufactures special and hospital based formulas for special nutritional needs.

***Acquisition of Avid Health, Inc. by Church & Dwight Co. Inc.***

On 1 October 2012, Church & Dwight Co. Inc. acquired 100% of the outstanding stock in Avid Health, Inc. (Avid Health) for a total cash consideration of US\$650 million. Avid Health operates as a manufacturer, distributor and seller of nutritional supplements to a variety of retail customers in the US. The company produces products under the accuflora, Nutrition Now, Vitafusion and L'il Creatures brands and has a range of products including herbal supplements, vitamins (including gummies) and special, proprietary formulas. Avid Health distributes its products through a network of brokers and distributors and through direct sales and e-commerce channels to domestic US customers, along with international customers in Canada, Mexico, Europe and Asia.

***Acquisition of Martek Biosciences Corporation by Koninklijke DSM N.V.***

On 25 February 2011, Koninklijke DSM N.V. (Royal DSM) acquired 100% of the outstanding equity in Martek Biosciences Corporation (Martek Biosciences) in an all-cash tender offer of market common stock valued at US\$1.1 billion. Martek Biosciences is engaged in the development, production and sale of nutritional products in the US. The company focuses on the production of infant and children's nutrition, including products aimed at pregnant and nursing mothers, sports nutrition products, and nutritional products aimed at companion and livestock animals. Martek Biosciences operates a network of distributors globally, aimed at mass markets, including distribution channels of drug, grocery and speciality stores. The business undertakes its product manufacturing at a range of sites in Boulder (Colorado), Winchester (Kentucky), Kinstree (South Carolina), and Cromwell (Connecticut).

***Acquisition of NBTY, Inc. by a consortium including Carlyle Partners V, L.P., The Carlyle Group***

On 1 October 2010, a consortium including both Carlyle Partners V, L.P. and The Carlyle Group acquired NBTY, Inc. (NBTY) in a cash transaction valued at US\$3.5 billion. NBTY manufactures, markets and distributes a range of vitamins and supplements, herbal products and active nutrition products in the US and internationally. For the 12 month period ended 30 September 2010, NBTY generated the majority of its revenue in the US (69.1%), followed by the UK (19.1%), Canada (3.0%), the Netherlands (2.4%) and other international markets (6.4%). The firm's key brands include Nature's Bounty, the Balance Bar, Solgar, Holland and Barret "the good life" products, and Body Fortress. NBTY operates manufacturing, warehousing, distribution and administration facilities in the US and Canada.

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## Appendix 6 – Discount Rate

Where cash flow forecasts consist of free cash flows to all providers of funding, the WACC is commonly employed as the basis for determining an appropriate discount rate. For the purposes of our high-level DCF analysis, we have adopted a WACC for Vitaco in the range of 8.5% to 9.5%, which we consider appropriately reflects the expected return of a hypothetical prudent purchaser, based upon the perceived risks associated with an investment in Vitaco's business operations.

The WACC represents an estimate of the weighted average required return from both debt holders and equity investors. The WACC calculation is typically based on the assumptions of:

- a constant optimal capital structure
- interest payments on debt being tax deductible.

The WACC is derived using the following formula:

$$\text{WACC} = [\text{Kd} * \text{Wd} * (1-t)] + [\text{Ke} * \text{We}]$$

**Table 23: WACC parameters**

Parameter	Description
Kd	Cost of debt
Wd	Percentage of debt in capital structure
Ke	Cost of equity
We	Percentage of equity in capital structure
t	Company tax rate

Source: KPMG Corporate Finance analysis

The cost of equity is derived using a modified Capital Asset Pricing Model as follows:

$$\text{Ke} = \text{Rf} + \beta * (\text{Rm} - \text{Rf}) + \alpha$$

**Table 24: Cost of equity parameters**

Parameter	Description
Rf	Risk free rate, representing the return on risk-free assets
Rm	Market rate of return, representing the expected average return on a market portfolio
(Rm - Rf)	Market risk premium, representing the excess return that a market portfolio is expected to generate over the risk free rate
$\beta$	Beta factor, being a measure of the systematic risk of a particular asset relative to the risk of a market portfolio
$\alpha$	Specific risk factor, which may be included to compensate for risks which are not adequately captured in the other parameters

Source: KPMG Corporate Finance analysis

The selection of the appropriate discount rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement rather than a precise calculated outcome. Whilst there is commonly adopted theory that provides a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, the calculated discount rate should be treated as broad guidance rather than objective truth. Furthermore, discount rate assessments need to



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consider both current market conditions and future expectations, and to the extent that there are any changes in conditions and expectations over time, an adjustment to the discount rate at a future point in time may be warranted.

Given the forecast cash flows are denominated in Australian Dollars, we have utilised the following parameters reflective of the Australian capital markets environment in determining an appropriate WACC range for Vitaco.

**Table 25: Selected WACC parameters**

Parameter	Input	Description
Kd	5.8% – 6.3%	Long term cost of debt has been approximated by adding the spread between BBB-rated Australian Corporate bonds and Australian Government bonds to our long term risk free rate. The selected cost of debt range represents an 'all-in' rate, including an allowance for upfront/refinance costs.
Wd	10%	Based on Vitaco's target gearing range and the gearing observed for comparable companies. We note that the sensitivity of the overall WACC to changes in the selected gearing is relatively low.
We	90%	
t	29%	Based on Vitaco's effective consolidated tax rate.
Rf	3.9%	The risk free rate has been selected by reference to the current spot yield and long term forecast yields on 10-year Australian Government bonds. We have adopted 3.9% as an appropriate risk free rate, which represents a blended long term risk free rate.
(Rm - Rf)	6.0%	A market risk premium of 6.0% is regarded as appropriate by KPMG Corporate Finance for the current long-term investment climate in Australia. It also falls within the range of market risk premiums commonly adopted by valuation practitioners in Australia, and is supported by published studies and surveys analysing market risk premiums for the Australian market.
β	0.8 – 0.9	The selected beta has been referenced to the 2-year unlevered betas of comparable companies as detailed in Appendix 5, with Blackmores being considered the most comparable company. Vitaco has only been listed since September 2015 and therefore has insufficient trading history to calculate a 2-year beta.

*Source: KPMG Corporate Finance analysis, S&P Capital IQ*

*Note: We have rounded our calculated WACC range of 8.6% to 9.2% to arrive at our selected WACC range of 8.5% to 9.5%.*



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## Appendix 7 – Glossary

Abbreviation	Description
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Blackmores	Blackmores Limited
CAGR	Compound Annual Growth Rate
COGS	Costs Of Goods Sold
Converted Shares	Vitaco Shares held by Management Shareholders which under the terms of the Scheme will get converted into newly issued HK HoldCo shares
Corporations Act	Corporations Act 2001 (Cth)
Effective Date	The date on which the Scheme becomes effective
Final Dividend	The amount of the final dividend declared for the financial year ended 30 June 2016 of 2.96 cents, paid on 30 September 2016
HF	Vitaco's health foods category
HK HoldCo	A newly incorporated Hong Kong incorporated subsidiary of SIIC Medical Science and Primavera in their respective proportions
IER	Independent Expert's Report
IPO	Initial Public Offering
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
Management Shareholders	Members of Vitaco's Senior Management who hold shares in Vitaco
Next Capital	Next Capital Pty Limited
NZD	New Zealand Dollars
Primavera	PV Zeus Limited, a 100% subsidiary of Primavera Capital Fund II
Primavera Capital Fund II	Primavera Capital Fund II L.P
Record Date	The date and time which determines the entitlement of Vitaco Shareholders to Scheme Consideration for implementation of the Scheme
Relevant Proportions	Proportional ownership of Shanghai Pharma and Primavera in HK HoldCo, being 60% and 40% respectively, through their respective subsidiaries
RG	ASIC's Regulatory Guide
RTD	Ready To Drink
Senior Management	The staff comprising Ryan d'Almeida (Chief Executive Officer), Phillip Wiltshire (Chief Financial Officer), Roger Scott (Chief Operating Officer), John Stanton (GM Vitamins & Supplements), Brent Hall (GM Supply Chain), Martin Drinkrow (GM Sports & Active Nutrition and Health Foods) and Jay Drezner (GM International & Business Development)
Shanghai Pharma	Shanghai Pharmaceuticals Holdings Co., Ltd
Shareholders	Vitaco Shareholders and Management Shareholders
SIIC Medical Science	SIIC Medical Science and Technology (Group) Limited, a 100% subsidiary of Shanghai Pharma
SN	Vitaco's sports and active nutrition category
SNHF	Vitaco's Sports Nutrition and Health Foods division
Swisse	Swisse Wellness Pty Ltd
the Consortium	Bidding consortium comprising Shanghai Pharma and Primavera in their respective proportions
the Scheme	The proposal that the Consortium, through HK HoldCo, will acquire 100% of Vitaco Shares subject to certain shareholder and regulatory approvals and other conditions
UK	United Kingdom
US	The United States of America

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Abbreviation	Description
VDS	Vitaco's Vitamins and Dietary Supplements category
Vitaco	Vitaco Holdings Limited
Vitaco Shareholders	Vitaco Shareholders excluding certain members of Vitaco's Senior Management team
Vitaco Shares	The shares of Vitaco listed on the ASX
VWAP	Volume Weighted Average Price

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**PART TWO – FINANCIAL SERVICES GUIDE**

Dated 25 October 2016

**What is a Financial Services Guide (FSG)?**

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Mr Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189 and Mr Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 (**Authorised Representative**).

**This FSG includes information about:**

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance. This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

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KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

**KPMG Corporate Finance and the Authorised Representative's responsibility to you**

KPMG Corporate Finance has been engaged by Vitaco Holdings Limited (Client) to provide general financial product advice in the form of a Report to be included in the Scheme

Booklet (Document) prepared by the Client in relation to the scheme of arrangement involving entities wholly owned by Shanghai Pharmaceuticals Holdings Co., Ltd and Primavera Capital Fund II L.P. (collectively, the Bidders) (Transaction). You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

**General Advice**

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

**Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives**

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client.

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Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$125,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

#### **Referrals**

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

#### **Associations and relationships**

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses. KPMG entities have not provided any audit, tax or advisory services to the Client or Bidders for which professional fees were received.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

#### **Complaints resolution**

##### Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

##### External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website

[www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1800 367 287

Facsimile: (03) 9613 6399 Email: [info@fos.org.au](mailto:info@fos.org.au)

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

#### **Compensation arrangements**

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

#### **Contact Details**

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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# Annexure B

## Scheme

Annexure to Scheme Booklet  
For the scheme of arrangement in  
relation to Vitaco Holdings Limited



# Scheme of Arrangement

—  
Vitaco Holdings Limited (**Target**)  
Scheme Shareholders  
—

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ME\_133487565\_1 (W2003)

MinterEllison



# Scheme of Arrangement

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# Details

## Date:

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

**Vitaco Holdings Limited** (ACN 606 826 493) of Level 1, 82 Waterloo Road, North Ryde, NSW 2113  
(**Target**)

and

Each **Scheme Shareholder**

## 1. Definitions and interpretation

### 1.1 Defined terms

In this Scheme, unless the context requires otherwise:

**AcquireCo** means Zeus One Company Pty Limited, a company incorporated under the laws of Victoria, Australia and which is a wholly owned subsidiary of HK HoldCo.

**Adviser** means any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to Target, BidCo or the Guarantors in connection with the Proposed Transaction.

**Authorised Person** means, in respect of a person, including the Guarantors:

- (a) a director, officer, partner, member or employee of the person;
- (b) an Adviser of the person;
- (c) a director, officer or employee of an Adviser of the person; and

where the person is a Guarantor, a Guarantor Related Person.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.

**BidCo** means Primavera and SIIC Medical Science, acting severally, in their Relevant Proportions and subject at all times to the provisions of clause 9.

**BidCo Group** means BidCo and each of its Subsidiaries (excluding, at any time, Target and its Subsidiaries to the extent that Target and its Subsidiaries are subsidiaries of BidCo at that time). A reference to a member of the **BidCo Group** or a **BidCo Group Member** is a reference to BidCo or any such Subsidiary.

**Business Day** means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales, Australia, Hong Kong Special Administrative Region of the People's Republic of China, and Shanghai, People's Republic of China.

**CHES** means the Clearing House Electronic Subregister System for the electronic transfer of securities operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Court** means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the parties may agree in writing.

**Deed Poll** means the deed poll dated 20 October 2016 between BidCo, the Guarantors and Scheme Shareholders under which BidCo and the Guarantors severally and in their Relevant Proportions covenant in favour of the Scheme Shareholders to perform the actions attributed to each of them under this Scheme.

**Delivery Time** means 8.00am on the Second Court Date.



**Effective** means the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

**Effective Date** means the date on which this Scheme becomes Effective.

**End Date** means the later of:

- (a) 31 March 2017; or
- (b) such other date and time agreed in writing between BidCo and Target.

**Escrow Agreement** means the escrow agreement to be executed by Stakeholder, Primavera, SIIC Medical Science and Target in which, amongst other things, those parties will agree their respective rights and obligations relating to the cash component of the Scheme Consideration to be held by the Stakeholder in the Escrow Accounts and the Letters of Credit to be delivered to, and held by, the Stakeholder.

**Escrow Accounts** means the settlement escrow accounts operated by the Stakeholder and subject to the Escrow Agreement.

**Excluded Shareholder** means any Target Shareholder who is a member of the BidCo Group, Primavera Capital Fund II, Shanghai Pharma or a wholly-owned subsidiary of Primavera Capital Fund II or Shanghai Pharma.

**Governmental Agency** means any Australian or foreign government or representative of a government or any Australian or foreign governmental, semi governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister, ASIC, ASX and any regulatory organisation established under statute or any stock exchange and includes any PRC Governmental Agency.

**Guarantor Related Person** means, in respect of a Guarantor:

- (a) a Related Body Corporate of that Guarantor; and
- (b) any director, officer, member or employee of that Guarantor or of a Related Body Corporate of that Guarantor.

**Guarantors** means each of Primavera Capital Fund II and Shanghai Pharma, acting severally, in their Relevant Proportions and subject at all times to the provisions of clause 9.

**HK HoldCo** means Zeus Investment Limited, a private company incorporated under the laws of Hong Kong Special Administrative Region of the People's Republic of China held by each of Primavera and SIIC Medical Science in their Relevant Proportions.

**HK HoldCo Share** means a management share in HK HoldCo which:

- (a) is a separate class of share;
- (b) has the right to vote only at class meetings of holders of HK HoldCo Shares or otherwise as the directors of HK HoldCo determine;
- (c) has other rights and transfer restrictions; and
- (d) on specified events acquires rights equivalent to ordinary shares,

as set out in terms of issue provided to Management Shareholders on or before the Implementation Date.

**Implementation Deed** means the scheme implementation deed dated 3 August 2016 between Target, BidCo and the Guarantors, as amended or varied from time to time.

**Implementation Date** means the fifth Business Day, or such other Business Day as Target and BidCo agree, following the Record Date for the Scheme.

**Letter of Credit** has the meaning given to that term in the Implementation Deed.

**Listing Rules** means the official listing rules of ASX as amended or waived from time to time.

**Long Term Incentive Plan** means the Vitaco Long Term Incentive Plan dated 21 August 2015.

**Management Shareholder** means each of the following persons:

- (a) Ryan d'Almeida;



- (b) Phillip Wiltshire;
- (c) Roger Scott;
- (d) John Stanton;
- (e) Brent Hall;
- (f) Martin Drinkrow; and
- (g) Jay Drezner.

**Permitted Dividend** means the ordinary dividend of \$0.0296 per Target Share paid by Target on 30 September 2016 to those Target Shareholders who held Target Shares on 6 September 2016.

**PRC** means the People's Republic of China.

**Primavera** means PV Zeus Limited.

**Primavera Capital Fund II** means Primavera Capital Fund II L.P., acting through its general partner Primavera Capital GP II Ltd.

**Record Date** means 7.00pm on the third Business Day (or such other Business Day as Target and BidCo agree in writing) following the Effective Date.

**Register** means the share register of Target kept pursuant to section 168(1) of the Corporations Act.

**Registered Address** means, in relation to a Target Shareholder, the address shown in the Register as at the Record Date.

**Related Body Corporate** of a person, means:

- (a) a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted; and
- (b) in respect of a Guarantor, includes any fund, limited partnership or other collective investment vehicle which is managed or controlled by that Guarantor (or its general partner) or a related body corporate (as referred to paragraph (a) above) of that Guarantor.

**Relevant Proportion** means the following proportions:

- (a) Primavera or Primavera Capital Fund II (as the case may be): 40%; and
- (b) SIIC Medical Science or Shanghai Pharma (as the case may be): 60%.

**Scheme** means this scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Target and the Scheme Shareholders in respect of all Scheme Shares as set out in this document, subject to any alterations or conditions that are:

- (a) agreed to in writing by Target and BidCo, and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to by Target and BidCo.

**Scheme Consideration** means the consideration to be provided by or on behalf of BidCo to each Scheme Shareholder for the transfer to AcquireCo of each Scheme Share, as determined in accordance with clause 5.1.

**Scheme Meeting** means the meeting or meetings of Target Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

**Scheme Order** means the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

**Scheme Share** means a Target Share on issue as at the Record Date other than:

- (a) any Target Share then held by an Excluded Shareholder (but including any such Target Share held on behalf of one or more third parties who are not Excluded Shareholders or otherwise in a fiduciary capacity on behalf of persons who are not Excluded Shareholders); or



(b) where the context requires, Target Management Shares.

**Scheme Shareholder** means a person who holds one or more Scheme Shares.

**Scheme Transfer** means for each Scheme Shareholder, a proper instrument of transfer of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

**Settlement Rules** means the ASX Settlement Operating Rules.

**Shanghai Pharma** means Shanghai Pharmaceuticals Holding Co., Ltd.

**SIIC Medical Science** means SIIC Medical Science and Technology (Group) Limited.

**Stakeholder** means a reputable Australian bank or other institution agreed in writing between BidCo and Target, acting as escrow agent in accordance with the Escrow Agreement.

**Subsidiary** has the meaning given to that term in section 46 of the Corporations Act.

**takes effect** or **taking effect** means on and from the first time when an office copy of the Scheme Order approving the Scheme pursuant to section 411(4)(b) of the Corporations Act is lodged with ASIC pursuant to section 411(10) of the Corporations Act.

**Target Management Share** means, in respect of each Management Shareholder, each Scheme Share determined using the formula in clause 5.2 of the Implementation Deed, being Scheme Shares for which the consideration under the Scheme will be an amount of HK HoldCo Shares determined in accordance with the formula in clause 5.1(b).

**Target Option** means an option granted under Target's Long Term Incentive Plan to acquire, on exercise, a Target Share subject to the terms and conditions of such plan.

**Target Performance Right** means a right granted under Target's Long Term Incentive Plan to acquire by way of issue a Target Share subject to the terms and conditions of such plan.

**Target Registry** means Link Market Services Limited or any replacement provider of share registry services to Target.

**Target Share** means an issued fully paid ordinary share in the capital of Target.

**Target Shareholder** means a person who is registered in the register maintained by Target under section 168(1) of the Corporations Act as a holder of one or more Target Shares but excludes an Excluded Shareholder.

## 1.2 Interpretation

In this Scheme, except where the context requires otherwise.

- (a) the singular includes the plural, and the converse also applies;
- (b) another grammatical form of a defined word or expression has a corresponding meaning;
- (c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this Scheme, and a reference to this Scheme includes any schedule or annexure;
- (d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (e) a reference to **A\$, \$A, dollar** or **\$** is to Australian currency;
- (f) a reference to time is to Sydney, Australia time;
- (g) a reference to a party is to a party to this Scheme, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;



- (i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (j) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;
- (k) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
- (l) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this agreement or any part of it; and
- (m) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

### **1.3 Listing requirements included as law**

A listing rule or business rule of a financial market will be regarded as law, and a reference to such rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

## **2. Preliminary**

- (a) Target is a public company limited by shares and registered in Victoria, Australia. Target is admitted to the official list of ASX.
- (b) As at the date of this document:
  - (i) 139,143,525 Target Shares were on issue;
  - (ii) 1,000,918 Target Options were on issue which are not quoted on any financial market; and
  - (iii) 195,499 Target Performance Rights were on issue which are not quoted on any financial market.
- (c) Primavera is a private company limited by shares and incorporated in the British Virgin Islands.
- (d) As at the date of this document 2016, all of the fully paid ordinary shares in Primavera were held by Primavera Capital Fund II.
- (e) SIIC Medical Science is a private company limited by shares and incorporated in the Cayman Islands.
- (f) As at the date of this document 2016, all of the fully paid ordinary shares in SIIC Medical Science were held by Shanghai Pharma.
- (g) BidCo, the Guarantors and Target have agreed, subject to the terms of the Implementation Deed, to implement this Scheme.
- (h) This Scheme attributes actions to BidCo and the Guarantors in their Relevant Proportions but does not itself impose an obligation on each of them to perform those actions. BidCo and the Guarantors have agreed, by executing the Deed Poll in favour of Scheme Shareholders, to perform, in their Relevant Proportions, the actions attributed to each of them under this Scheme.
- (i) BidCo has nominated AcquireCo to take transfer of the Scheme Shares in accordance with the provisions of clause 20.3 of the Implementation Deed.

### **2.2 Summary of Scheme**

If the Scheme becomes Effective:

- (a) all of the Scheme Shares (together with all rights and entitlements attaching to the Scheme Shares) will be transferred to AcquireCo and Target will become a subsidiary of AcquireCo;
- (b) in consideration of the transfer of the Scheme Shares, the Guarantors and BidCo will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in



accordance with the terms of this Scheme, the Deed Poll and the Implementation Deed;  
and

- (c) Target will enter the name of AcquireCo in the Register as the holder of all the Scheme Shares.

### 3. Conditions

#### 3.1 Conditions to the Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at the Delivery Time each of the conditions set out in clause 3.1 of the Implementation Deed (other than the condition relating to the approval of the Court set out in clause 3.1(i) of the Implementation Deed) having been satisfied or waived in accordance with the terms of the Implementation Deed;
- (b) as at the Delivery Time neither the Implementation Deed nor the Deed Poll having been terminated in accordance with their terms;
- (c) the Court approving this Scheme under section 411(4)(b) of the Corporations Act;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme having been satisfied or waived; and
- (e) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the Scheme Order on or before the End Date.

#### 3.2 Effect of conditions precedent

The satisfaction or waiver of each condition precedent in clause 3.1 is a condition precedent to the operation of clause 4 and clause 5 and the binding effect of this Scheme.

#### 3.3 Certificates

- (a) Guarantors, BidCo and Target will provide to the Court on the Second Court Date certificates confirming (in respect of matters within their respective knowledge) whether all the conditions precedent set out in clause 3.1 of the Implementation Deed (other than the condition relating to the approval of the Court set out in clause 3.1(i) of the Implementation Deed) have been satisfied or waived in accordance with the terms of the Implementation Deed as at the Delivery Time.
- (b) The certificate referred to in clause 3.3(a) constitutes conclusive evidence that such conditions precedent were satisfied, waived or taken to be waived.
- (c) No later than one Business Day before the Implementation Date, BidCo will provide Target with a certificate (duly executed by each of Primavera and SIIC Medical Science) which sets out the good faith and bona fide calculation (as agreed between Primavera and SIIC Medical Science) of the Scheme Consideration due to be paid to a Management Shareholder in accordance with clause 5.1 (**Management Consideration Certificate**). The Management Consideration Certificate must be accompanied by evidence of the aggregate amount of funding provided by Primavera and SIIC Medical Science (or their respective affiliates) to HK HoldCo, being:
  - (i) an unaudited statement of financial position of HK HoldCo; and
  - (ii) a copy of HK HoldCo's share register.
- (d) The Management Consideration Certificate delivered by BidCo to Target in accordance with clause 3.3(c), absent any manifest error, constitutes conclusive evidence of the aggregate amount due to be paid to Management Shareholders in accordance with the definition of Scheme Consideration.

### 4. Implementation of the Scheme

#### 4.1 Lodgement of Scheme Order with ASIC

If the conditions precedent in clause 3.1 are satisfied or waived, Target must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Scheme Order as soon as practicable after, and in any event by no later than 5.00pm on the first Business Day after



the day on which the Court approves this Scheme or on which the Scheme Order is entered, or such other date as agreed by Target and BidCo.

#### 4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the provision of the Scheme Consideration for the Scheme Shares in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to AcquireCo, without the need for any further act by any Scheme Shareholders (other than acts performed by Target as attorney and agent for Scheme Shareholders under clause 8.2), by Target effecting a valid transfer or transfers of the Scheme Shares to AcquireCo under section 1074D of the Corporations Act or, if that procedure is not available for any reason, by:
  - (i) Target delivering to AcquireCo a duly completed Scheme Transfer, executed on behalf of Scheme Shareholders by Target; and
  - (ii) AcquireCo duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to Target for registration; and
- (b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a) or the transfer being effected under section 1074D of the Corporations Act (as the case may be), Target must enter, or procure the entry of, the name of AcquireCo in the Register in respect of all the Scheme Shares transferred to AcquireCo in accordance with this Scheme.

### 5. Scheme Consideration

#### 5.1 Amount of Scheme Consideration

Subject to this Scheme becoming Effective, each Scheme Shareholder is entitled to receive consideration in respect of each Scheme Share held by that Scheme Shareholder as follows:

- (a) for each Scheme Shareholder (other than a Management Shareholder), A\$2.25 in cash less the amount of any Permitted Dividend; and
- (b) for each Scheme Shareholder which is a Management Shareholder, both:
  - (i) that number of HK HoldCo Shares for each Target Management Share held by that Management Shareholder calculated using the following formula:
$$\frac{(2.25 - P)}{V}, \text{ where:}$$
    - P = the amount of any Permitted Dividend paid or to be paid; and
    - V = the A\$ equivalent (on the date of funding and by no later than 1 Business Day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date;
  - and
  - (ii) A\$2.25 in cash, less the amount of any Permitted Dividend in respect of each Scheme Share for which that Management Shareholder (or its nominee) did not receive HK HoldCo Shares.

#### 5.2 Payment of Scheme Consideration

- (a) Subject to the terms and conditions of this Scheme:
  - (i) Primavera Capital Fund II will procure that Primavera provides its Relevant Proportion of the cash component of the Scheme Consideration in the manner contemplated by this clause 5.2; and
  - (ii) Shanghai Pharma will procure that SIIC Medical Science provides its Relevant Proportion of the cash component of the Scheme Consideration in the manner contemplated by this clause 5.2.



- (b) If the Scheme becomes Effective, in consideration for the transfer to AcquireCo of the Scheme Shares, BidCo must provide, or procure the provision of, the Scheme Consideration as follows:
- (i) in the case of Scheme Consideration that is required to be paid to Scheme Shareholders in cash, by procuring in accordance with clause 5.2(c) the payment to a trust account operated by Target (as agent for each Scheme Shareholder) (**Trust Account**) of an amount in cleared funds equal to the aggregate amount of the cash component of the Scheme Consideration for all Scheme Shares on the Implementation Date that amount to be held by Target on trust for the Scheme Shareholders and for the purpose of sending the aggregate Scheme Consideration to the Scheme Shareholders (except that any interest on the amount which arises prior to the Effective Date will be for the account of BidCo, and any interest on the amount which arises with effect from the Effective Date will be for the account of Scheme Shareholders, each in accordance with clause 4.2(b) of the Implementation Deed); and
  - (ii) in the case of Scheme Consideration that is required to be paid to Scheme Shareholders in the form of HK HoldCo Shares, by:
    - (A) on the Implementation Date and otherwise in accordance with the Scheme, procuring that HK HoldCo issues to each Management Shareholder (or his nominee) that number of HK HoldCo Shares for each Target Management Share held by that Management Shareholder determined in accordance with the formula in clause 5.1(b), rounded up to the nearest whole number of HK HoldCo Shares;
    - (B) on the Implementation Date and otherwise in accordance with the Scheme, procuring the entry of the name and address of each Management Shareholder in the register of shares of HK HoldCo in respect of the HK HoldCo Shares issued to each Management Shareholder;
    - (C) on the Implementation Date, procuring the issue by HK HoldCo to each Management Shareholder (or his nominee) of a copy of the terms of issue of the HK HoldCo Shares accompanied by wording to the effect that they have been issued HK HoldCo Shares and their acceptance of the HK HoldCo Shares constitutes agreement by them to the articles of association of HK HoldCo and the terms of issue of the HK HoldCo Shares; and
    - (D) on or before the date that is two Business Days after the Implementation Date and otherwise in accordance with the Scheme, procuring that a share certificate is sent to the address of each Management Shareholder to whom HK HoldCo Shares are issued in accordance with clause 5.1(b) representing the number of HK HoldCo Shares issued to that Management Shareholder.
- (c) For the purposes of BidCo paying, or procuring the payment of, the Scheme Consideration into the Trust Account as required by clause 5.2(b)(i):
- (i) if the Scheme Consideration has been deposited into the Escrow Accounts as contemplated by clause 4.2(a)(i)(A) of the Implementation Deed, then BidCo must give the Stakeholder a written notice directing the Stakeholder, in accordance with the Escrow Agreement, to disburse to the Trust Account, in accordance with the Escrow Agreement, funds held in the Escrow Accounts equal to the aggregate amount of the Scheme Consideration for all Scheme Shares, such that those funds are received in the Trust Account no later than one Business Day before the Implementation Date; or
  - (ii) if standby irrevocable letters of credit equal to the Scheme Consideration have been delivered to the Stakeholder as contemplated by clause 4.2(a)(i)(B) of the Implementation Deed, then BidCo must direct the Stakeholder to release the letters of credit to Target and Target must to do all things necessary to effect draw down pursuant to those letters into the Trust Account of an amount equal to the aggregate amount of the Scheme Consideration for all Scheme Shares, with such



funds to be received in that Trust Account no later than one Business Day before the Implementation Date.

- (d) Subject to the Scheme becoming Effective and funds being deposited into, or held in, the Trust Account in accordance with clauses 5.2(b) and 5.2(c), Target must, on the Implementation Date and from the Trust Account, pay or procure the payment of the cash component of the Scheme Consideration to each Scheme Shareholder (in each case based on the number of Scheme Shares held by that Scheme Shareholder as set out in the Register as at the Record Date) by doing any of the following at the Target's absolute discretion:
- (i) sending (or procuring the Target Registry to send) it to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
  - (ii) depositing (or procuring the Target Registry to deposit) it into an account with any bank notified to Target (or the Target Registry) by an appropriate authority from the Scheme Shareholders in Australian currency.

### 5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be paid to Scheme Shareholders will be made payable to the joint holders and will be forwarded to the holder whose name appears first in the Register on the Record Date; and
- (b) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Register as at the Record Date.

### 5.4 Surplus funds

To the extent that, following satisfaction of Target's obligations under clause 5.2(d), there is a surplus in the amount held by Target as trustee for the Scheme Shareholders in the Trust Account, a percentage of the surplus will be paid by Target to each Scheme Shareholder equal to the percentage that the cash component of the Scheme Consideration paid to that Scheme Shareholder represents of the aggregate amount of the cash component of the Scheme Consideration paid by the Target to all Scheme Shareholders

### 5.5 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

### 5.6 Unclaimed monies

- (a) Target may cancel a cheque sent under this clause 5 if the cheque:
  - (i) is returned to Target; or
  - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of 11 months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Target (or the Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Target must reissue a cheque that was previously cancelled under clause 5.6(a).
- (c) The *Unclaimed Money Act 2005* (NSW) will apply in relation to any Scheme Consideration which becomes *unclaimed money* (as defined in section 7 of the *Unclaimed Money Act 2005* (NSW)).

### 5.7 Order of a court or Government Agency

If:

- (a) written notice is given to Target (or the Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by Target in



accordance with this clause 5, then Target may procure that payment is made in accordance with that order or direction; or

- (b) written notice is given to Target (or the Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that prevents Target from making a payment to any particular Scheme Shareholder in accordance with clause 5.2(d), or such payment is otherwise prohibited by applicable law, Target may retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

and the payment or retention by Target (or the Target Registry) will constitute the full discharge of Target's obligations under clause 5.2(d) with respect of the amount so paid or retained until, in the case of clause 5.7(b), it is no longer required to be retained.

## **5.8 Definition of 'sending'**

For the purposes of clause 5, the expression **sending** means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Record Date by any other means at no cost to the recipient.

# **6. Dealings in Target Shares**

## **6.1 Determination of Scheme Shareholders**

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Target Shares on or before the Record Date; or
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Record Date at the place where the Register is kept,

and Target must not accept for registration, nor recognise for any purpose (except a transfer to AcquireCo pursuant to this Scheme and any subsequent transfer by or its successors in title), any transfer or transmission application or other request received after those times, or received prior to those times but not in registrable or actionable form, as appropriate.

## **6.2 Register**

- (a) Target must register all registrable transmission applications or transfers of Scheme Shares in accordance with clause 6.1(b) on or before the Record Date.
- (b) Target will not accept for registration or recognise for any purpose any transmission application or transfer in respect of any Target Shares received after 5pm on the day on which the Record Date occurs, other than to AcquireCo in accordance with this Scheme and any subsequent transfer by AcquireCo and its respective successors in title.
- (c) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that Scheme Shareholder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and Target shall be entitled to disregard any such disposal.
- (d) For the purpose of determining entitlements to the Scheme Consideration, Target must maintain the Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) All statements of holding for Target Shares (other than statements of holding in favour of BidCo) will cease to have effect after the Record Date as documents of title in respect of those shares (other than statements of holding in favour of any Excluded Shareholder)



and, as from the Record Date, each entry on the Register (other than entries on the Register in favour of BidCo or in respect of any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Target Shares relating to that entry.

- (f) As soon as possible on or after the Record Date and in any event within one Business Day after the Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Target Shares for each Scheme Shareholder as shown in the Register are available to BidCo in the form BidCo reasonably requires.

## **7. Delisting of Target from ASX**

### **7.1 Suspension of trading in ASX**

Target will apply to the ASX to suspend trading in the Target Shares on ASX with effect from the close of trading on the Effective Date.

### **7.2 Termination from official quotation**

On a date after the Implementation Date to be determined by BidCo, Target will apply:

- (a) for termination of the official quotation of the Target Shares on ASX; and
- (b) to have itself removed from the official list of ASX.

## **8. General Scheme provisions**

### **8.1 Consent to amendments to this Scheme**

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Target may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which BidCo has consented in writing; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for Target has consented.

### **8.2 Appointment of agent and attorney**

- (a) On this Scheme becoming Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints Target as its agent and attorney for the purposes of:
  - (i) executing any document or form or doing any other act necessary or expedient to give effect to the terms of this Scheme, including, without limitation, the execution of the Share Transfer and the giving of the Scheme Shareholder's consent under clause 8.4; and
  - (ii) enforcing the Deed Poll against BidCo and the Guarantors, and Target accepts such appointment.
- (b) Target, as agent and attorney of each Scheme Shareholder, may sub-delegate its functions, authorities and powers under this clause 8.1 to all or any of its directors and officers (jointly, severally, or jointly and severally).

### **8.3 Enforcement of Deed Poll**

Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against BidCo and the Guarantors (as applicable on behalf of and as agent and attorney for Scheme Shareholders).

### **8.4 Scheme Shareholders' consent**

Each Scheme Shareholder irrevocably consents to Target, BidCo and the Guarantors doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of this Scheme.

### **8.5 Scheme Shareholders' agreements and acknowledgment**

Under this Scheme, each Scheme Shareholder:

- (a) irrevocably consents to Target, the Guarantors, BidCo and AcquireCo doing all things necessary or expedient for or incidental to the implementation of the Scheme;



- (b) agrees to the transfer of all of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to AcquireCo in accordance with the terms of this Scheme;
- (c) agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
- (d) agrees:
  - (i) that any share certificate relating to their Scheme Shares will not after transfer of their Scheme Shares constitute evidence of title to those Scheme Shares; and
  - (ii) on the direction of BidCo, to destroy any share certificates relating to their Scheme Shares;
- (e) acknowledges and agrees that this Scheme binds Target and all Scheme Shareholders (including those who did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target; and
- (f) that is a Management Shareholder, in respect of the HK HoldCo Shares issued to them under this Scheme, agrees to become a member of HK HoldCo and to be bound by HK HoldCo's articles of association and the terms of issue of the HK HoldCo Shares.

## **8.6 Warranties by Scheme Shareholders**

Each Scheme Shareholder is deemed to have warranted to Target that:

- (a) all of its Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the time of transfer of them to AcquireCo, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and
- (b) they have full power and capacity to transfer their Scheme Shares, and all rights and entitlements attaching to those Scheme Shares, to AcquireCo.

## **8.7 Title to Scheme Shares**

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme will, at the time of transfer of them to AcquireCo, vest in AcquireCo free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) Immediately upon provision by BidCo of the Scheme Consideration in accordance with clause 5, AcquireCo will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by Target of AcquireCo in the Register as the holder of the Scheme Shares.

## **8.8 Appointment of sole proxy**

Immediately upon provision of the Scheme Consideration in the manner contemplated in clause 5.2(d) until Target registers AcquireCo as the holder of all Scheme Shares in the Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed AcquireCo as its attorney and agent (and directed AcquireCo in each such capacity) to appoint any director, officer, secretary or agent nominated by AcquireCo as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings of Target, exercise the votes attaching to the Scheme Shares registered in its name and sign any shareholders' resolution;
- (b) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than as under clause 8.8(a);



- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as AcquireCo reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 8.8(a), AcquireCo and any director, officer, secretary or agent nominated by AcquireCo under clause 8.8(a) may act in the best interests of AcquireCo as the intended registered holder of the Scheme Shares.

## 9. Primavera and SIIC Medical Science

### 9.1 References to BidCo

All references to “BidCo” in this document are references to each of Primavera and SIIC Medical Science:

- (a) individually and severally; and
- (b) in each of Primavera’s and SIIC Medical Science’s respective Relevant Proportions.

### 9.2 Rights, obligations and liability

- (a) **(Primavera and SIIC Medical Science)** Notwithstanding any other provision in this document, the Implementation Deed and the Deed Poll:
  - (i) subject to 9.2(a)(iii), each of Primavera and SIIC Medical Science is severally responsible and liable in its Relevant Proportion for all obligations of BidCo and AcquireCo under this document, the Implementation Deed and the Deed Poll;
  - (ii) all of the rights of BidCo under this document, the Implementation Deed and the Deed Poll are exercisable severally by Primavera and SIIC Medical Science and any failure by either of them to exercise its rights under this document, the Implementation Deed and the Deed Poll does not constitute a waiver by the other of its rights; and
  - (iii) **(exceptions to clause 9.2(a)(i))**
    - (A) neither of Primavera or Primavera Capital Fund II is responsible for, or incurs any liability arising from any:
      - (I) act;
      - (II) omission; or
      - (III) breach of any of this document, the Implementation Deed or the Deed Pollby Shanghai Pharma, SIIC Medical Science or either of their Subsidiaries, Authorised Persons or Related Bodies Corporate.
    - (B) neither of SIIC Medical Science or Shanghai Pharma is responsible for, or incurs any liability arising from any:
      - (I) act;
      - (II) omission; or
      - (III) breach of any of this deed, the Scheme or the Deed Pollby Primavera Capital Fund II, Primavera or either of their Subsidiaries, Authorised Persons or Related Bodies Corporate.
- (b) **(Primavera Capital Fund II and Shanghai Pharma)** Notwithstanding any other provision in this document, the Implementation Deed and the Deed Poll, the obligations of the Guarantors is several and in each Guarantor’s Relevant Proportion.

## 10. General

### 10.1 Stamp duty

BidCo will procure that AcquireCo pays all stamp duty payable in connection with the transfer of the Scheme Shares to AcquireCo.



## **10.2 Notices**

- (a) Where a notice, transfer, transmission application or other communication referred to in this Scheme is sent by post to Target, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Target's registered office or at the Share Registry (as the case may be).
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Target Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

## **10.3 Inconsistencies**

This Scheme binds Target and all Target Shareholders, and to the extent of any inconsistency, overrides the Target constitution.

## **10.4 No liability when acting in good faith**

None of Target, BidCo, AcquireCo and, the Guarantors nor any of their respective directors, officers, secretaries or employees will be liable for anything done or omitted to be done in good faith in the performance of this Scheme or the Deed Poll.

## **10.5 Further assurances**

The Scheme Shareholders agree and consent to Target, BidCo, AcquireCo and the Guarantors executing all documents and doing all acts as may be necessary or expedient for the implementation of, and performance of its obligations, under this Scheme.

## **10.6 Governing law and jurisdiction**

- (a) This Scheme is governed by the laws of New South Wales, Australia.
- (b) The parties irrevocably submit to the non exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme.



# Annexure C

## Deed Poll

Annexure to Scheme Booklet  
For the scheme of arrangement in  
relation to Vitaco Holdings Limited



EXECUTION VERSION

# Deed poll

—  
PV Zeus Limited (**Primavera**)

SIIC Medical Science and Technology (Group)  
Limited (**SIIC Medical Science**)

Primavera Capital Fund II L.P., acting through its  
general partner Primavera Capital GP II Ltd.  
(**Primavera Capital Fund II**)

Shanghai Pharmaceuticals Holding Co., Ltd.  
(**Shanghai Pharma**)

Each Scheme Shareholder  
—

Level 40 Governor Macquarie Tower 1 Farrer Place  
Sydney NSW 2000 Australia DX 117 Sydney  
T +61 2 9921 8888 F +61 2 9921 8123  
minterellison.com

ME\_133741778\_1 (W2007)

## MinterEllison



# Deed poll

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## Details

### Date

This deed poll is made by:

Name **PV Zeus Limited**

Short form name **Primavera**

Notice details 28th Floor, 28 Hennessy Road,  
Wanchai, Hong Kong  
Email: Max.Chen@primavera-capital.com

Attention: Max Chen, Managing Director

Name **SIIC Medical Science and Technology (Group) Limited**

Short form name **SIIC Medical Science**

Notice details Flat 402, 4/F, Fairmont House,  
No.8 Cotton Tree Drive,  
Admiralty, Hong Kong  
Email: shenb@sphchina.com

Attention: Shen Bo

Name **Shanghai Pharmaceuticals Holding Co., Ltd.**

Short form name **Shanghai Pharma**

Notice details No. 92 Zhangjiang Road,  
Pudong New District,  
Shanghai, People's Republic of China  
Email: menglj@sphchina.com

Attention: Meng Lingjun

Name **Primavera Capital Fund II L.P., acting through its general partner Primavera Capital GP II Ltd.**

Short form name **Primavera Capital Fund II**

Notice details c/o Intertrust Corporate Services (Cayman) Limited  
190 Elgin Avenue, George Town  
Grand Cayman KY1-9005, Cayman Islands  
Email: Max.Chen@primavera-capital.com

Attention: Max Chen, Managing Director

in favour of:

Each Scheme Shareholder



---

## Background

- A On 3 August 2016, BidCo, the Guarantors and Target entered into a scheme implementation deed with respect to the Scheme and associated matters (**Implementation Deed**).
- B The effect of the Scheme will be to transfer all Scheme Shares to AcquireCo (which BidCo has nominated to take transfer of the Scheme Shares in accordance with the provisions of clause 20.3 of the Implementation Deed) in exchange for the Scheme Consideration.
- C Primavera and Primavera Capital Fund II are entering into this deed poll to covenant in favour of the Scheme Shareholders that they will, severally and in their Relevant Proportions, perform all actions attributed to each of them under the Scheme.
- D SIIC Medical Science and Shanghai Pharma are entering into this deed poll to covenant in favour of the Scheme Shareholders that they will, severally and in their Relevant Proportions, perform all actions attributed to each of them under the Scheme.



# Agreed terms

## 1. Defined terms & interpretation

### 1.1 Defined terms and clause 20 of the Implementation Deed

- (a) In this deed poll, unless otherwise defined, capitalised words and phrases have the same meaning as given to them in the Implementation Deed.
- (b) The provisions of clause 20 of the Implementation Deed are incorporated into this deed poll by reference.

### 1.2 Interpretation

In this deed poll, headings are for convenience only and do not affect its interpretation and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) a reference to any document (including the Scheme) is to that document as varied, novated, ratified or replaced; and
- (c) a reference to a clause, party, annexure or schedule is a reference to a clause of, and a party, annexure and schedule to, this deed poll and a reference to this deed poll includes any annexure and schedule.

## 2. Nature of this deed poll

BidCo and the Guarantors each acknowledges that:

- (a) this deed poll may be relied on, and enforced by, any Scheme Shareholder in accordance with its terms even though the Scheme Shareholder is not a party to it; and
- (b) each Scheme Shareholder irrevocably appoints Target and each of its directors and officers (jointly and severally) as its agent and attorney to enforce this deed poll against BidCo and the Guarantors on behalf of that Scheme Shareholder.

## 3. Condition precedent and termination

### 3.1 Condition precedent to obligations of the Scheme

The obligations of BidCo and the Guarantors under this deed poll are subject to the Scheme becoming Effective.

### 3.2 Termination

This deed poll and the obligations of BidCo and the Guarantors under this deed poll will automatically terminate, and the terms of this deed poll will be of no further force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the End Date,

unless Target and BidCo otherwise agree.

### 3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) BidCo and the Guarantors are each released from their respective obligations to further perform this deed poll, except those obligations under clause 8.4; and
- (b) each Scheme Shareholder retains the rights it has against BidCo and the Guarantors in respect of any breach of this deed poll which occurs before it terminated.



#### 4. Scheme obligations

- (a) Subject to clause 3, Primavera and Primavera Capital Fund II each severally covenant in favour of each Scheme Shareholder to perform all actions attributed to each of them in their Relevant Proportions under, and otherwise comply with, the Scheme as if they were each a party to the Scheme.
- (b) Subject to clause 3, SIIC Medical Science and Shanghai Pharma each severally covenant in favour of each Scheme Shareholder to perform all actions attributed to each of them in their Relevant Proportions under, and otherwise comply with, the Scheme as if they were each a party to the Scheme.

#### 5. Warranties

Each of BidCo and the Guarantors severally represents and warrants to each Scheme Shareholder in respect of itself only that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation or registration;
- (b) **(power)** it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into of this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is its valid and binding obligation enforceable in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
  - (i) a law or treaty or a judgment, ruling, order or decree of a Governmental Agency or regulatory authority binding on it;
  - (ii) its constitution or other constituent documents; or
  - (iii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

#### 6. Continuing obligations

##### 6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) in the case of Primavera and Primavera Capital Fund II, Primavera and Primavera Capital Fund II having fully performed their respective obligations under this deed poll; and
- (b) in the case of SIIC Medical Science and Shanghai Pharma, SIIC Medical Science and Shanghai Pharma having fully performed their respective obligations under this deed poll; and
- (c) termination of this deed poll under clause 3.2.

##### 6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the First Court Date, the variation is agreed to in writing by Target; or



- (b) on or after the First Court Date, the variation is agreed to in writing by Target and the Court indicates that the variation would not of itself preclude the approval of the Scheme, in which event BidCo and the Guarantors will enter into a further deed poll (in which, amongst other things and where applicable, their obligations will be several and in their Relevant Proportions) in favour of each Scheme Shareholder giving effect to the amendment.

## 7. Notices

Any notice, demand or other communication to BidCo or any of the Guarantors in respect of this deed poll:

- (a) must be in legible writing, in English and signed by the sender or a person duly authorised by it;
- (b) must be addressed as shown on the Details page (or as otherwise notified by that party to the other party from time to time);
- (c) must be delivered or posted by prepaid post to the address of the addressee in accordance with clause 7(b);
- (d) will be conclusively taken to be duly given or made:
  - (i) **(in the case of prepaid post)** on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;
  - (ii) **(in the case of delivery by hand)** on delivery at the address of the addressee as provided on the Details page, unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day; and
  - (iii) **(in the case of email)** 4 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered.

## 8. General provisions

### 8.1 Assignment

- (a) The rights and obligations of BidCo, the Guarantors and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of BidCo, the Guarantors and Target.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

### 8.2 Cumulative rights

The rights, powers and remedies of BidCo, the Guarantors and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

### 8.3 No waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise by a party of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be in writing and signed by the party giving the waiver.

### 8.4 Stamp duty

BidCo:

- (a) must pay or procure the payment of all stamp duty (if any) any related fines, penalties and interest in respect of the Scheme and this deed poll (including the acquisition or transfer of



Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Scheme and this deed poll; and

- (b) indemnifies and undertakes to keep indemnified each Scheme Shareholder against any liability arising from failure to comply with clause 8.4(a).

#### **8.5 Further assurances**

BidCo and the Guarantors will, at their own expense, do all things reasonably required of it to give full effect to the matters referred to in this deed poll and to implement the Scheme.

#### **8.6 Governing law and jurisdiction**

- (a) This deed poll is governed by the laws of the State of New South Wales.
- (b) Each party irrevocably submits to the exclusive jurisdiction of courts of New South Wales and of the courts competent to determine appeals from those courts.
- (c) Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

#### **8.7 Appointment of agent for service**

BidCo and each Guarantor severally appoints King & Wood Mallesons as its agent to accept on its behalf service of initiating process in any proceedings relating to or arising out of the transactions contemplated by this deed poll.

#### **8.8 Counterparts**

- (a) This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart. Each counterpart is an original but the counterparts together are one and the same deed.
- (b) This deed is binding on the parties on the exchange of duly executed counterparts.

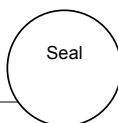


## Signing page

**EXECUTED** as a deed poll.

**Executed by PV ZEUS LIMITED** acting by the following authorised officer

Signature of authorised officer

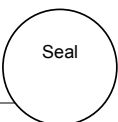


**KENNETH WONG**

Name of authorised officer (print)

**Executed by SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED** acting by the following authorised officer

Signature of authorised officer

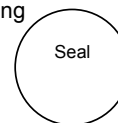


**CHO MAN**

Name of authorised officer (print)

**Executed by PRIMAVERA CAPITAL FUND II L.P.**, by its general partner **PRIMAVERA CAPITAL GP II LTD.**, acting by the following authorised officer

Signature of authorised officer

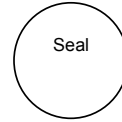


**KENNETH WONG**

Name of authorised officer (print)



**Executed** by CHO Man as attorney for  
**SHANGHAI PHARMACEUTICALS HOLDING  
CO., LTD.** under power of attorney in the presence  
of:



李靜文  
Signature

fyles  
By executing this document the attorney states that the  
attorney has received no notice of revocation of the power of  
attorney

LI JINGWEN  
Name of witness (print)



# Annexure D

## Notices of Meeting

Annexure to Scheme Booklet  
For the scheme of arrangement in  
relation to Vitaco Holdings Limited



## Notice of Vitaco Scheme Meeting

Vitaco Holdings Limited ACN 606 826 493

### Notice of Vitaco Scheme Meeting

Notice is hereby given, that by an order of the Federal Court of Australia pursuant to section 411(1) of the Corporations Act 2001 (Cth), a meeting of shareholders of Vitaco Holdings Limited (Vitaco) will be held at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 on Wednesday, 30 November 2016 at 10.00am (AET).

### Business of meeting

The purpose of the Vitaco Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without modification) to be made between Vitaco and Vitaco Shareholders.

### Resolution

The Vitaco Scheme Meeting will be asked to consider, and, if thought fit, to pass the following resolution:

‘That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Federal Court of Australia).’

By order of the board of Vitaco Holdings Limited.

**Phillip Wiltshire**

Company Secretary

Dated: 26 October 2016



## Explanatory notes

### Material accompanying this notice

This notice of Vitaco Scheme Meeting should be read in conjunction with the booklet of which this notice forms part (**Scheme Booklet**). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in **Section 10** of the Scheme Booklet. A Proxy Form also accompanies this notice.

### Voting

The Vitaco Directors recommend that you vote in favour of the Vitaco Scheme Resolution. Each Director intends to vote all Vitaco Shares held by them in favour of the Scheme Resolutions.

### Quorum

A quorum for a meeting of Vitaco Shareholders is 5 or more Vitaco Shareholders present at the Vitaco Scheme Meeting and entitled to vote on the Vitaco Scheme Resolution.

### Majorities required

In accordance with section 411(4)(a) of the Corporations Act, for the Vitaco Scheme to be approved by Vitaco Shareholders, the Vitaco Scheme Resolution must be passed by:

- unless the court orders otherwise, a majority in number of holders of Vitaco Shares present and voting (either in person or by proxy) at the Vitaco Scheme Meeting; and
- at least 75% of the votes cast on the Vitaco Scheme Resolution.

### Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become effective, the Scheme must be approved by the order of the Court. If the Vitaco Scheme Resolution (set out in this notice) and the Management Scheme Resolution (set out in the notice of Management Scheme Meeting) are agreed to by the required majorities and the conditions that apply to the Scheme are satisfied or waived (where capable of waiver), Vitaco will apply to the Court for the necessary orders to give effect to the Scheme.

### Determination of entitlement to attend and vote

For the purposes of the Vitaco Scheme Meeting, Vitaco Shares will be taken to be held by the persons who are registered as Vitaco Shareholders (excluding Management Shareholders) at 7.00pm (AET) on Monday, 28 November 2016. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Vitaco Scheme Meeting.

### How to vote

If you are a Vitaco Shareholder entitled to attend and vote at the Vitaco Scheme Meeting, you may vote by:

- appointing a proxy to attend on your behalf;
- appointing an attorney to vote on your behalf;
- attending the Vitaco Scheme Meeting, and voting, in person; or
- in the case of a corporation which is a Vitaco Shareholder, by appointing an authorised corporate representative to attend and vote on its behalf.

### Voting at the Vitaco Scheme Meeting will occur by poll

All persons attending the Vitaco Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Vitaco Scheme Meeting is to commence, so that either their shareholding may be checked against the Register, their power of attorney or appointment as corporate representative can be verified (as the case may be) and their attendance noted.

### Jointly held securities

If your Vitaco Shares are jointly held, each of the joint shareholders is entitled to vote at the Vitaco Scheme Meeting. However, if more than one Vitaco Shareholder votes in respect of jointly held Vitaco Shares, only the vote of the Vitaco Shareholder whose name appears first on the Register will be counted.

### Voting in person

To vote in person at the Vitaco Scheme Meeting, you must attend the Vitaco Scheme Meeting to be held at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 on Wednesday, 30 November 2016. The Vitaco Scheme Meeting will commence at 10.00am. A Vitaco Shareholder who wishes to attend and vote at the Vitaco Scheme Meeting in person will be admitted to the Vitaco Scheme Meeting and given a voting card on providing, at the point of entry to the Vitaco Scheme Meeting, their name and address.



## Voting by proxy

A Vitaco Shareholder entitled to attend and vote at the Vitaco Scheme Meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy Form is enclosed with this Scheme Booklet. You may appoint not more than two proxies to attend and act for you at the Vitaco Scheme Meeting. A proxy need not be a Vitaco Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Vitaco Scheme Meeting.

A proxy will be admitted to the Vitaco Scheme Meeting and given a voting card on providing, at the point of entry to the Vitaco Scheme Meeting, their name and address.

The sending of a Proxy Form will not preclude a Vitaco Shareholder from attending in person and voting at the Vitaco Scheme Meeting if the Vitaco Shareholder is entitled to attend and vote.

For the appointment of a proxy to be effective, the Proxy Form enclosed with this Notice of Vitaco Scheme Meeting must be completed and:

- lodged online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au);
- deposited at the Vitaco Registry at Link Market Services Limited, located at Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138;
- sent by post to Vitaco Holdings Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia; or
- sent by facsimile to the Vitaco Registry on +61 2 9287 0309.

An authority under which the Proxy Form is executed, or a certified copy of that authority, must be deposited at the Vitaco Registry or sent by post to the address above (and received) before the cut-off time. Please note that Proxy Forms must be received by the Vitaco Registry by no later than 10.00am (AET) on Monday, 28 November 2016.

Vitaco Shareholders wishing to lodge electronic proxies online may do so by accessing the Investor Vote system at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and then inputting the shareholder's secure access information to commence voting. Vitaco Shareholders must lodge electronic proxies online no later than 10.00am (AET) on Monday, 28 November 2016.

## Voting by attorney

For the appointment of an attorney to be effective, the instrument appointing the attorney and the power of attorney under which it was executed, or a certified copy of that power, must be deposited or sent by post in the manner and within the time period set out above.

An attorney will be admitted to the Vitaco Scheme Meeting and given a voting card on providing, at the point of entry of the Vitaco Scheme Meeting, evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude a Vitaco Shareholder from attending in person and voting at the Vitaco Scheme Meeting if the Vitaco Shareholder is entitled to attend and vote.

## Voting by corporate representative

To vote at the Vitaco Scheme Meeting (other than by proxy or by attorney), a corporation that is a Vitaco Shareholder must appoint a person (either by name or position and whether a Vitaco Shareholder or not) to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Vitaco Scheme Meeting and given a voting card on providing, at the point of entry to the Vitaco Scheme Meeting, evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.



## Notice of Management Scheme Meeting

Vitaco Holdings Limited ACN 606 826 493

### Notice of meeting

Notice is hereby given, that by an order of the Federal Court of Australia pursuant to section 411(1) of the *Corporations Act 2001* (Cth), a meeting of Management Shareholders of Vitaco Holdings Limited (**Vitaco**) will be held at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 on Wednesday, 30 November 2016 immediately following conclusion of the Vitaco Scheme Meeting.

### Business of meeting

The purpose of the Management Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without modification) to be made between Vitaco and Vitaco Shareholders.

### Resolution

The Management Scheme Meeting will be asked to consider, and, if thought fit, to pass the following resolution:

‘That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Federal Court of Australia).’

By order of the board of Vitaco Holdings Limited.

**Phillip Wiltshire**  
Company Secretary

Dated: 26 October 2016



## Explanatory notes

### Material accompanying this notice

This notice of Management Scheme Meeting should be read in conjunction with the booklet of which this notice forms part (**Scheme Booklet**). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in **Section 10** of the Scheme Booklet. A Proxy Form also accompanies this notice.

### Voting

The Vitaco Directors recommend that you vote in favour of the Management Scheme Resolution. Each Vitaco Director intends to vote all Vitaco Shares held by them in favour of the Scheme Resolutions.

### Quorum

A quorum for the Management Scheme Meeting is 5 or more Management Shareholders present at the meeting and entitled to vote on the Management Scheme Resolution at the Management Scheme Meeting.

### Majorities required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme to be approved by Management Shareholders, the Management Scheme Resolution must be passed by:

- unless the court orders otherwise, a majority in number of holders of Management Shares present and voting (either in person or by proxy) at the Management Scheme Meeting; and
- at least 75% of the votes cast on the Management Scheme Resolution.

### Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become effective, the Scheme must be approved by the order of the Court. If the Management Scheme Resolution (set out in this notice) and the Vitaco Scheme Resolution (set out in the notice of Vitaco Scheme Meeting) are agreed to by the required majorities and the conditions that apply to the Scheme are satisfied or waived (where capable of waiver), Vitaco will apply to the Court for the necessary orders to give effect to the Scheme.

### Determination of entitlement to attend and vote

For the purposes of the Management Scheme Meeting, Management Shares will be taken to be held by the persons who are Management Shareholders at 7.00pm (AET) on Monday, 28 November 2016. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Management Scheme Meeting.

### How to vote

If you are a Management Shareholder entitled to attend and vote at the Management Scheme Meeting, you may vote by:

- appointing a proxy to attend on your behalf;
- appointing an attorney to vote on your behalf;
- attending the Management Scheme Meeting, and voting, in person; or
- in the case of a corporation which is a Management Shareholder, by appointing an authorised corporate representative to attend and vote on its behalf.

### Voting at the Management Scheme Meeting will occur by poll

All persons attending the Management Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Management Scheme Meeting is to commence, so that either their shareholding may be checked against the Register, their power of attorney or appointment as corporate representative can be verified (as the case may be) and their attendance noted.

### Jointly held securities

If your Management Shares are jointly held, each of the joint shareholders is entitled to vote at the Management Scheme Meeting. However, if more than one Management Shareholder votes in respect of jointly held Management Shares, only the vote of the Management Shareholder whose name appears first on the Register will be counted.

### Voting in person

To vote in person at the Management Scheme Meeting, you must attend the Management Scheme Meeting to be held at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 on Wednesday, 30 November 2016. The Management Scheme Meeting will commence immediately following the Vitaco Scheme Meeting which is being held at Northcott Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000 on Wednesday, 30 November 2016 at 10.00am. A Management Shareholder who wishes to attend and vote at the Management Scheme Meeting in person will be admitted to the Management Scheme Meeting and given a voting card on providing, at the point of entry to the Management Scheme Meeting, their name and address.



### Voting by proxy

A Management Shareholder entitled to attend and vote at the Management Scheme Meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy Form is enclosed with this Scheme Booklet. A Management Shareholder may appoint not more than 2 proxies to attend and act for you at the Management Scheme Meeting. A proxy need not be a Management Shareholder or a Vitaco Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Management Scheme Meeting.

A proxy will be admitted to the Management Scheme Meeting and given a voting card on providing, at the point of entry to the Management Scheme Meeting, their name and address.

The sending of a Proxy Form will not preclude a Management Shareholder from attending in person and voting at the Management Scheme Meeting if the Management Shareholder is entitled to attend and vote.

For the appointment of a proxy to be effective, the Proxy Form enclosed with this Notice of Management Scheme Meeting must be completed and:

- lodged online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au);
- deposited at the Vitaco Registry at Link Market Services Limited, located at Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138;
- sent by post to Vitaco Holdings Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia; or
- sent by facsimile to the Vitaco Registry on +61 2 9287 0309.

An authority under which the Proxy Form is executed, or a certified copy of that authority, must be deposited at the Vitaco Registry or sent by post to the address above (and received) before the cut-off time.

Please note that Proxy Forms must be received by the Vitaco Registry by no later than 10.00am (AET) on Monday, 28 November 2016.

Management Shareholders wishing to lodge electronic proxies online may do so by accessing the Investor Vote system at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and then inputting the shareholder's secure access information to commence voting. Management Shareholders must lodge electronic proxies online no later than 10.00am (AET) on Monday, 28 November 2016.

### Voting by attorney

For the appointment of an attorney to be effective, the instrument appointing the attorney and the power of attorney under which it was executed, or a certified copy of that power, must be deposited or sent by post in the manner and within the time period set out above.

An attorney will be admitted to the Management Scheme Meeting and given a voting card on providing, at the point of entry of the Management Scheme Meeting, evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude a Management Shareholder from attending in person and voting at the Management Scheme Meeting if the Management Shareholder is entitled to attend and vote.

### Voting by corporate representative

To vote at the Management Scheme Meeting (other than by proxy or by attorney), a corporation that is a Management Shareholder must appoint a person (either by name or position and whether a Management Shareholder or not) to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Management Scheme Meeting and given a voting card on providing, at the point of entry to the Management Scheme Meeting, evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointees.



# Annexure E

## Scheme Implementation Deed

Annexure to Scheme Booklet  
For the scheme of arrangement in  
relation to Vitaco Holdings Limited



EXECUTION VERSION

# Scheme Implementation Deed

—  
Vitaco Holdings Limited (**Target**)

PV Zeus Limited (**Primavera**)

SIIC Medical Science and Technology (Group)  
Limited (**SIIC Medical Science**)

Primavera Capital Fund II L.P., acting through its  
general partner Primavera Capital GP II Ltd.  
(**Primavera Capital Fund II**)

Shanghai Pharmaceuticals Holding Co., Ltd.  
(**Shanghai Pharma**)  
—

Level 40 Governor Macquarie Tower 1 Farrer Place  
Sydney NSW 2000 Australia DX 117 Sydney  
T +61 2 9921 8888 F +61 2 9921 8123  
minterellison.com

MinterEllison



# Scheme Implementation Deed

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## Details

Date

3 AUGUST 2016

### Parties

Name	<b>Vitaco Holdings Limited</b>
ABN	42 606 826 493
Short form name	<b>Target</b>
Notice details	Level 1 82 Waterloo Road North Ryde NSW 2113 Australia  Email: grichard@bigpond.net.au Copy to: phil.wiltshire@vitaco.com.au  Attention: Greg Richards, Chairman, copy to Phillip Wiltshire, Company secretary
Name	<b>PV Zeus Limited</b>
Short form name	<b>Primavera</b>
Notice details	28th Floor, 28 Hennessy Road, Wanchai, Hong Kong Email: Max.Chen@primavera-capital.com Attention: Max Chen, Managing Director
Name	<b>SIIC Medical Science and Technology (Group) Limited</b>
Short form name	<b>SIIC Medical Science</b>
Notice details	Flat 402, 4/F, Fairmont House, No.8 Cotton Tree Drive, Admiralty, Hong Kong Email: shenb@sphchina.com Attention: Shen Bo
Name	<b>Shanghai Pharmaceuticals Holding Co., Ltd.</b>
Short form name	<b>Shanghai Pharma</b>
Notice details	No. 92 Zhangjiang Road, Pudong New District, Shanghai, People's Republic of China Email: menglj@sphchina.com Attention: Meng Lingjun
Name	<b>Primavera Capital Fund II L.P., acting through its general partner Primavera Capital GP II Ltd.</b>
Short form name	<b>Primavera Capital Fund II</b>
Notice details	c/o Intertrust Corporate Services (Cayman) Limited 190 Elgin Avenue, George Town Grand Cayman KY1-9005, Cayman Islands



Email: Max.Chen@primavera-capital.com  
Attention: Max Chen, Managing Director

---

## Background

- A Target and BidCo have agreed to implement the Proposed Transaction on the terms and subject to the conditions of this deed.
- B Target and BidCo have agreed certain other matters in connection with the Proposed Transaction as set out in this deed.
- C The Guarantors (acting severally, each in its Relevant Proportion, and Primavera Capital Fund II in respect of the obligations of Primavera only and Shanghai Pharma in respect of the obligations of SIIC Medical Science only) have each agreed to guarantee certain of the obligations of, and to provide funding to, BidCo in connection with the Proposed Transaction.



# Agreed terms

## 1. Defined terms & interpretation

### 1.1 Defined terms

In this deed, unless the context otherwise requires, the following words and expressions have meanings as follows:

**AcquireCo** means a proprietary company to be incorporated under the laws of Victoria, Australia, which will be a wholly-owned subsidiary of HK HoldCo (which will be an entity directly held by Primavera and SIIC Medical Science in their Relevant Proportions).

**Adviser** means any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to Target, BidCo or the Guarantors in connection with the Proposed Transaction.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning given in Division 2 of Part 1.2 of the Corporations Act as if section 12(1) of that Act included a reference to this deed and Target was the designated body.

**ASX** means ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.

**Authorised Person** means, in respect of a person, including the Guarantors:

- (a) a director, officer, partner, member or employee of the person;
- (b) an Adviser of the person;
- (c) a director, officer or employee of an Adviser of the person; and
- (d) where the person is a Guarantor, a Guarantor Related Person.

**BidCo** means Primavera and SIIC Medical Science, acting severally, in their Relevant Proportions and subject at all times to the provisions of clause 20.

**BidCo Group** means BidCo and each of its Subsidiaries (excluding, at any time, Target and its Subsidiaries to the extent that Target and its Subsidiaries are subsidiaries of BidCo at that time). A reference to a member of the **BidCo Group** or a **BidCo Group Member** is a reference to BidCo or any such Subsidiary.

**BidCo Indemnified Parties** means each Authorised Person of a member of the BidCo Group respectively.

**BidCo Warranties** means the representations and warranties of BidCo set out in clause 11.1.

**Business Day** means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales, Australia, Hong Kong Special Administrative Region of the People's Republic of China and Shanghai, People's Republic of China.

**Claim** means a claim, notice, demand, action, proceeding, litigation, prosecution, arbitration, investigation, judgement, award, damage, loss, costs, expense or liability however arising, whether present, unascertained, immediate, future or contingent, whether based in contract, tort or statute.

**Competing Transaction** means any offer, expression of interest, proposal, transaction or arrangement by a third party (other than BidCo, the Guarantors or their Related Bodies Corporate) that, if completed, would mean a person or two or more persons who are Associates:

- (a) would acquire a Relevant Interest or voting power in 10% or more of Target's Shares or of securities of any member of the Target Group;
- (b) would enter into, buy, dispose of, terminate or otherwise deal with any cash settled equity swap or other synthetic, economic or derivative transaction connected with or relating to 10% or more of the Target Shares or of the securities or any member of the Target Group;



- (c) would directly or indirectly acquire or obtain an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, Target or any member of the Target Group;
- (d) would acquire Control of Target or any member of the Target Group; or
- (e) may otherwise acquire, or merge with, Target or any member of the Target Group,

whether by way of takeover bid, scheme of arrangement, capital reduction, buy-back, sale of assets, sale of securities, strategic alliance, dual listed company structure (or other synthetic merger), joint venture, partnership or any proposal by Target to implement any reorganisation of capital. Each successive material modification or variation of any proposal, offer or transaction in relation to a Competing Transaction will constitute a new Competing Transaction.

**Conditions** means the conditions set out in clause 3.1 and **Condition** means any one of them.

**Confidentiality Agreement** means the confidentiality agreement between Target and the Guarantors dated 23 May 2016.

**Control** has the meaning given under section 50AA of the Corporations Act. **Controlled** has the equivalent meaning.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Court** means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the parties may agree in writing.

**Deed Poll** means the deed poll to be executed in favour of the Scheme Shareholders prior to the First Court Date, in the form to be agreed by the parties acting in good faith.

**Deferred Exercise Price Amount** has the meaning given to that term in clause 5.1.

**Delivery Time** means 8.00am on the Second Court Date.

**Due Diligence Material** means:

- (a) all documents and written information disclosed by, or on behalf of, Target and its Subsidiaries (including management presentations and all written responses provided in response to written questions or requests for information) to BidCo, the Guarantors or any of their respective Authorised Persons prior to the date of this deed for the purposes of the Proposed Transaction; and
- (b) all documents and information disclosed by, or on behalf of, Target and its Subsidiaries (including management presentations and all written responses provided in response to written questions or requests for information) contained in the Project Anderson online data room, the index for which materials have been initialled for identification by Target's solicitors on behalf of Target and by BidCo's solicitors on behalf of BidCo.

**Effective** means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

**Effective Date**, with respect to the Scheme, means the date on which the Scheme becomes Effective.

**End Date** means the later of:

- (a) 31 March 2017; or
- (b) such other date and time agreed in writing between BidCo and Target.

**Equity Commitment Letters** means the binding, executed commitment letters dated on or about the date of this deed addressed to:

- (a) Primavera and Target from Primavera Capital Fund II and agreed to, and accepted by, Target and Primavera; and
- (b) SIIC Medical Science and Target from Shanghai Pharma and agreed to, and accepted by, Target and SIIC Medical Science.

**Escrow Agreement** means the escrow agreement to be executed by Stakeholder, Primavera, SIIC Medical Science and Target in which, amongst other things, those parties will agree their



respective rights and obligations relating to the cash component of the Scheme Consideration to be held by the Stakeholder in the Escrow Account and the Letters of Credit to be delivered to, and held by, the Stakeholder.

**Escrow Account** means a settlement escrow account operated by the Stakeholder and subject to the Escrow Agreement.

**Excluded Shareholder** means any Target Shareholder who is a member of the BidCo Group, Primavera Capital Fund II, Shanghai Pharma or a wholly-owned subsidiary of Primavera Capital Fund II or Shanghai Pharma.

**Exclusivity Period** means the period commencing on the date of this deed and ending on the earliest of:

- (a) the End Date;
- (b) the Effective Date of the Scheme; and
- (c) the date this deed is terminated in accordance with its terms.

**FATA** means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

**First Court Date** means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act.

**Governmental Agency** means any foreign or Australian government or representative of a government or any foreign or Australian governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister, ASIC, ASX and any regulatory organisation established under statute or any stock exchange and includes any PRC Governmental Agency.

**Guaranteed Obligations** has the meaning given to that term in clause 6.1(c).

**Guarantor** means each of Primavera Capital Fund II and Shanghai Pharma, acting severally, in their Relevant Proportions and subject at all times to the provisions of clause 20.

**Guarantor Indemnified Parties** means each of:

- (a) Primavera Capital Fund II and its Related Bodies Corporate and Authorised Persons; and
  - (b) Shanghai Pharma and its Related Bodies Corporate and Authorised Persons,
- respectively.

**Guarantor Prescribed Occurrence** means the occurrence of an Insolvency Event in relation to BidCo or a Guarantor.

**Guarantor Related Person** means, in respect of a Guarantor:

- (a) a Related Body Corporate of that Guarantor; and
- (b) any director, officer, member or employee of that Guarantor or of a Related Body Corporate of that Guarantor.

**Headcount Test** means the requirement under section 411(4)(a)(ii)(A) of the Corporations Act that the resolution to approve the Scheme at the Scheme Meeting is passed by a majority in number of Target Shareholders present and voting, either in person or by proxy.

**HK HoldCo** means a private company to be incorporated under the laws of Hong Kong Special Administrative Region of the People's Republic of China and to be held by each of Primavera and SIIC Medical Science in their Relevant Proportions, and all references in this document to HK HoldCo are to HK HoldCo following its incorporation.

**HK HoldCo Share** means a management share in HK HoldCo which:

- (a) is a separate class of share;
- (b) has the right to vote only at class meetings of holders of HK HoldCo Shares or otherwise as the directors of HK HoldCo determine;
- (c) has other rights and transfer restrictions; and



- (d) on specified events acquires rights equivalent to ordinary shares, in accordance with a termsheet, the terms of which are to be agreed between BidCo and Management Shareholders (acting reasonably) or failing agreement between BidCo and Management Shareholders, determined by BidCo acting reasonably and in good faith.

**Illegitimate Circumstances** means circumstances where the benefit was not legitimately due to that person or the person was not legally permitted to be influenced by the benefit.

**Implementation Date** means, with respect to the Scheme, the fifth Business Day, or such other Business Day as the parties agree, following the Record Date for the Scheme.

**Impugned Amount** has the meaning given to that term in clause 15.4.

**Independent Expert** means an expert, independent of the parties, engaged by Target in good faith, to opine on whether the Scheme is in the best interest of Target Shareholders.

**Independent Expert's Report** means the report from the Independent Expert commissioned by Target for inclusion in the Scheme Booklet, which includes a statement by the Independent Expert on whether, in its opinion, the Scheme is in the best interests of Target Shareholders (and sets out the reasons for that opinion), and includes any update of that report by the Independent Expert.

**Insolvency Event** means in relation to a person:

- (a) **insolvency official:** the appointment of a liquidator, provisional liquidator, administrator, statutory manager, controller, receiver, receiver and manager or other insolvency official (whether under an Australian law or a foreign law) to the person or to the whole or a substantial part of the property or assets of the person and the action is not stayed, withdrawn or dismissed within 14 days;
- (b) **arrangements:** the entry by the person into a compromise or arrangement with its creditors generally;
- (c) **winding up:** the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or order for the winding up or deregistration of the person other than where the application or order (as the case may be) is set aside or withdrawn within 14 days;
- (d) **suspends payments:** the person suspends or threatens to suspend payment of its debts as and when they become due;
- (e) **ceasing business:** the person ceases or threatens to cease to carry on business;
- (f) **insolvency:** the person is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act;
- (g) **deregistration:** the person being deregistered as a company or otherwise dissolved;
- (h) **deed of company arrangement:** the person executing a deed of company arrangement;
- (i) **person as trustee or partner:** the person incurs a liability while acting or purporting to act as trustee (or co-trustee) or general partner of a trust or partnership (including a limited partnership) and the person is not entitled to be fully indemnified against the liability out of trust or partnership assets because of one or more of the following:
  - (i) a breach of trust or obligation as partner by the person;
  - (ii) the person acting outside the scope of its powers as trustee or partner;
  - (iii) a term of the trust or partnership denying, or limiting, the person's right to be indemnified against the liability;
  - (iv) the assets of the trust or partnership being insufficient to discharge the liability; or
- (j) **analogous events:** anything analogous to those set out in any of paragraphs (a) to (g) inclusive occurs in relation to the person under the laws of a foreign jurisdiction,

and a person shall be **Insolvent** if any event specified in paragraphs (a) to (j) inclusive occurs in respect of that person.



**Interest Rate** means the 30 day Bank Bill Swap Reference Rate as published as at the relevant due date for payment in the 'Money & Bond Markets' section of The Australian Financial Review.

**Letter of Credit** is defined in clause 4.2(a)(i)(B).

**Listing Rules** means the official listing rules of ASX as amended or waived from time to time.

**Long Term Incentive Plan** means the Target Long Term Incentive Plan dated 21 August 2015.

**Management Shareholder** means each of the following persons:

- (a) Ryan d'Almeida;
- (b) Phillip Wiltshire;
- (c) Roger Scott;
- (d) John Stanton;
- (e) Brent Hall;
- (f) Martin Drinkrow; and
- (g) Jay Drezner.

**Material Contract** is defined in clause 9.2(m).

**Permitted Dividend** means an ordinary dividend in accordance with the current dividend policy of Target that is declared and paid before the Implementation Date, up to a maximum of \$0.033 per Target Share.

**PRC** means the People's Republic of China.

**Proposed Transaction** means:

- (a) the proposed acquisition by BidCo in accordance with the terms and conditions of this deed, of all of the Target Shares (other than the Target Shares held by an Excluded Shareholder) through the implementation of the Scheme; and
- (b) all associated transactions and steps contemplated by this deed.

**Primavera Capital Fund II Claim Amount** is defined in clause 11.10(b)(i)(A).

**Primavera Capital Fund II Information** means such information regarding:

- (a) AcquireCo known to Primavera Capital Fund II or Primavera,
- (b) Primavera;
- (c) Primavera Capital Fund II; and
- (d) Primavera's and Primavera Capital Fund II's indirect interests in HK HoldCo and AcquireCo,

that is provided by, or on behalf of, Primavera Capital Fund II or Primavera or any of their Advisers to Target or the Independent Expert:

- (e) to enable the Scheme Booklet to be prepared and completed in compliance with all applicable laws;
- (f) to enable applications for Regulatory Approvals to be made; and
- (g) otherwise in compliance with Primavera's obligations under clause 7.2(a).

**Primavera Guaranteed Obligations** has the meaning given to that term in clause 6.1(a)(i).

**Record Date** means, in respect of the Scheme, 7.00pm on the third Business Day (or such other Business Day as the parties agree in writing) following the Effective Date.

**Regulatory Approvals** means:

- (a) any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, license, direction, declaration, authority, waiver, modification, or exemption from, by or with a Governmental Agency; or



- (b) in relation to anything that would be fully or partly prohibited or restricted by law if a Governmental Agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

**Related Body Corporate** of a person, means:

- (a) a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted; and
- (b) in respect of a Guarantor, includes any fund, limited partnership or other collective investment vehicle which is managed or controlled by that Guarantor (or its general partner) or a related body corporate (as referred to paragraph (a) above) of that Guarantor.

**Relevant Interest** has the meaning given in the Corporations Act.

**Relevant Notice** has the meaning given to that term in clause 12.6(a)(vi).

**Relevant Proportion** means the following proportions:

- (a) Primavera or Primavera Capital Fund II (as the case may be): 40%; and
- (b) SIIC Medical Science or Shanghai Pharma (as the case may be): 60%.

**Rival Acquirer** has the meaning given to that term in clause 12.6(a)(vii).

**RG 60** means ASIC Regulatory Guide 60 issued by ASIC.

**Scheme** means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Target and Scheme Shareholders in respect of all Scheme Shares, substantially in the form to be agreed by the parties acting in good faith, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by each party.

**Scheme Booklet** means the explanatory booklet to be prepared by Target in respect of the Proposed Transaction in accordance with the terms of this deed and to be despatched to Target Shareholders and which must:

- (a) include the information in clause 7.3(b); and
- (b) comply with the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules.

**Scheme Consideration** means, in respect of each Scheme Share held by:

- (a) a Scheme Shareholder (other than a Management Shareholder), \$2.25 in cash less the amount of any Permitted Dividend; and
- (b) a Scheme Shareholder which is a Management Shareholder, both:
  - (i) that number of HK HoldCo Shares for each Target Management Share held by that Management Shareholder calculated using the following formula:

$$\frac{(2.25 - P)}{V}, \text{ where:}$$

P = the amount of any Permitted Dividend paid or to be paid; and

V = the A\$ equivalent (on the date of funding and by no later than 1 Business Day before the Implementation Date) of the aggregate amount of equity or other forms of funding provided by Primavera and SIIC Medical Science or their affiliates to HK HoldCo divided by the number of ordinary shares in HK HoldCo on issue on the Implementation Date;

and

- (ii) \$2.25 in cash, less the amount of any Permitted Dividend in respect of each Scheme Share for which that Management Shareholder (or its nominee) did not receive HK HoldCo Shares.



**Scheme Consideration Escrow Time** means on or before 10:00am on the day on which the deadline falls for delivery by Target Shareholders to Target of proxies in respect of the Scheme Meeting, which deadline must be no more than 48 hours before the Scheme Meeting.

**Scheme Hearings** means the legal proceedings occurring on the First Court Date or the Second Court Date.

**Scheme Meeting** means the meeting of Target Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

**Scheme Share** means a Target Share on issue as at the Record Date other than:

- (a) any Target Share then held by an Excluded Shareholder (but including any such Target Share held on behalf of one or more third parties who are not Excluded Shareholders or otherwise in a fiduciary capacity on behalf of persons who are not Excluded Shareholders); or
- (b) where the context requires, Target Management Shares.

**Scheme Shareholder** means a person who holds one or more Scheme Shares.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

**Share Splitting** means the splitting by a holder of Target Shares into two or more parcels of Target Shares whether or not it results in any change in beneficial ownership of the Target Shares.

**Shanghai Pharma Claim Amount** is defined in clause 11.10(b)(i)(B).

**Shanghai Pharma Information** means such information regarding:

- (a) AcquireCo known to Shanghai Pharma or SIIC Medical Science;
- (b) SIIC Medical Science;
- (c) Shanghai Pharma; and
- (d) SIIC Medical Science's and Shanghai Pharma's indirect interests in HK HoldCo and AcquireCo,

that is provided by or on behalf of SIIC Medical Science or Shanghai Pharma or any of their Advisers to Target or the Independent Expert:

- (e) to enable the Scheme Booklet to be prepared and completed in compliance with all applicable laws;
- (f) to enable applications for Regulatory Approvals to be made; and
- (g) otherwise in compliance with SIIC Medical Science's obligations under clause 7.2(a).

**SIIC Medical Science Guaranteed Obligations** has the meaning given to that term in clause 6.1(b)(i).

**Stakeholder** means a reputable Australian bank or other institution agreed in writing between BidCo and Target, acting as escrow agent in accordance with the Escrow Agreement.

**Subsidiary** has the meaning given to that term in section 46 of the Corporations Act.

**Superior Proposal** means a bona fide Competing Transaction which the Target Board acting reasonably and in good faith and in order to satisfy what the Target Board reasonably considers to be its fiduciary or statutory duties, and after receiving written advice from its legal and financial advisers, if completed substantially in accordance with its terms, determines is reasonably likely to result in a transaction more favourable to Target Shareholders as a whole than the Proposed



Transaction, having regard to matters including consideration, conditionality, funding, certainty and timing.

**Target Board** means the board of directors of Target as constituted from time to time (or any committee of the board of directors of Target constituted from time to time to consider the Proposed Transaction on behalf of Target).

**Target Break Fee** has the meaning given to that term in clause 13.3(a).

**Target Director** means a director of Target.

**Target Group** means Target and its Subsidiaries.

**Target Indemnified Parties** means each Authorised Person of a member of the Target Group.

**Target Information** means all information to be included by Target in the Scheme Booklet, including information that explains the effect of the Scheme and sets out the information prescribed by the Corporations Act and the *Corporations Regulations 2001* (Cth), and any other information that is material to the making of a decision by Target Shareholders whether or not to vote in favour of the Scheme, being information that is within the knowledge of Target's Directors and has not been previously disclosed to Target Shareholders, but does not include the Primavera Capital Fund II Information, the Shanghai Pharma Information and the Independent Expert's Report.

**Target Management Share** means, in respect of each Target Management Shareholder, each Scheme Share determined using the formula in clause 5.2, being Scheme Shares for which the consideration under the Scheme will be an amount of HK HoldCo Shares determined in accordance with the formula in the definition of Scheme Consideration.

**Target Material Adverse Change** means an event or circumstance that occurs or fails to occur, is announced or becomes known to BidCo (whether or not it becomes public) after the date of this deed which individually, or when aggregated with other event or circumstance of a similar kind or category, has resulted in, or is reasonably likely to result in:

- (a) a material and adverse effect on the business, assets, financial condition, results, operations, reputation or prospects of the Target Group (as a whole); or
- (b) without limiting the generality of paragraph (a):
  - (i) an adverse impact of at least \$31.6 million on the Target Group's consolidated revenue;
  - (ii) the Target Group's consolidated forecast revenue for FY2017 being less than \$179 million; or
  - (iii) an adverse impact of at least \$3.7 million on the Target Group's consolidated EBITDA;each to be determined:
  - (i) in accordance with the principles of Australian International Financial Reporting Standards and consistent with Target's historical basis of preparation of financial statements; and
  - (ii) after taking into account all relevant matters which offset the impact on Target Group's consolidated revenue, consolidated forecast revenue for FY2017 or the Target Group's consolidated EBITDA (as the case may be),

but does not include any matter, event, circumstance or change to the extent:

- (c) Fairly Disclosed in the Due Diligence Materials, or that is reasonably foreseeable to arise from the disclosures in the Due Diligence Materials prior to the date of this deed;
- (d) Fairly Disclosed in documents that were publicly available prior to the date of this deed from public filings of Target with ASX; ASIC or in records open to public inspection maintained:
  - (i) by IP Australia;
  - (ii) by the Land Titles Office (or its equivalent) in each State and Territory in Australia;



- (iii) by the High Court, the Federal Court and the Supreme Courts in every State and Territory in Australia; or
- (iv) on the Australian Personal Property Securities Register;
- (e) occurring as a result of any matter, event or circumstance required by this deed, the Scheme or the transactions contemplated by them (including any reasonable costs incurred as a result of implementing the Scheme);
- (f) occurring as a result of fluctuations to the working capital of the Target Group in the ordinary course of business;
- (g) resulting from changes in the general economic conditions of the Target's industry;
- (h) it relates to any material adverse change or general disruption to the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America, Singapore, Hong Kong, China or the international financial markets or any change in national or international political, financial or economic conditions;
- (i) it relates to the payment by the Target of the Permitted Dividend;
- (j) occurring with the written consent of BidCo; or
- (k) resulting from changes in any applicable law, generally accepted accounting principles or the interpretation of them by any Government Agency.

**Target Options** means an option granted under Target's Long Term Incentive Plan to acquire, on exercise, a Target Share subject to the terms and conditions of such plan.

**Target Parties** means each member of the Target Group and their Related Bodies Corporate and Authorised Persons.

**Target Performance Rights** means a right granted under Target's Long Term Incentive Plan to acquire by way of issue a Target Share subject to the terms and conditions of such plan.

**Target Prescribed Occurrence** means the occurrence of any of the following on or after the date of this deed and before the Delivery Time:

- (a) Target converts all or any of its shares into a larger or smaller number of shares (see section 254H of the Corporations Act);
- (b) any member of the Target Group resolves to reduce its share capital in any way;
- (c) any member of the Target Group:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under subsections 257C(1) or 257D(1) of the Corporations Act;
- (d) any member of the Target Group issues shares, or grants a performance right or an option over its shares, or agrees to make such an issue or grant such a performance right or option other than pursuant to an exercise of an option or performance right before the Record Date where that option or performance right was on issue immediately before the date of this deed;
- (e) any member of the Target Group issues, or agrees to issue, convertible notes;
- (f) any member of the Target Group disposes, or agrees to dispose, of the whole, or a material or substantial part, of its business or property;
- (g) any member of the Target Group creates or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;
- (h) any member of the Target Group becomes Insolvent;
- (i) any member of the Target Group takes or omits to take an action which would result in a material breach of law; or
- (j) any member of the Target Group changes any accounting policy applied by them to report their financial position,



provided that a Target Prescribed Occurrence will not include any matter to the extent:

- (k) required to be done or procured by Target pursuant to this deed or the Scheme;
- (l) Fairly Disclosed in filings of Target on ASX prior to the date of this deed;
- (m) required by law or by an order of a court or Government Agency;
- (n) it is Fairly Disclosed in the Due Diligence Materials;
- (o) expressly permitted pursuant to this deed; or
- (p) it has been previously approved in writing by BidCo or a Guarantor.

**Target Register** means the register of members of Target maintained by, or on behalf of, Target in accordance with section 168(1) of the Corporations Act.

**Target Share** means an issued fully paid ordinary share in the capital of Target.

**Target Shareholder** means each person who is registered in the Target Register as a holder of Target Shares.

**Target Warranties** means the representations and warranties of Target set out in clause 11.5.

**Timetable** means the indicative timetable in relation to the Proposed Transaction set out in Schedule 1 with such modifications as may be agreed in writing by the parties.

**Transaction** means the acquisition by BidCo of the Scheme Shares for the Scheme Consideration pursuant to the Scheme.

**Transaction Costs** means the costs, fees, or other form of compensation or remuneration incurred, expensed, provisioned or that will be incurred upon implementation of the Scheme by Target in relation to the Transaction, including the expenses incurred with MinterEllison, the Independent Expert and JP Morgan as well as with barristers and printers, up to a maximum of \$5.5 million, other than costs:

- (a) in relation to compliance with clauses 3.6 and 3.7 of this deed; or
- (b) relating to any tax ruling, any objection by or negotiations with any Government Agency:
  - (i) convene the Scheme meeting on the First Court Date; or
  - (ii) approve the Scheme on the Second Court Date; or
- (c) costs attributable to the default, failure, delay or lack of reasonable cooperation by BidCo, the Guarantors or their advisers; or
- (d) incurred by Target with the prior written consent of BidCo and the Guarantors that those costs should fall outside the definition of Transaction Costs, such consent not to be unreasonably withheld or delayed.

**Treasurer** means the Treasurer of the Commonwealth of Australia.

## 1.2 Interpretation

In this deed, except where the context otherwise requires:

- (a) the singular includes the plural, and the converse also applies;
- (b) gender includes other genders;
- (c) if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this deed, and a reference to this deed includes any schedule or annexure;
- (e) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (f) a reference to **A\$, \$A, dollar** or **\$** is to Australian currency;
- (g) a reference to time is to Sydney, Australia time;



- (h) a reference to a party is to a party to this deed, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (i) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
- (j) a reference to legislation or to a provision of legislation (including a listing rule or operating rule of a financial market or of a clearing and settlement facility) includes a modification or re enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it;
- (k) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;
- (l) a reference to conduct includes an omission, statement or undertaking, whether or not in writing;
- (m) the meaning of general words is not limited by specific examples introduced by **including**, **for example** or similar expressions;
- (n) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this deed or any part of it;
- (o) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day;
- (p) a reference to **Fairly Disclosed** means disclosed to any of BidCo or the Guarantors (as applicable) or any of their respective Authorised Persons in sufficient detail so as to enable a reasonable and sophisticated recipient of the relevant information who is experienced in transactions similar to the Proposed Transaction, to identify the nature and scope of the relevant matter, event or circumstance; and
- (q) a reference to **best endeavours** does not include an obligation on a party to:
  - (i) institute legal proceedings (for clarity, other than attending the Scheme Hearings and seeking leave to be heard), or appeal or review the decision of any Government Agency or orders of the Court at the Scheme Hearings; or
  - (ii) amend the terms of the Transaction agreed to by the parties to address the requirements of a Government Agency.

### 1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

### 1.4 Listing requirements included as law

A listing rule or operating rule of a financial market or of a clearing and settlement facility will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

## 2. Agreement to propose Scheme

- (a) Target agrees to propose and implement the Scheme on, and subject to, the terms and conditions of this deed and substantially in accordance with the Timetable.
- (b) Save where it would be unlawful for them to do so and provided that nothing in this clause 2(b) requires either of BidCo or either of the Guarantors to:
  - (i) institute any legal proceedings (for clarity, other than attending the Scheme Hearings and seeking leave to be heard); or
  - (ii) appeal or review the decision of any Government Agency or orders of the Court at the Scheme Hearings,



BidCo and each of the Guarantors (all acting severally) agree to assist Target in proposing and implementing the Scheme on, and subject to, the terms and conditions of this deed, and substantially in accordance with the Timetable.

### 3. Conditions precedent and pre-implementation steps

#### 3.1 Conditions to Scheme

Subject to this clause 3, the Scheme will not become Effective, and the respective obligations of the parties in relation to the implementation of the Scheme will not be binding, until each of the following conditions precedent is satisfied or waived to the extent and in the manner set out in this clause 3:

- (a) **(Restraints)** no temporary restraining order, preliminary or permanent injunction or other order issued by any Court of competent jurisdiction or Governmental Agency or other legal restraint or prohibition preventing the Scheme is in effect at the Delivery Time;
- (b) **(Regulatory Approvals):**
  - (i) **(ASIC and ASX)** before the Delivery Time, ASIC and ASX issue or provide such consents, waivers, modifications, or approvals as are necessary or which Target and BidCo agree are necessary or desirable to implement the Scheme and such consent, approval or other act has not been withdrawn or revoked before 8.00am (AEST) on the Second Court Date;
  - (ii) **(FIRB)** before the Delivery Time, either:
    - (A) the Treasurer (or his delegate) has provided a notice in writing stating or to the effect that, in terms of Australia's foreign investment policy, the Australian Government does not object to BidCo or AcquireCo (as the case may be) acquiring the Scheme Shares pursuant to the Scheme; or
    - (B) by reason of lapse of time, the Treasurer is no longer empowered under the FATA to make an order prohibiting the acquisition of the Scheme Shares by BidCo or AcquireCo (as the case may be) under the Scheme;
  - (iii) **(OIO)** before the Delivery Time, BidCo has received all consents, approvals or clearances which are required under the Overseas Investment Act 2005 (NZ) and the Overseas Investment Regulations 2005 (NZ) to implement the Proposed Transaction;
  - (iv) **(PRC Regulatory Approvals)** before the Delivery Time, SIIC Medical Science and Shanghai Pharma, respectively have:
    - (A) received all Regulatory Approvals and consents; and
    - (B) made all necessary filings,

(other than those in clauses 3.1(b)(i), 3.1(b)(ii) and 3.1(b)(iii), provided for above) which are required by each of them respectively, in connection with the implementation of the Proposed Transaction including, but not limited to, those Regulatory Approvals, consents and filings which are required to be obtained from, or made with, the following PRC governmental agencies:

    - (C) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government;
    - (D) Shanghai Municipal Commission of Commerce;
    - (E) National Development and Reform Commission of China; and
    - (F) the State Administration of Foreign Exchange of China;
- (c) **(No Target Prescribed Occurrence)** no Target Prescribed Occurrence occurs between the date of this deed and the Delivery Time;
- (d) **(No Target Material Adverse Change)** no Target Material Adverse Change occurs between the date of this deed and the Delivery Time;



- (e) **(No Guarantor Prescribed Occurrence)** no Guarantor Prescribed Occurrence occurs between the date of this deed and the Delivery Time;
- (f) **(Target Warranties)** the Target Warranties being true and correct in all material respects on the date of this deed and the Delivery Time, except where expressed to be operative at another date;
- (g) **(BidCo Warranties)** the BidCo Warranties being true and correct in all material respects on the date of this deed and the Delivery Time, except where expressed to be operative at another date;
- (h) **(Shareholder approval)** the Scheme is approved by Target Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act;
- (i) **(Court approval)** the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act; and
- (j) **(Independent Expert)** the Independent Expert provides the Independent Expert's Report to Target, stating that in its opinion the Scheme is in the best interests of Target Shareholders, on or before the date on which the Scheme Booklet is registered with ASIC under the Corporations Act, and the Independent Expert does not change or publicly withdraw this conclusion prior to the Second Court Date.

### 3.2 Benefit and waiver of conditions precedent

- (a) The Conditions in clauses 3.1(a) (Restraints), 3.1(b)(ii)(FIRB), 3.1(b)(iii) (OIO), 3.1(h) (Shareholder approval) and 3.1(i) (Court approval) are for the benefit of each party and any breach or non-satisfaction of them cannot be waived.
- (b) The Condition in 3.1(b)(i) (ASIC and ASX) is for the benefit of each party and any breach or non-satisfaction of it may only be waived (if capable of waiver) with the written consent of all parties.
- (c) The Conditions in clauses 3.1(c) (No Target Prescribed Occurrence), 3.1(d) (Target Material Adverse Change) and 3.1(f) (Target Warranties) are for the sole benefit of BidCo and the Guarantors and any breach or non-fulfilment of them may only be waived by BidCo and the Guarantors giving their written consent, provided that prior to any such waiver BidCo and the Guarantors have consulted with Target in respect of the relevant breach or non-fulfilment of the Condition and have provided Target with such information deemed relevant by BidCo and the Guarantors to the decision of BidCo and the Guarantors to waive the relevant Condition.
- (d) The Condition in clause 3.1(b)(iv) (PRC Regulatory Approvals) is for the sole benefit of Shanghai Pharma and SIIC Medical Science and any breach or non-fulfilment of it may only be waived by Shanghai Pharma and SIIC Medical Science giving their written consent, provided that prior to any such waiver Shanghai Pharma and SIIC Medical Science have consulted with Target in respect of the relevant breach or non-fulfilment of the Condition and have provided Target with such information deemed relevant by Shanghai Pharma and SIIC Medical Science to the decision of Shanghai Pharma and SIIC Medical Science to waive the relevant Condition.
- (e) The Conditions in clauses 3.1(e) (No Guarantor Prescribed Occurrence), 3.1(g) (BidCo Warranties) and 3.1(j) (Independent Expert) are for the sole benefit of Target and any breach or non-fulfilment of them may only be waived by Target giving its written consent.
- (f) A party entitled to waive a Condition pursuant to this clause 3.2 (either individually or jointly) may do so in its absolute discretion. Any waiver of a Condition by a party for whose benefit the condition applies must take place on or prior to the Delivery Time.
- (g) If a party waives the breach or non-fulfilment of any Condition, that waiver will not preclude it from suing the other party for any other breach of this deed including without limitation a breach that resulted in the non-fulfilment of the Condition that was waived.

### 3.3 Procuring satisfaction of the Conditions

- (a) Target, each of the Guarantors (acting severally) and BidCo (severally) will use their respective best endeavours to procure that each of the Conditions is satisfied as soon as



reasonably practicable after the date of this deed or continues to be satisfied at all times until the last time they are to be satisfied (as the case may require).

- (b) Without limiting clauses 3.3(a), 3.4 and 3.5, each of Target, the Guarantors and BidCo must:
- (i) consult and co-operate fully with each other party in relation to the satisfaction of the Conditions, including in relation to obtaining all necessary Regulatory Approvals;
  - (ii) use their respective best endeavours to ensure that there is no occurrence within the control of Target, BidCo or the Guarantors (as the context requires) that would prevent a Condition being satisfied;
  - (iii) promptly apply for all relevant Regulatory Approvals and provide each other party with a copy of all applications for Regulatory Approvals and all material communications with any Governmental Agency in relation to Regulatory Approvals, and allow the other party a reasonable opportunity to make comments on them, and require changes to them prior to them being made;
  - (iv) to the extent permitted by applicable law, promptly provide each other party with copies of any written communications received from a Governmental Agency, and keep the other parties fully informed of any verbal communications with a Governmental Agency;
  - (v) take all the steps for which it is responsible as part of the Regulatory Approvals process;
  - (vi) respond to all requests for information in respect of the applications for Regulatory Approvals at the earliest practicable time;
  - (vii) provide each other party with all information and assistance reasonably requested in connection with the applications for Regulatory Approvals; and
  - (viii) to the extent permitted by applicable law, allow each other party and its Authorised Persons the opportunity to be present, represented and make submissions at any meetings with any Governmental Agency relating to the Regulatory Approvals in respect of the Scheme.
- (c) Insofar as they relate to the Condition in clause 3.1(b)(iv) (PRC Regulatory Approvals):
- (i) the obligations under clauses 3.3(a) and 3.3(b) apply only to Target, Shanghai Pharma and SIIC Medical Science; and
  - (ii) breach by Shanghai Pharma and SIIC Medical Science of their obligations under clauses 3.3(a) and 3.3(b) will, in no circumstances, constitute a breach by Primavera Capital Fund II and Primavera of those clauses and Primavera Capital Fund II and Primavera will have no liability for a breach by Shanghai Pharma and SIIC Medical Science of their obligations under clauses 3.3(a) and 3.3(b).

### 3.4 Notifications

Each of BidCo, the Guarantors and Target must:

- (a) keep each other party promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Conditions;
- (b) promptly notify each other party in writing if it becomes aware that any Condition has been satisfied; and
- (c) promptly notify each other party in writing if it becomes aware that any Condition is or has become incapable of being satisfied (having regard to the respective obligations of each party under clause 3.3).



### 3.5 Certificate

On the Second Court Date, BidCo and Target will provide a joint certificate to the Court confirming, as at the Delivery Time, whether or not the Conditions (other than the Condition in clause 3.1(i)) have been satisfied or waived in accordance with this deed.

### 3.6 Scheme voted down

If the Scheme is not approved by Target Shareholders at the Scheme Meeting by reason only of the non-satisfaction of the Headcount Test and Target or BidCo considers, acting reasonably, that Share Splitting or some abusive or improper conduct may have caused or contributed to the Headcount Test not having been satisfied then Target must:

- (a) apply for an order of the Court contemplated by section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test and seek Court approval of the Scheme under section 411(4)(b) of the Corporations Act, notwithstanding that the Headcount Test has not been satisfied; and
- (b) make such submissions to the Court and file such evidence as counsel engaged by Target to represent it in Court proceedings related to the Scheme considers is reasonably required to seek to persuade the Court to exercise its discretion under section 411(4)(a)(ii)(A) of the Corporations Act by making an order to disregard the Headcount Test.

### 3.7 Conditions not capable of being fulfilled

- (a) If a Condition is not satisfied, or becomes incapable of being satisfied, before the End Date, then unless the relevant Condition (where capable of waiver) is waived, the parties must consult in good faith with a view to determining whether they can reach agreement with respect to:
  - (i) the terms (if any) on which the party or parties with the benefit of the relevant Condition will waive that Condition;
  - (ii) an extension of the time for satisfaction of the relevant Condition or an extension of the End Date (as the case may be);
  - (iii) the Proposed Transaction proceeding by way of alternative means or methods;and  
if the parties are unable to reach such agreement within 5 Business Days or a shorter period ending at 8am on the Business Day before the Second Court Date then, subject to clause 3.7(b), before the Delivery Time any party may terminate the deed by notice to the others without any liability to any party by reason of that termination alone.
- (b) A party will not be entitled to terminate this deed pursuant to clause 3.7(a) if the relevant Condition has not been satisfied as a result of:
  - (i) a breach of this deed by that party; or
  - (ii) a deliberate act or omission of that party which directly or materially contributed to that Condition not being satisfied.

### 3.8 Interpretation

For the purposes of this clause 3, a Condition will be incapable of satisfaction, or incapable of being satisfied if:

- (a) in the case of a Condition relating a Regulatory Approval – the relevant Governmental Agency makes or has made a final adverse determination in writing to the effect that it will not provide the Regulatory Approval; and
- (b) in all other cases – there is an act, failure to act or occurrence that will prevent the Condition being satisfied by the End Date (and the breach or non-fulfilment that would otherwise have occurred has not already been waived in accordance with this deed).



## 4. Scheme structure

### 4.1 Scheme

The parties acknowledge and agree that, subject to the Scheme becoming Effective, on the Implementation Date the general effect of the Scheme will be that all of the Scheme Shares will be transferred to BidCo or AcquireCo (as the case may be) and the Scheme Shareholders will be entitled to receive, for each Scheme Share held at the Record Date, the Scheme Consideration.

### 4.2 Scheme Consideration

- (a) BidCo covenants in favour of Target (in its own right and separately as trustee for each Scheme Shareholder) that, if the Scheme becomes Effective, in consideration of the transfer of the Scheme Shares to BidCo or AcquireCo (as the case may be), BidCo will pay the relevant Scheme Consideration to each of the Scheme Shareholders (including procuring the issue of HK HoldCo Shares to Management Shareholders in respect of their Target Management Shares) and for that purpose, each of Primavera and SIIC Medical Science will:
- (i) **(cash component of the Scheme Consideration)**
- by no later than the Scheme Consideration Escrow Time:
- (A) **(deposit into Escrow Account)** deposit into the Escrow Account an amount in cleared funds equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders; or
- (B) **(delivery of standby irrevocable letters of credit)** deliver to Stakeholder standby irrevocable letters of credit issued by a globally recognised bank, in respect of an amount equal to the aggregate amounts of each of their Relevant Proportions of the cash component of the Scheme Consideration for all Scheme Shares held by Scheme Shareholders, which letters of credit must either be governed by Australian law or the globally recognised bank which issues the letters of credit must agree to submit to the jurisdiction of the Australian courts (each a **Letter of Credit**).
- (ii) **(HK HoldCo Shares)**
- procure:
- (A) on or as soon as practicable after the Effective Date and, in any event no later than one Business Day before the Implementation Date, that BidCo provides Target with a certificate (duly executed by BidCo) which sets out BidCo's good faith and bona fide calculation of the Scheme Consideration due to be paid to a Management Shareholder in accordance with paragraph (b) of the definition of Scheme Consideration (**Certificate**). The Certificate must be accompanied by evidence of the aggregate amount of funding provided by Primavera and SIIC Medical Science (or their respective affiliates) to HK HoldCo, being:
- (I) an unaudited statement of financial position of HK HoldCo; and
- (II) a copy of HK HoldCo's share register.
- The Certificate delivered by BidCo to Target, absent any manifest error, will be prima facie evidence of the aggregate amount due to be paid to Management Shareholders in accordance with the definition of Scheme Consideration;
- (B) on the Implementation Date and otherwise in accordance with the Scheme, the issue by HK HoldCo to each Management Shareholder (or its nominee) of that number of HK HoldCo Shares for each Target Management Share held by that Target Shareholder determined in accordance with the formula in the definition of Scheme Consideration, rounded up to the nearest whole number of HK HoldCo Shares;



- (C) on the Implementation Date and otherwise in accordance with the Scheme, the entry of the name and address of each Management Shareholder in the register of shares of HK HoldCo in respect of the HK HoldCo Shares issued to each Management Shareholder;
- (D) on the Implementation Date, the issue by HK HoldCo to each Management Shareholder (or its nominee) of a copy of the terms of issue of the HK HoldCo Shares accompanied by wording to the effect that they have been issued HK HoldCo Shares and their acceptance of the HK HoldCo Shares constitutes agreement by them to the articles of association of HK HoldCo; and
- (E) that on or before the date that is two Business Days after the Implementation Date and otherwise in accordance with the Scheme, a share certificate is sent to the address of each Management Shareholder to whom HK HoldCo Shares are issued in accordance with clause 4.2(a)(ii)(A) representing the number of HK HoldCo Shares issued to that Management Shareholder.

(b) **Escrow Account**

- (i) Prior to the Effective Date, all interest accruing on the funds in the Escrow Account accrue in favour of Primavera or SIIC Medical Science in proportion to the funds which they have respectively paid into the Escrow Account.
- (ii) With effect from the Effective Date, the Stakeholder will hold all funds in the Escrow Account for the benefit of the Scheme Shareholders and all interest which accrues on those funds accrues for the benefit of the Scheme Shareholders.
- (iii) On the Implementation Date, following receipt of written notice from BidCo to the Stakeholder, the funds in the Escrow Account will be immediately disbursed by the Stakeholder to Target (which will hold the Scheme Consideration on behalf of each Scheme Shareholder) in accordance with BidCo's obligations under this deed and the Scheme.
- (iv) If:
  - (A) the Scheme Meeting is not held;
  - (B) the Conditions in clauses 3.1(h) or 3.1(i) are not fulfilled; or
  - (C) the Scheme does not become Effective,in each case by the End Date (or such earlier date as it is clear that these will not be fulfilled), the funds in the Escrow Account will be immediately returned to the parties which deposited those funds into the Escrow Account (plus the accrued interest thereon).

(c) **Letters of Credit**

- (i) The parties each agree that the Letters of Credit will be held by the Stakeholder in accordance with the Escrow Agreement.
- (ii) Target acknowledges and agrees that it is only entitled to draw down funds under a Letter of Credit on the Implementation Date and advance those funds to Scheme Shareholders in accordance with the Scheme, if the Scheme becomes Effective.
- (iii) On the Implementation Date, following receipt of written notice by BidCo to the Stakeholder, the Stakeholder will immediately release the Letters of Credit to Target which may draw down funds under the Letters of Credit and advance those funds to Scheme Shareholders in accordance with the Scheme.
- (iv) If:
  - (A) the Scheme Meeting is not held;
  - (B) the Conditions in clauses 3.1(h) or 3.1(i) are not fulfilled; or
  - (C) the Scheme does not become Effective,



in each case by the End Date (or such earlier date as it is clear that these will not be fulfilled), BidCo will give notice to the Stakeholder to immediately return any Letters of Credit to the parties which delivered them to Target.

(d) **Compliance with obligation to pay cash component of Scheme Consideration**

- (i) The parties acknowledge and agree that:
    - (A) Primavera will have complied with its obligations to pay its Relevant Proportion of the cash component of the Scheme Consideration, and will not be liable for any Claim under this deed, if it has:
      - (I) deposited funds in the aggregate amount of its Relevant Proportion of the cash component of the Scheme Consideration into the Escrow Account in accordance with clause 4.2(a)(i)(A); or
      - (II) delivered a Letter of Credit in the aggregate amount of its Relevant Proportion of the cash component of the Scheme Consideration in accordance with clause 4.2(a)(i)(B); and
    - (B) SIIC Medical Science will have complied with its obligations to pay its Relevant Proportion of the cash component of the Scheme Consideration, and will not be liable for any Claim under this deed, if it has:
      - (I) deposited funds in the aggregate amount of its Relevant Proportion of the cash component of the Scheme Consideration into the Escrow Account in accordance with clause 4.2(a)(i)(A); or
      - (II) delivered a Letter of Credit in the aggregate amount of its Relevant Proportion of the cash component of the Scheme Consideration in accordance with clause 4.2(a)(i)(B); and
    - (C) neither of Primavera or SIIC Medical Science are liable for failure by the other of them to comply with clauses 4.2(a)(i)(A) and 4.2(a)(i)(B) and a failure by either of Primavera or SIIC Medical Science to comply with clauses 4.2(a)(i)(A) and 4.2(a)(i)(B) will not constitute a breach by the other of them of their obligations under those clauses.
  - (ii) In the event that either of Primavera or SIIC Medical Science fails to comply with its obligation to pay its Relevant Proportion of the cash component of the Scheme Consideration by the Scheme Consideration Escrow Time in accordance with clause 4.2(a)(i), Target must, either:
    - (A) on written notice to BidCo and the Guarantors, postpone the Scheme Meeting to such other date or time (prior to the End Date) it determines; or
    - (B) on at least 2 hours written notice to BidCo, terminate this deed.
  - (iii) If, following postponement of the Scheme Meeting by Target under clause 4.2(d)(ii)(A), either of Primavera or SIIC Medical Science (as the case may be) still fails to comply with its obligation under clause 4.2(a)(i) to pay its Relevant Proportion of the cash component of the Scheme Consideration by the Business Day prior to the date of the Scheme Meeting so postponed, Target must, on at least 2 hours written notice to BidCo, terminate this deed.
- (e) Subject to the Scheme becoming Effective and BidCo complying with its obligations under clause 4.2(a), at 10.00am on the Implementation Date, the transactions which form part of the Scheme will be implemented in the following sequence:
- (i) all existing Scheme Shares will be transferred to BidCo or AcquireCo (as the case may be); and
  - (ii) in exchange, each Scheme Shareholder or, if Target permits and subject to any regulatory requirements, a nominee for a Scheme Shareholder (in accordance with a Scheme Shareholder's directions) will receive the Scheme Consideration.



#### 4.3 Deed Poll

BidCo and Guarantors severally covenant in favour of Target (in its own right and separately as trustee for each of the Scheme Shareholders) to:

- (a) negotiate, in good faith and acting reasonable, the terms of the Deed Poll;
- (b) procure that the relevant parties to the Deed Poll execute and deliver the Deed Poll prior to the despatch of the Scheme Booklet; and
- (c) perform the Deed Poll in their Relevant Proportions.

#### 4.4 HK HoldCo

Primavera and SIIC Medical Science severally covenant in favour of Target to procure the incorporation of HK HoldCo prior to the First Court Date.

### 5. Management Shareholders

#### 5.1 Treatment of Target Options and Target Performance Rights

Target must take such action as is necessary after the Effective Date and prior to the Record Date to ensure that all Target Options and Target Performance Rights which have not already been exercised or have not already vested do vest or are exercised (as the case may be) in accordance with the existing terms of those Target Options and Target Performance Rights and all exercise price amounts are either paid to Target prior to the Record Date or deferred until the Implementation Date (**Deferred Exercise Price Amount**), and Target must, prior to the Record Date, issue the number of Target Shares required by the terms of those Target Options and Target Performance Rights on such exercise or vesting (as the case may be), so that the relevant former holders of the Target Options and the Target Performance Rights (as the case may be) can participate in the Scheme.

#### 5.2 Target Management Shares

The number of Target Shares held by a Management Shareholder which are "Target Management Shares" for the purposes of receiving the HK HoldCo Shares as Scheme Consideration will be calculated using the following formula:

$$\frac{\left( \frac{A+B}{2.25-P} \right)}{2} \text{ rounded up to the nearest whole number, where:}$$

A = (the number of Scheme Shares held by the Management Shareholder (excluding those in B\*)) X (2.25 minus the amount of any Permitted Dividend);

B = (the number of Scheme Shares issued to and held by the Management Shareholder pursuant to the early vesting and exercise of Target Options held by the Management Shareholder) X ((2.25 minus the amount of any Permitted Dividend) minus the exercise price for a Target Option\*\*);

P = the amount of any Permitted Dividend paid or to be paid.

\*but which includes, for avoidance of doubt all Scheme Shares issued to the Management Shareholder pursuant to the early vesting and exercise of all Target Performance Rights held by the Management Shareholder

\*\*being \$2.10, unless otherwise ascertained from the Due Diligence Material

#### 5.3 Payment direction - Deferred Exercise Price Amount

Before the Delivery Time, Target will procure that each Management Shareholder delivers to Target and BidCo a written irrevocable direction to pay to Target, on the Implementation Date and from the cash component of the Scheme Consideration payable to that Management Shareholder, an amount equal to the aggregate Deferred Exercise Price Amount, which payment



will be in satisfaction of that Management Shareholder's obligation to pay to Target the Deferred Exercise Price Amount.

## 6. Guarantee

### 6.1 Guarantee and indemnity

In consideration of Target executing this deed at the request of:

- (a) Primavera Capital Fund II - Primavera Capital Fund II unconditionally and irrevocably:
  - (i) guarantees to Target the due and punctual performance and observance by Primavera of all of the obligations contained in, or implied under, this deed that must be performed and observed by Primavera (**Primavera Guaranteed Obligations**); and
  - (ii) subject to clause 11.10(b) indemnifies Target against all losses, damages, costs and expenses which Target may now or in the future suffer or incur consequent on or arising directly out of any breach or non-observance by Primavera of a Primavera Guaranteed Obligation.
- (b) Shanghai Pharma - Shanghai Pharma unconditionally and irrevocably:
  - (i) guarantees to Target the due and punctual performance and observance by SIIC Medical Science of all of the obligations contained in, or implied under, this deed that must be performed and observed by SIIC Medical Science (**SIIC Medical Science Guaranteed Obligations**); and
  - (ii) subject to clause 11.10(b) indemnifies Target against all losses, damages, costs and expenses which Target may now or in the future suffer or incur consequent on or arising directly out of any breach or non-observance by SIIC Medical Science of a SIIC Medical Science Guaranteed Obligation.
- (c) For the purposes of this clause 6, **Guaranteed Obligations** are:
  - (i) in respect of Primavera Capital Fund II, the Primavera Guaranteed Obligations; and
  - (ii) in respect of Shanghai Pharma, the SIIC Medical Science Guaranteed Obligations.

### 6.2 Extent of guarantee and indemnity

This clause 6 applies and the obligations of the Guarantors remain unaffected despite:

- (a) an amendment of this deed (other than to the terms of the guarantee or indemnity in this deed); or
- (b) a rule of law or equity to the contrary; or
- (c) an insolvency event affecting a person or the death of a person; or
- (d) a change in the constitution, membership, or partnership of a person; or
- (e) the partial performance of the Guaranteed Obligations; or
- (f) the Guaranteed Obligations not being enforceable at any time; or
- (g) Target granting any time or other indulgence or concession to, compounding or compromising with, or wholly or partially releasing BidCo or the Guarantors of an obligation (other than an obligation under this clause 6); or
- (h) any other matter occurring that might otherwise release, discharge or affect the obligations of the Guarantors under this deed other than performance by the Guarantors of an obligation or an express written release by the Target of the Guarantors from an obligation.



### 6.3 No deductions or withholdings

The Guarantors must make all payments required of them under this clause 6 in full, without set off and free and clear of any withholding or deduction. If the Guarantors are required to withhold or deduct any tax, duty, impost, charge, withholding, rate, levies or other governmental imposition of any nature together with associated costs, charges, interest, penalties, fines or expenses (**Taxes**) so that Target would not actually receive on the due date the full amount, the Guarantors must ensure that the amount payable is increased so that, after making that deduction and deductions applicable to additional amounts payable under this clause 6, Target is entitled to receive, and does receive, the amount it would have received if no deductions had been required. The Guarantors must ensure any deductions required are made and pay the full amount deducted to the relevant governmental body in accordance with applicable law. The obligations under this clause 6.3 are conditional upon the warranty in clause 11.5(b)(xvi) being true and correct.

### 6.4 Continuing guarantee

Each Guarantor's obligations under this clause 6 are absolute, unconditional and irrevocable. The liability of each Guarantor under this clause 6 extends to, and is not affected by, any circumstance, act or omission which, but for this clause 6, might otherwise affect it at law or in equity. The guarantee in this clause 6 is a continuing security, and remains in full force until all of the Guaranteed Obligations have been fully paid and satisfied. This clause 6 survives any termination or full or partial discharge of this deed.

### 6.5 Principal and independent obligation

This clause 6 is:

- (a) a principal obligation and is not to be treated as ancillary or collateral to another right or obligation; and
- (b) independent of, and not in substitution for or affected by, another security interest or guarantee or other document or agreement which Target or another person may hold concerning the Guaranteed Obligations.

### 6.6 Enforcement against the Guarantors

Target may enforce this clause 6 against the Guarantors without first having to resort to another guarantee or security interest or other agreement relating to the Guaranteed Obligations.

## 7. Scheme – parties' respective implementation obligations

### 7.1 Target's obligations

Target must take all steps reasonably necessary to propose and (subject to all of the Conditions being satisfied or waived in accordance with their terms) implement the Scheme as soon as reasonably practicable after the date of this deed in the most efficient manner and substantially in accordance with the Timetable and in any event prior to the End Date, including without limitation taking each of the following steps:

- (a) (**Scheme Booklet**) prepare the Scheme Booklet in compliance with all applicable laws and in accordance with clause 7.3;
- (b) (**drafts of Scheme Booklet**) make available to BidCo drafts of the Scheme Booklet (excluding any draft of the Independent Expert's Report), consult with BidCo in relation to the content of those drafts (other than the Primavera Capital Fund II Information and the Shanghai Pharma Information), and consider in good faith, for the purposes of amending those drafts, comments from BidCo on those drafts;
- (c) (**Independent Expert**) promptly appoint the Independent Expert to provide the Independent Expert's Report, provide any assistance and information to enable it to prepare the Independent Expert's Report; and on receipt of the final draft of the Independent Expert's Report, provide a copy to BidCo and the Guarantors for review of the information for factual accuracy only;



- (d) **(approval of Primavera Capital Fund II Information and Shanghai Pharma Information)**
  - (i) seek approval from Primavera for the form and context in which the Primavera Capital Fund II Information appears in the Scheme Booklet, which approval Primavera must not unreasonably withhold or delay, and Target must not lodge the Scheme Booklet with ASIC until such approval is obtained from Primavera; and
  - (ii) seek approval from SIIC Medical Science for the form and context in which the Shanghai Pharma Information appears in the Scheme Booklet, which approval SIIC Medical Science must not unreasonably withhold or delay, and Target must not lodge the Scheme Booklet with ASIC until such approval is obtained from SIIC Medical Science;
- (e) **(approval of draft for ASIC)** as soon as reasonably practicable after the preparation of an advanced draft of the Scheme Booklet suitable for review by ASIC, procure that a meeting of the Target Board, or of a committee of the Target Board appointed for the purpose, is held to consider approving that draft as being in a form appropriate for provision to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act;
- (f) **(liaison with ASIC)** as soon as reasonably practicable after the date of this deed:
  - (i) provide an advanced draft of the Scheme Booklet to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act; and
  - (ii) liaise with ASIC during the period of its consideration of that draft of the Scheme Booklet, keep BidCo and the Guarantors informed of any matters raised by ASIC in relation to the Scheme Booklet and use reasonable endeavours, in consultation with BidCo and the Guarantors, to resolve any such matters and, to the extent permitted by law, allow BidCo and the Guarantors and their Authorised Persons the opportunity to be present at all meetings between Target and ASIC;
- (g) **(approval of Scheme Booklet)** as soon as reasonably practicable after the conclusion of the review by ASIC of the Scheme Booklet, procure that a meeting of the Target Board, or of a committee of the Target Board appointed for the purpose, is held to consider approving the Scheme Booklet for despatch to Target Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act;
- (h) **(section 411(17)(b) statements)** apply to ASIC for the production of statements in writing pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (i) **(counsel)** engage counsel reasonably experienced in schemes of arrangement to represent Target in all Court proceedings related to the Scheme and provide drafts of, and consult with, BidCo, AcquireCo and the Guarantors in relation to the content of any court document required for the purpose of implementing the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and take into account all reasonable comments provided for, and on behalf of, BidCo, AcquireCo and the Guarantors in relation to such documents;
- (j) **(first Court hearing)** lodge all documents with the Court and take all other reasonable steps to ensure that promptly after, and provided that, the approval in clause 7.1(g) has been received, an application is heard by the Court for an order under section 411(1) of the Corporations Act directing Target to convene the Scheme Meeting;
- (k) **(registration of Scheme Booklet)** if the Court directs Target to convene the Scheme Meeting, as soon as possible after such orders are made, request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act;
- (l) **(registry information)** provide:
  - (i) all necessary information about the Scheme Shareholders to BidCo or AcquireCo (as the case may be) and the Guarantors which BidCo or AcquireCo (as the case



- may be) and the Guarantors reasonably require in order to assist BidCo to solicit votes at the Scheme Meeting; and
- (ii) all necessary directions to its share registry to promptly provide any information that BidCo, AcquireCo or the Guarantors reasonably request in relation to the Target Register, including any sub-register and, where reasonably requested by BidCo, AcquireCo or the Guarantors, the Target must procure such information to be provided to BidCo, AcquireCo or the Guarantors in such electronic form as is reasonably requested by BidCo, AcquireCo or the Guarantors;
  - (m) **(convening Scheme Meeting)** take all reasonable steps necessary to comply with the orders of the Court including, as required, despatching the Scheme Booklet to Target Shareholders as soon as reasonably practicable after the Court orders Target to convene the Scheme Meeting and otherwise substantially in accordance with the Timetable and convening and holding the Scheme Meeting, provided that if this deed is terminated under clause 17 Target will take all steps reasonably required to ensure the Scheme Meeting is not held;
  - (n) **(Court approval application if parties agree that conditions are capable of being satisfied)** if the resolution submitted to the Scheme Meeting is passed by the majorities required under the Corporations Act and, if necessary, the parties agree on the Business Day immediately following the Scheme Meeting that it can be reasonably expected that all of the Conditions will be satisfied or waived prior to the Delivery Time, apply (and, to the extent necessary, re-apply) to the Court for orders approving the Scheme;
  - (o) **(Certificate)** provide the Court on the Second Court Date with a certificate confirming (in respect of matters within its knowledge):
    - (i) whether all the conditions precedent as set out in clause 3 (other than the condition relating to Court approval of the Scheme) have been satisfied or waived in accordance with the terms of this deed; and
    - (ii) that it is not in breach of this deed, including, in particular, the provisions of clauses 9.1 and 9.2 of this deed;
  - (p) **(appeal process)** if the Court refuses to make any orders directing Target to convene the Scheme Meeting or approving the Scheme, Target and BidCo must consult with each other in good faith as to whether to appeal the Court's decision, provided that the requirement to consult with one another in good faith pursuant to this clause does not place an obligation on the parties to appeal the Court's decision;
  - (q) **(implementation of Scheme)** if the Scheme is approved by the Court:
    - (i) subject to the Listing Rules, promptly lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act;
    - (ii) determine entitlements to the Scheme Consideration as at the Record Date in accordance with the Scheme;
    - (iii) execute proper instruments of transfer of and effect and register the transfer of the Scheme Shares to BidCo or AcquireCo (as the case may be) on the Implementation Date; and
    - (iv) do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme;
  - (r) **(Documents)** consult with BidCo and AcquireCo (as required) in relation to the content of the documents required for the purpose of the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders);
  - (s) **(Compliance with laws)** do everything reasonably within its power to ensure that all acts contemplated by this deed are effected in accordance with all applicable laws and regulations; and
  - (t) **(no denigration)** from the date of this deed until the date the Independent Expert's Report is received, ensure that Target and its Authorised Persons do not publicly (or otherwise to third parties) denigrate the Proposed Transaction, BidCo, HK HoldCo, AcquireCo or the Guarantors in any way (whether expressly or implied), however it is agreed that this



clause is not intended to cover fair commercial comment made by the Target Board in relation to the merits of a Competing Proposal.

## 7.2 BidCo's obligations

BidCo must take all steps reasonably necessary to assist Target to implement the Scheme as soon as reasonably practicable after the date of this deed and substantially in accordance with the Timetable including, without limitation, taking each of the following steps:

- (a) **(Primavera Capital Fund II Information and Shanghai Pharma information)**
  - (i) Primavera must provide to Target, in a form appropriate for inclusion in the Scheme Booklet, all information regarding Primavera and Primavera Capital Fund II, the arrangements Primavera and Primavera Capital Fund II have in place to fund the cash component of the Scheme Consideration and Primavera's intentions with respect to the assets, business and employees of Target if the Scheme is approved and implemented, that is required by all applicable law, the Listing Rules and ASIC Regulatory Guides for inclusion in the Scheme Booklet, which information must (without limiting the foregoing):
    - (A) contain all information necessary to enable Target to ensure that the Scheme Booklet complies with the requirements of RG 60;
    - (B) not be misleading or deceptive in any material respect (whether by omission or otherwise) including in the form and context in which it appears in the Scheme Booklet; and
    - (C) be updated by all such further or new material information which may arise after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that it is not misleading or deceptive in any material respect (whether by omission or otherwise);
  - (ii) SIIC Medical Science must provide to Target, in a form appropriate for inclusion in the Scheme Booklet, all information regarding SIIC Medical Science and Shanghai Pharma, the arrangements SIIC Medical Science and Shanghai Pharma have in place to fund the cash component of the Scheme Consideration and SIIC Medical Science's intentions with respect to the assets, business and employees of Target if the Scheme is approved and implemented, that is required by all applicable law, the Listing Rules and ASIC Regulatory Guides for inclusion in the Scheme Booklet, which information must (without limiting the foregoing):
    - (A) contain all information necessary to enable Target to ensure that the Scheme Booklet complies with the requirements of RG 60;
    - (B) not be misleading or deceptive in any material respect (whether by omission or otherwise) including in the form and context in which it appears in the Scheme Booklet; and
    - (C) be updated by all such further or new material information which may arise after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that it is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (b) **(confirmation of Primavera Capital Fund II Information and Shanghai Pharma Information)** subject to clause 7.3(c), promptly after Target requests that it does so:
  - (i) Primavera must confirm in writing to Target that it consents to the inclusion of the Primavera Capital Fund II Information in the Scheme Booklet, in the form and context in which the Primavera Capital Fund II Information appears; and
  - (ii) SIIC Medical Science must confirm in writing to Target that it consents to the inclusion of the Shanghai Pharma Information in the Scheme Booklet, in the form and context in which the Shanghai Pharma Information appears
- (c) **(regulatory notifications)** in relation to the Regulatory Approvals, lodge with any regulatory authority within the relevant time periods all documentation and filings required by law to be so lodged by BidCo in relation to the Proposed Transaction, save that for the



purposes of the Regulatory Approvals in the Condition in clause 3.1(b)(iv) (PRC Regulatory Approvals), the obligation in this clause 7.2(c) applies to SIIC Medical Science alone;

- (d) **(Independent Expert)** promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report for inclusion in the Scheme Booklet;
- (e) **(assistance with Scheme Booklet and Court documents)** promptly provide any assistance or information requested by Target or its Advisers in connection with the preparation of the Scheme Booklet (including any supplementary disclosure to Target Shareholders) and any documents required to be filed with the Court in respect of the Scheme;
- (f) **(review of Scheme Booklet)** as soon as reasonably practicable after delivery, review the drafts of the Scheme Booklet prepared by Target and provide comments on those drafts in good faith;
- (g) **(approval of draft for ASIC)** as soon as reasonably practicable after the preparation of an advanced draft of the Scheme Booklet suitable for review by ASIC, procure that a meeting of the appropriate decision-making organ of BidCo is held to consider approving those sections of that draft that relate to BidCo or the Guarantors as being in a form appropriate for provision to ASIC for review;
- (h) **(approval of Scheme Booklet)** as soon as reasonably practicable after the conclusion of the review by ASIC of the Scheme Booklet, procure that a meeting of the appropriate decision-making organ of BidCo is held to consider approving those sections of the Scheme Booklet that relate to BidCo or the Guarantors as being in a form appropriate for despatch to Target Shareholders, subject to approval of the Court;
- (i) **(representation)** procure that BidCo and, if necessary, AcquireCo are represented by counsel at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act;
- (j) **(certificate)** provide to the Court on the Second Court Date with a certificate confirming (in respect of matters within its knowledge) whether all the conditions precedent as set out in clause 3 (other than the condition relating to Court approval of the Scheme) have been satisfied or waived in accordance with the terms of this deed;
- (k) **(Target Information)** without the prior written consent of Target, not use Target Information for any purposes other than those expressly contemplated by this deed or the Scheme;
- (l) **(compliance with laws)** do everything reasonably within its power to ensure that all transactions contemplated by this deed are effected in accordance with all applicable laws and regulations; and
- (m) **(no denigration)** from the date of this deed until the date the Independent Expert's Report is received, BidCo will ensure that BidCo and its Authorised Persons do not publicly (or otherwise to third parties) denigrate the Proposed Transaction or Target in any way (whether expressly or implied).

### 7.3 Scheme Booklet - preparation principles

- (a) As soon as reasonably practicable after the date of this deed and substantially in accordance with the Timetable, Target must prepare the Scheme Booklet in compliance with:
  - (i) all applicable laws, in particular with the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules; and
  - (ii) this clause 7.3.
- (b) The Scheme Booklet will include:
  - (i) the terms of the Scheme;



- (ii) the notice of Scheme Meeting, and any other notice of meeting in respect of any resolution that is necessary, expedient or incidental to give effect to the Scheme, together with a proxy form for the Scheme Meeting and for any ancillary meeting;
  - (iii) the Target Information;
  - (iv) the Primavera Capital Fund II Information and the Shanghai Pharma Information;
  - (v) a copy of this deed (without the schedules);
  - (vi) a copy of the executed Deed Poll; and
  - (vii) a copy of the Independent's Expert Report.
- (c) If Target, and BidCo disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle an agreed form of the Scheme Booklet. If complete agreement is not reached after reasonable consultation, then:
- (i) if the disagreement relates to the form or content of any information appearing in the Scheme Booklet other than the Primavera Capital Fund II Information and the Shanghai Pharma Information, the Target Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet; and
  - (ii) if the disagreement relates to the form or content of the Primavera Capital Fund II Information and the Shanghai Pharma Information, Target will make such amendments to the form or content of the disputed part of the Primavera Capital Fund II Information and the Shanghai Pharma Information as Primavera (in the case of the Primavera Capital Fund II Information) or SIIC Medical Science (in the case of the Shanghai Pharma Information) reasonably requires.
- (d) Target must take all reasonable steps to ensure that the Scheme Booklet (other than the Primavera Capital Fund II Information and the Shanghai Pharma Information):
- (i) is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date it is despatched to Target Shareholders; and
  - (ii) is updated by all such further or new material information which may arise after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that it is not misleading or deceptive in any material respect (whether by omission or otherwise).
- (e) Primavera must take all reasonable steps to ensure that the Primavera Capital Fund II Information is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date on which the Scheme Booklet is despatched to Target Shareholders.
- (f) SIIC Medical Science must take all reasonable steps to ensure that the Shanghai Pharma Information is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date on which the Scheme Booklet is despatched to Target Shareholders.
- (g) Target and BidCo each agree that the efficient preparation of the Scheme Booklet and the implementation of the Scheme are in the interests of Target Shareholders and BidCo and that they will use all reasonable endeavours and utilise all necessary resources (including management resources and the resources of external advisers) to comply with their respective obligations under this clause 7.3 and to implement the Scheme as soon as reasonably practicable and substantially in accordance with the Timetable.

#### 7.4 New information

- (a) Target must provide to BidCo all such further or new information of which Target becomes aware that arises after the Scheme Booklet has been despatched to Target Shareholders until the date of the Scheme Meeting where this is necessary to ensure that the Scheme Booklet continues to comply with the Corporations Act, RG 60 and the Listing Rules.
- (b) BidCo must provide to Target all such further or new information of which BidCo becomes aware that arises after the Scheme Booklet has been despatched to Target Shareholders until the date of the Scheme Meeting where this is or may be necessary to ensure that the



Scheme Booklet continues to comply with the Corporations Act, RG 60 and the Listing Rules.

## **7.5 Verification**

- (a) Target must undertake reasonable verification processes in relation to the information included in the Scheme Booklet (other than the Primavera Capital Fund II Information and the Shanghai Pharma Information) so as to ensure that such information is not misleading or deceptive in any material respect (whether by omission or otherwise).
- (b) Primavera must undertake reasonable verification processes in relation to the Primavera Capital Fund II Information included in the Scheme Booklet so as to ensure that such information is not misleading or deceptive in any material respect (whether by omission or otherwise) and, once those processes have been completed, provide written confirmation to Target of the completion of such processes and provide to the Court any such evidence as Target's counsel considers necessary or desirable concerning those verification processes.
- (c) SIIC Medical Science must undertake reasonable verification processes in relation to the Shanghai Pharma Information included in the Scheme Booklet so as to ensure that such information is not misleading or deceptive in any material respect (whether by omission or otherwise) and, once those processes have been completed, provide written confirmation to Target of the completion of such processes and provide to the Court any such evidence as Target's counsel considers necessary or desirable concerning those verification processes.

## **7.6 Responsibility statements**

The Scheme Booklet will include a responsibility statement, in a form, as follows or otherwise agreed:

- (a) Target has prepared, and is responsible for, the Target Information in the Scheme Booklet and that BidCo and the Guarantors and their respective Authorised Persons do not assume any responsibility for the accuracy or completeness of the Target Information and, to the maximum extent permitted by law, BidCo and the Guarantors will not be responsible for any Target Information and will disclaim any liability for Target Information appearing in the Scheme Booklet except to the extent that BidCo or the Guarantors have provided Target with information for the purpose of Target preparing that information; and
- (b) Primavera has prepared, and is responsible for, the Primavera Capital Fund II Information in the Scheme Booklet and that Target and its Authorised Persons do not assume any responsibility for the accuracy or completeness of the Primavera Capital Fund II Information and, to the maximum extent permitted by law, Primavera will not be responsible for any information appearing in the Scheme Booklet other than the Primavera Capital Fund II Information and will disclaim any liability for any information appearing in the Scheme Booklet other than the Primavera Capital Fund II Information, and Target will not be responsible for any Primavera Capital Fund II Information except to the extent that Target has provided Primavera with information for the purpose of Target preparing that information.
- (c) SIIC Medical Science has prepared, and is responsible for, the Shanghai Pharma Information in the Scheme Booklet and that Target and its Authorised Persons do not assume any responsibility for the accuracy or completeness of the Shanghai Pharma Information and, to the maximum extent permitted by law, Shanghai Pharma will not be responsible for any information appearing in the Scheme Booklet other than the Shanghai Pharma Information and will disclaim any liability for any information appearing in the Scheme Booklet other than the Shanghai Pharma Information, and Target will not be responsible for any Shanghai Pharma Information except to the extent that Target has provided SIIC Medical Science with information for the purpose of Target preparing that information.

## **7.7 Good faith cooperation**

Each party must procure that its Authorised Persons work (including by attending meetings and by providing information) in good faith and in a timely and co-operative fashion with the other



parties to implement the Scheme, to prepare all documents required relating to the Scheme, and to agree and execute the strategy described in clause 9.6.

## 8. Board recommendation

### 8.1 Recommendation

Subject to clause 8.3, Target represents and warrants to BidCo that it has been advised by each Target Director that he or she will, and Target must procure that each Target Director will:

- (a) recommend that Target Shareholders vote in favour of the Scheme, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of Target shareholders'; and
- (b) confirm that he or she will vote in favour of the Scheme in respect of all Target Shares controlled or held by, or on behalf of, that Target Director, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of Target shareholders'.

### 8.2 Target's Statement to contain recommendation

Subject to clause 8.3, Target must ensure that the Scheme Booklet includes:

- (a) a unanimous recommendation by all of the members of the board of directors of the Target that Target Shareholders vote in favour of the Scheme, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of Target shareholders'; and
- (b) a statement by each Target Director that he or she will vote in favour of the Scheme in respect of all Target Shares controlled or held by, or on behalf of, that Target Director, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of Target shareholders'.

### 8.3 Withdrawal of modification or recommendation

Target represents and warrants to BidCo that it has been advised by each Target Director that he or she will not, and Target must procure that each Target Director does not change, withdraw or modify his or her recommendation of the Scheme except where:

- (a) Target receives a Competing Transaction and the Target Board, in good faith and acting reasonably, determines, after all of BidCo's rights under clause 12.6 have been exhausted, that the Competing Transaction constitutes a Superior Proposal; or
- (b) the Independent Expert concludes in the Independent Expert's Report that the Scheme is not in the best interests of Target Shareholders, or the Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interests of Target Shareholders but then changes or publicly withdraws this conclusion prior to the Delivery Time; or
- (c) the Target Board, after having obtained written financial advice from its financial advisors and written legal advice from its legal advisers that the Target Board, by virtue of the directors' duties of any member of the Target Board, is required to change, withdraw or modify its recommendation, determines in good faith and acting reasonably that it must do so because of its fiduciary or statutory duties.

## 9. Conduct of business before the Implementation Date

### 9.1 Conduct of Target business

Subject to clause 9.3, from the date of this deed up to and including the Implementation Date, other than to the extent that, before the date of this deed, the relevant matter has been Fairly



Disclosed to the ASX or in the Due Diligence Material, Target must conduct and must cause each of its Subsidiaries to conduct their businesses in the ordinary and usual course of business and:

- (a) operate those businesses consistent with past practice, in substantially the same manner as previously conducted;
- (b) use reasonable endeavours to preserve their relationships with customers, suppliers, landlords, licensors, licensees and others having material business dealings with them, and to retain the services of all key employees;
- (c) use reasonable endeavours to ensure that all assets are maintained in the normal course consistent with past practice;
- (d) use reasonable endeavours to comply in all material respects with all material contracts to which a member of the Target Group is a party, and with laws, authorisations and licenses applicable to each member of the Target Group;
- (e) not take or fail to take any action that constitutes a Target Prescribed Occurrence or that could reasonably be expected to result in a Target Prescribed Occurrence;
- (f) not take or fail to take any action that would, or would be likely to, prevent a Condition being satisfied or result in a Condition not being satisfied;
- (g) use the Target Group's cash only for the following:
  - (i) for ordinary course of business expenditure consistent with the expenditure provided for in Target's forecast information disclosed in the Due Diligence Material (being the Target's FY2017 budget);
  - (ii) Transaction Costs and other reasonable costs in relation to the Transaction (without prejudice to BidCo's rights under this deed in relation to a Target Material Adverse Change);
  - (iii) Permitted Dividends; and
  - (iv) capital expenditure in accordance with clause 9.2(k);
- (h) promptly notify BidCo of any Claims (including, without limitation, before a court or Government Agency) which may be threatened, brought, asserted or commenced against any member of the Target Group or their directors and officers and consult with BidCo in relation to such matter to the extent they reasonably require; and
- (i) have in place, and maintain until the Implementation Date, insurance over its assets and business to at least the same extent as that in place at the date of this deed.

## 9.2 Prohibited actions

Subject to clause 9.3, from the date of this deed up to and including the Implementation Date, other than to the extent that the relevant matter has been Fairly Disclosed to ASX before the date of this deed, Target must not, and must procure that the Target Group does not:

- (a) take any action or agree to do anything that constitutes a Target Prescribed Occurrence or that could reasonably be expected to result in a Target Prescribed Occurrence;
- (b) except as strictly required by law, take any action or agree to do anything that would produce a Target Material Adverse Change, or that could reasonably be expected to result in a Target Material Adverse Change;
- (c) declare, pay or distribute any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise, other than the Permitted Dividend;
- (d) in respect of any single transaction or series of related or similar transactions, acquire or dispose of any interest in a business, assets (other than as permitted by clause 9.2(k) or other than business inventory, office equipment or replacement or repair of machinery in the ordinary course and on normal commercial terms), real property, entity or undertaking, or in any brand owned by a Target Group member;
- (e) pay or enter into any agreements to pay Transaction Costs where all such amounts paid would exceed, in aggregate, \$5.5 million;



- (f) except as required by law or as provided in an existing contract in place at the date of this deed, make any material change to the terms of employment of (including increasing the remuneration or compensation of or accelerating the rights to benefits of any kind), or grant or pay any bonus, incentive, retention, severance or termination payment to, any employee, director, officer, executive or senior manager of the Target Group;
- (g) employ any person on terms and conditions not approved in writing by BidCo and the Guarantors;
- (h) terminate the employment of any employee of a member of the Target Group who has an annual salary exceeding \$150,000 other than for cause;
- (i) other than as Fairly Disclosed in the Due Diligence Material before the execution of this deed, incur any additional financial indebtedness (except for draw-downs on existing banking facilities consistent with Target's current budget), or guarantee or indemnify the obligations of any person other than a member of the Target Group, other than in the usual and ordinary course of business and consistent with past practice;
- (j) other than as Fairly Disclosed in the Due Diligence Material before the execution of this deed, enter into any new financing arrangement, agreement or otherwise provide financial accommodation (irrespective of what form that accommodation takes), or amend the term of any existing financing arrangement, agreement or instrument;
- (k) incur or enter into commitments involving capital expenditure of more than \$4 million whether in one transaction or a series of related transactions;
- (l) give or agree to give a financial benefit to a related party of Target;
- (m) enter into a contract which is material to the conduct of the Target Group's business, involves annual expenditure greater than \$4 million or involves annual revenues of greater than \$4 million (**Material Contract**), or terminate or amend the terms of a Material Contract;
- (n) other than as required to give effect to the transactions contemplated by this deed, modify the rules of any share based incentive plan or scheme, including Target's Long Term Incentive Plan;
- (o) amend its constitution;
- (p) alter in any material respect any accounting policy of any member of the Target Group; or
- (q) agree to do any of the matters set out above.

### 9.3 Permitted activities

The obligations of Target under clauses 9.1 and 9.2 do not apply in respect of any matter:

- (a) undertaken by a member of the Target Group in conducting its business in the usual and ordinary course and as provided for in Target's forecast information disclosed in the Due Diligence Material (being the Target's FY2017 budget) and consistent with past practice since the date of quotation of the Shares on ASX;
- (b) required to be done or procured by Target pursuant to, or which is otherwise contemplated by, this deed or the Scheme;
- (c) required by law or by an order of a court or Governmental Agency;
- (d) Fairly Disclosed in any announcement by Target to ASX prior to the date of this deed;
- (e) comprising any single transaction or series of related transactions for the acquisition of any interest in a business, assets, real property, entity or undertaking (an **Acquisition**) provided that, in the reasonable and good faith opinion of the Target Board (other than with respect to subclause (iv) below):
  - (i) the Acquisition is on terms which are not uncommercial;
  - (ii) the Acquisition is related to the business of the Target and is beneficial to the business;
  - (iii) the purchase price of the Acquisition does not exceed market value; and



- (iv) the value of the Acquisition on an enterprise value basis is less than \$1 million in aggregate; or
- (f) the undertaking of which BidCo has approved in writing (which approval must not be unreasonably withheld or delayed).

#### **9.4 Access**

- (a) In the period from the date of this deed up to the Implementation Date, Target must provide BidCo with all reasonable access during normal business hours and on reasonable notice to the management, offices, books, records (including financial records and information) and business operations of Target that BidCo reasonably require in order to implement the Proposed Transaction, for BidCo to obtain or pursue debt finance for the Proposed Transaction or for post-completion finance for the Target Group, or for BidCo to prepare for the transition of ownership of the Target Group.
- (b) Nothing in this clause 9.4 obliges Target to provide to BidCo or its Authorised Persons any information:
  - (i) concerning the Target Directors' consideration of the Scheme; or
  - (ii) which would breach an obligation of confidentiality to any person or any applicable privacy laws.
- (c) For the avoidance of doubt, the parties agree and acknowledge that nothing in this clause 9.4 requires Target to provide any information that is different or in addition to the information Target provides to the Target Board and its senior managers in the usual and ordinary course consistent with past practice.

#### **9.5 Access to the Primavera Capital Fund II Information and the Shanghai Pharma Information**

- (a) From the date of this deed up to and including the Implementation Date, BidCo must ensure that BidCo, the BidCo Group and the Guarantors:
  - (i) respond to any reasonable request from Target and its Authorised Persons (including in response to requests for information from financial markets and a Governmental Agency) for information concerning the BidCo Group and the Guarantors and their respective business and operations; and
  - (ii) provide reasonable co-operation to Target and its Representatives, for the purpose of doing all things necessary or desirable under this deed or in connection with the Proposed Transaction (including compliance with any regulatory or financial market reporting requirements), and any plans for the integration of the Target Group into the BidCo Group following the Implementation Date.
- (b) Nothing in this clause 9.5 requires BidCo or the Guarantors to provide Target with any information:
  - (i) in breach of an obligation of confidentiality to any person or any applicable privacy laws; or
  - (ii) concerning the consideration of the Proposed Transaction by the BidCo board, BidCo management or the Guarantors.
- (c) BidCo and the Guarantors will provide reasonable assistance to Target for the purpose of satisfying the obligations which are imposed on them under this clause 9.5 but nothing in this clause 9.5 requires BidCo or the Guarantors to provide access to its people or documentation or to take any other action that would disrupt the usual and ordinary course of its businesses and operations.

#### **9.6 Change of control**

- (a) As soon as practicable after the date of this deed, Target and BidCo must seek to identify any change of control or similar provisions in leases and material contracts to which a member of the Target Group is a party which may be triggered by the implementation of the Proposed Transaction. In respect of those leases and contracts, the parties agree as follows:



- (i) Target and BidCo will agree a proposed course of action and then jointly initiate contact with the relevant landlords and other counter-parties and request that they provide any consents required. However, none of BidCo, the Guarantors or any of their Authorised Persons may contact any landlords or other counter-parties without Target's prior written consent.
- (ii) Target must cooperate with, and provide reasonable assistance to, BidCo to obtain such consents as expeditiously as possible, including by:
  - (A) promptly providing any information reasonably required by landlords or counterparties; and
  - (B) making representatives available, where necessary, to meet with landlords or counterparties to deal with issues arising in relation to the change of control of Target.
- (b) A failure by a member of the Target Group to obtain any third party consent will not constitute a breach of this deed by Target and, together with any consequences that arise, will be disregarded when assessing the operation of any other provision of this deed.
- (c) Target will provide reasonable assistance to, and work together with, BidCo and the Guarantors to facilitate a consultation process between Target, BidCo and the Guarantors, and the Target Group's material customers and suppliers to, amongst other things discuss the Transaction and its potential impact on the Target Group's material customers' and suppliers' relationships with members of the Target Group.

## 10. Actions on and following Implementation Date

### 10.1 Reconstitution of the board of each member of the Target Group

- (a) On the Implementation Date, but subject to, and no later than immediately after the cash component of the Scheme Consideration having been paid in full by BidCo to Target and the scrip component of the Scheme Consideration having been issued to Management Shareholders and receipt by Target of signed consents to act, Target must take all actions necessary (and in accordance with the constitution of the relevant Target Group member, the Corporations Act and the Listing Rules) to appoint the persons nominated by BidCo as new Target Directors and new directors of each Subsidiary.
- (b) Without limiting clause 10.1(a), on the Implementation Date, Target must procure that:
  - (i) all outgoing Target Directors:
    - (A) deliver to the Target written notices of resignation to the effect that the outgoing directors have no claim outstanding against any member of the Target Group; and
    - (B) resign from the Target Board (and not only the members of the committee of the board of directors of Target constituted from time to time to consider the Proposed Transaction on behalf of Target); and
  - (ii) all outgoing directors of each Subsidiary of Target:
    - (A) deliver to the relevant Subsidiary of Target written notices of resignation to the effect that the outgoing directors have no claim outstanding against any member of the Target Group; and
    - (B) resign from their office.

### 10.2 Sequence of actions on the Implementation Date

- (a) On the Implementation Date, the transactions which form part of the Scheme will be implemented in the following sequence:
  - (i) **(HK HoldCo Shares)** BidCo will procure the issue to each Scheme Shareholder that is a Management Shareholder (or its nominee) of the relevant number of HK HoldCo Shares comprising the scrip component of the Scheme Consideration;



- (ii) **(cash component of the Scheme Consideration)**
    - (A) BidCo will give written notice to the Stakeholder to immediately disburse the cash component of the Scheme Consideration in the Escrow Account to Target (which will hold the Scheme Consideration on behalf of each Scheme Shareholder) in accordance with the Scheme;
    - (B) Target will disburse the Scheme Consideration received from the Stakeholder to Scheme Shareholders (or, if Target permits and subject to any regulatory requirements, a nominee of a Scheme Shareholder (in accordance with a Scheme Shareholder's directions)) in accordance with the Scheme; and
    - (C) where BidCo has delivered Letters of Credit to the Stakeholder:
      - (I) BidCo will give written notice to the Stakeholder to immediately release the Letters of Credit to Target (which will hold the amount of the Scheme Consideration represented by the Letters of Credit on behalf of each Scheme Shareholder) in accordance with the Scheme; and
      - (II) Target will draw down on the Letters of Credit and disburse that portion of the cash component of the Scheme Consideration represented by the Letters of Credit to Scheme Shareholders (or, if Target permits and subject to any regulatory requirements, a nominee of a Scheme Shareholder (in accordance with a Scheme Shareholder's directions)) in accordance with the Scheme;
  - (iii) the entire Target Board (and not only the members of the committee of the board of directors of Target constituted from time to time to consider the Proposed Transaction on behalf of Target) and the board of each Subsidiary of Target will be reconstituted in accordance with clause 10.1; and
  - (iv) BidCo will, or will procure that AcquireCo (as its nominee), acquire/s all of the Scheme Shares and sign/s the share transfer form with respect to the transfer of those Scheme Shares to it in accordance with the Scheme.
- (b) For avoidance of doubt, if all of the Conditions are satisfied or waived and the Scheme is Effective, the provisions of clause 11.10(b)(i) do not limit the liability of:
- (i) Primavera (or Primavera Capital Fund II) to effect the release of its Relevant Proportion of the cash component of the Scheme Consideration at the Implementation Date in accordance with this deed, the Scheme and the Escrow Agreement, being its obligation under:
    - (A) clause 10.2(a)(ii)(A) to deliver a notice to the Stakeholder to immediately disburse the cash component of the Scheme Consideration in the Escrow Account to Target; or
    - (B) clause 10.2(a)(ii)(C)(I) to deliver a notice to the Stakeholder to immediately release the Letters of Credit to Target.
  - (ii) SIIC Medical Science (or Shanghai Pharma) to effect the release of its Relevant Proportion of the cash component of the Scheme Consideration at the Implementation Date in accordance with this deed, the Scheme and the Escrow Agreement, being its obligation under:
    - (A) clause 10.2(a)(ii)(A) to deliver a notice to the Stakeholder to immediately disburse the cash component of the Scheme Consideration in the Escrow Account to Target; or
    - (B) clause 10.2(a)(ii)(C)(I) to deliver a notice to the Stakeholder to immediately release the Letters of Credit to Target.



## 11. Representations and warranties

### 11.1 BidCo representations and warranties

- (a) Subject to the provisions of clause 20.4, BidCo represents and warrants to Target (on Target's own behalf and separately as trustee for each of the other Target Parties) each of the matters set out in clause 11.1(b) as at the date of this deed and on each subsequent day until the Delivery Time (except that where any statement is expressed to be made only at a particular date it is given only at that date).
- (b) Subject to the provisions of clause 20.4, BidCo represents and warrants that:
  - (i) BidCo is a validly existing corporation registered under the laws of its place of incorporation;
  - (ii) the execution and delivery of this deed has been properly authorised by all necessary corporate action and BidCo has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed;
  - (iii) this deed constitutes legal, valid and binding obligations on it and this deed does not result in a breach of or default under any agreement, deed or any writ, order or injunction, rule or regulation to which BidCo is a party or is bound;
  - (iv) the Primavera Capital Fund II Information and the Shanghai Pharma Information, respectively, provided to Target in accordance with clause 7.2(a) for inclusion in the Scheme Booklet will:
    - (A) be provided in good faith;
    - (B) comply in all material respects with the requirements of the Corporations Act, the Listing Rules and RG 60; and
    - (C) be provided on the understanding that each of the Target Indemnified Parties will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the Scheme in accordance with the requirements of the Corporations Act;
  - (v) all information provided by, or on behalf of, BidCo to the Independent Expert to enable the Independent Expert's Report to be included in the Scheme Booklet to be prepared and completed will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purposes of preparing the Independent Expert's Report for inclusion in the Scheme Booklet;
  - (vi) as at the date the Scheme Booklet is despatched to Target Shareholders, the Primavera Capital Fund II Information and the Shanghai Pharma Information, respectively, in the form and context in which that information appears in the version of the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act will not be misleading or deceptive in any material respect (whether by omission or otherwise);
  - (vii) BidCo will, as a continuing obligation, provide to Target all such further or new information which may arise after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that the Primavera Capital Fund II Information and the Shanghai Pharma Information, respectively, in the form and context in which that information appears in the version of the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act, is not misleading or deceptive in any material respect (whether by omission or otherwise);
  - (viii) the issued capital of AcquireCo will be indirectly held by Primavera as to 40% and SIIC Medical Science as to 60%;



- (ix) other than the regulatory approvals referred to in the Condition in clause 3.1(b), BidCo does not require the approval of its shareholders or the approval or consent of any other person to enter into or perform any of its obligations under this deed;
- (x) all factual information BidCo has provided to Target prior to the date of this deed is, to the best of BidCo's knowledge, accurate in all material respects and not misleading in any material respect (whether by omission or otherwise), including that there are reasonable grounds for all statements as to future matters and a reasonable basis for all statements of opinion in that information;
- (xi) no Guarantor Prescribed Occurrence has occurred;
- (xii) as at the date of this deed BidCo has a reasonable basis to expect that it will, by the Implementation Date, have available to it sufficient cash amounts (whether from internal cash resources, external funding arrangements or available for drawdown under Letters of Credit) to satisfy BidCo's obligation to pay the cash component of the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll;
- (xiii) by the Delivery Time, BidCo will have available to it on an unconditional basis (other than conditions relating to the approval of the Court and other conditions within the control of BidCo) sufficient cash amounts (whether from internal cash resources, external funding arrangements or available for drawdown under Letters of Credit) to satisfy BidCo's obligation to pay the cash component of the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll;
- (xiv) BidCo will have available to it on the Implementation Date sufficient cash amounts (whether from internal cash resources, external funding or available for drawdown under Letters of Credit) to satisfy BidCo's obligation to pay the cash component of the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll; and
- (xv) between the date of this deed and the Record Date, BidCo will not, and will procure that each other member of the BidCo Group does not, enter into any arrangement under which it obtains the beneficial interest in any Target Shares, unless the Target Shares are registered in the name of BidCo.

## 11.2 BidCo's indemnity

Subject to clause 11.10(b), BidCo agrees with Target (on Target's own behalf and separately as trustee or nominee for each of the other Target Parties) to indemnify and keep indemnified the Target Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Target Parties may directly suffer or incur by reason of any breach of any of the representations and warranties in clauses 11.1(a) or 11.1(b).

## 11.3 Guarantors representations and warranties

- (a) Each Guarantor severally represents and warrants to Target in respect of itself only (on Target's own behalf and separately as trustee for each of the other Target Parties) each of the matters set out in clause 11.3(b) as at the date of this deed and on each subsequent day until the Delivery Time (except that where any statement is expressed to be made only at a particular date it is given only at that date).
- (b) Each Guarantor severally represents and warrants in respect of itself only that:
  - (i) it is a validly existing corporation registered under the laws of its place of incorporation;
  - (ii) the execution and delivery of this deed has been properly authorised by all necessary corporate action and it has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed;



- (iii) this deed constitutes legal, valid and binding obligations on it and this deed does not result in a breach of or default under any agreement, deed or any writ, order or injunction, rule or regulation to which it is a party or is bound;
- (iv) it does not require the approval of its shareholders or the approval or consent of any other person to enter into or perform any of its obligations under this deed; and
- (v) between the date of this deed and the Record Date, it will not, and will procure that each of its Subsidiaries and Related Bodies Corporate does not, enter into any arrangement under which it obtains the beneficial interest in any Target Shares (other than in the course of establishing any investment structure in AcquireCo).

#### 11.4 Guarantors' indemnity

Subject to clause 11.10(b), each Guarantor agrees with Target (on Target's own behalf and separately as trustee or nominee for each of the other Target Parties) to severally and in its Relevant Proportion indemnify and keep indemnified the Target Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Target Parties may directly suffer or incur by reason of any breach by that Guarantor of any of the representations and warranties in clauses 11.3(a) or 11.3(b).

#### 11.5 Target representations and warranties

- (a) Target represents and warrants to BidCo (on its own behalf and separately as trustee for each of the Guarantor Indemnified Parties) each of the matters set out in clause 11.5(b) as at the date of this deed and at all subsequent times until the Delivery Time (except that where any statement is expressed to be made only at a particular date it is given only at that date).
- (b) Target represents and warrants that:
  - (i) Target is a validly existing corporation registered under the laws of its place of incorporation;
  - (ii) the execution and delivery of this deed by Target has been properly authorised by all necessary corporate action and Target has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed;
  - (iii) this deed constitutes legal, valid and binding obligations on Target and the execution of this deed of itself does not result in a breach of or default under any agreement or deed or any writ, order or injunction, rule or regulation to which Target or any of its Subsidiaries is a party or to which they are bound;
  - (iv) the Target Information contained in the Scheme Booklet will comply in all material respects with the requirements of the Corporations Act, Listing Rules and RG 60;
  - (v) as at the date the Scheme Booklet is despatched to Target Shareholders, the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act (excluding the Primavera Capital Fund II Information and the Shanghai Pharma Information, respectively and the Independent Expert's Report) will not be misleading or deceptive in any material respect (whether by omission or otherwise);
  - (vi) as at the date of this deed, the total issued capital of Target is:
    - (A) 139,143,525 Target Shares;
    - (B) 1,000,918 Target Options; and
    - (C) 195,499 Target Performance Rights,and there are no other Target options, performance rights, shares, convertible notes or other securities (or offers or agreements to issue any of the foregoing);



- (vii) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), all Due Diligence Material was prepared in good faith, and was, as at the date it was disclosed to BidCo, true and correct in all material respects and was, as at the date it was disclosed to BidCo, not misleading in any material respect, whether by way of omission or otherwise;
- (viii) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), Target is as at the date of this deed not in breach of its continuous disclosure obligations under the Corporations Act and the Listing Rules in any material respect and, other than with respect to the Proposed Transaction, and with respect to any item which BidCo has approved in accordance with clause 9.3(f) is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from disclosure;
- (ix) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), Target's financial statements as disclosed to ASX in Target's annual financial report and half-yearly financial report were prepared in accordance with the requirements of the Corporations Act on a basis consistent with past practice financial statements;
- (x) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), it and its Subsidiaries have, as at the date of this deed, complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign Governmental Agencies having jurisdiction over them and have, as at the date of this deed, all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted;
- (xi) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries):
  - (A) neither it nor any of its Subsidiaries is, as at the date of this deed, in material default under any document, agreement or instrument binding on it or its assets;
  - (B) nothing has occurred as at the date of this deed which is or would with the giving of notice or lapse of time constitute an event of default, prepayment event or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such document or agreement with such an effect; and
  - (C) as at the date of this deed, no other party to any document, agreement or instrument binding on Target or any of its Subsidiaries or their respective assets is in material breach thereof or material default thereunder,in each case where such matter will, or would reasonably be likely to have a material adverse effect on the business, assets or financial condition of the Target Group when taken as a whole;
- (xii) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), there is, as at the date of this deed, no mortgage, charge, lien or encumbrance over all or any material part of its or its Subsidiaries' assets or revenues, other than as Fairly Disclosed and as Fairly Disclosed at 11 July 2016 in records open to public inspection and maintained by the Australian Personal Property Securities Register;
- (xiii) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), neither the Target nor any of its Subsidiaries is:
  - (A) as at the date of this deed, a party to or the subject of any Claim; or
  - (B) as at the date of this deed, the subject of any product recall, ruling, judgement, order or decree by any Government Agency or any other person,in each case where such matter will, or would reasonably be likely to have a material adverse effect on the business, assets or financial condition of the Target



Group when taken as a whole other than as Fairly Disclosed in the period commencing on 6 July 2016 and concluding on 13 July 2016 in records open to public inspection and maintained by the High Court, the Federal Court and the Supreme Courts in every State and Territory in Australia;

- (xiv) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), there is not as at the date of this deed any product recall, Claim, judgment, order or decree pending, threatened or anticipated, against the Target or any of its Subsidiaries, other than any Claim which the Target believes, acting reasonably, would not have a material adverse effect on the business, assets or financial condition of the Target Group when taken as a whole other than as Fairly Disclosed in the period commencing on 6 July 2016 and concluding on 13 July 2016 in records open to public inspection and maintained by the High Court, the Federal Court and the Supreme Courts in every State and Territory in Australia;
- (xv) to the best of Target's knowledge as at the date of this deed (having made all reasonable enquiries), no member of the Target Group or any Target Authorised Person has, as at the date of this deed, provided, offered or promised to provide, or will provide, offer or promise to provide, a financial or other benefit to another person in Illegitimate Circumstances with the intention to obtain or retain business or an advantage in the conduct of business for the Target Group other than as Fairly Disclosed in the period commencing on 6 July 2016 and concluding on 13 July 2016 in records open to public inspection and maintained by the High Court, the Federal Court and the Supreme Courts in every State and Territory in Australia; and
- (xvi) the Scheme Shares held by each Scheme Shareholder are not, and until (and including) the Implementation Date will not be, indirect Australian real property interests within the meaning of Division 855 of the *Income Tax Assessment Act 1997* (Cth) for each Scheme Shareholder.

#### **11.6 Target's indemnity**

Target agrees with BidCo (on BidCo's own behalf and separately as trustee for each of the Guarantor Indemnified Parties) to indemnify and keep indemnified the Guarantor Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Guarantor Indemnified Parties may directly suffer or incur by reason of any breach of any of the representations and warranties in clauses 11.5(a) or 11.5(b).

#### **11.7 Notifications**

Each party will promptly advise the other in writing if it becomes aware of any fact, matter or circumstance which constitutes or may constitute a breach of any of the representations or warranties given by it under this clause 11.

#### **11.8 Survival of representations**

Each representation and warranty in clauses 11.1, 11.3 and 11.5:

- (a) is severable;
- (b) will survive the termination of this deed; and
- (c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this deed.

#### **11.9 Survival of indemnities**

Each indemnity in this deed (including those in clauses 11.2, 11.4 and 11.6) will:

- (a) be severable;
- (b) be a continuing obligation;



- (c) constitute a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this deed; and
- (d) survive the termination of this deed.

#### 11.10 Limitation on Claims

##### (a) Limitation on Claims against Target

- (i) Target's representations and warranties in clause 11.5 and the indemnity in clause 11.6 are each subject to, and no Claim can be made against Target in respect of, matters to the extent they have been Fairly Disclosed in Target's announcements to the ASX and/or the Due Diligence Material prior to the date of this deed.
- (ii) Notwithstanding any other provision of this deed:
  - (A) the maximum aggregate amount which Target is required to pay in relation to a breach of this deed (including in respect of a breach of representation and warranty) is an amount equal to \$15,653,647 (**Claim Amount**) and in no event will the aggregate liability of Target under or in connection with a breach of this deed exceed the Claim Amount (including any Target Break Fee); and
  - (B) where the Claim Amount becomes payable to BidCo under this deed (or would be payable if a demand was made), BidCo cannot make any additional claim under the indemnity in clause 11.6 or further Claim against Target in relation to any event or occurrence referred to in clause 13.2 or for any material breach referred to in clause 17.1 (but, for the avoidance of doubt, may exercise any right available to it to terminate this deed under clause 17.1).

##### (b) Limitation on Claims against BidCo and the Guarantors

Notwithstanding any other provision of this deed:

- (i) subject to paragraph (ii) the maximum amount which:
  - (A) Primavera Capital Fund II and Primavera are required to pay in aggregate by them in relation to a breach of this deed (including in respect of a breach of representation and warranty, where applicable) by them is an amount equal to \$6,261,459 and in no event will the liability of Primavera Capital Fund II and Primavera, in aggregate, under or in connection with a breach of this deed exceed that amount (including Primavera's Relevant Proportion of any BidCo Break Fee) (**Primavera Capital Fund II Claim Amount**);
  - (B) Shanghai Pharma and SIIC Medical Science are required to pay in aggregate by them in relation to a breach of this deed (including in respect of a breach of representation and warranty, where applicable) by them is an amount equal to \$9,392,188 and in no event will the liability of Shanghai Pharma and SIIC Medical Science, in aggregate, under or in connection with a breach of this deed exceed that amount (including SIIC Medical Science's Relevant Proportion of any BidCo Break Fee) (**Shanghai Pharma Claim Amount**); and
- (ii) where:
  - (A) the Primavera Capital Fund II Claim Amount becomes payable by Primavera Capital Fund II and Primavera to Target, or
  - (B) the Shanghai Pharma Claim Amount becomes payable by Shanghai Pharma and SIIC Medical Science to Target,

Target cannot make any additional claim under the indemnity in clause 11.2 (in the case of BidCo) or under the indemnity in clause 11.4 (in the case of the Guarantors) or further Claim against BidCo under clause 14.1 or for any material breach referred to in clause 17.1 (but, for the avoidance of doubt, may exercise



any right available to it to terminate this deed under clause 17.1 or, where applicable, clauses 4.2(d)(ii)(B) or 4.2(d)(iii)).

## **12. Exclusivity**

### **12.1 No existing discussions**

Other than in relation to the discussions with BidCo in connection with the Proposed Transaction and this deed, Target represents and warrants to BidCo that, as at the date of this deed:

- (a) neither itself, its Related Bodies Corporate nor any of their respective Authorised Persons is a party to any agreement with a third party entered into for the purpose of facilitating a Competing Transaction; and
- (b) neither itself, its Related Bodies Corporate nor any of their respective Authorised Persons has invited, or is participating in, any discussions or negotiations with a third party that concern, or that could reasonably be expected to lead to, a Competing Transaction.

### **12.2 No-shop**

During the Exclusivity Period, Target must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly solicit, invite, initiate or encourage any Competing Transaction or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a Competing Transaction, or communicate any intention to do any of these things.

### **12.3 No-talk**

Subject to clause 12.7, during the Exclusivity Period, Target must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly:

- (a) negotiate or enter into or participate in negotiations or discussions with any person; or
- (b) communicate any intention to do any of these things,

in relation to (or which may reasonably be expected to lead to) a Competing Transaction, even if that Competing Transaction was not directly or indirectly solicited, encouraged or initiated by Target or any of its Related Bodies Corporate, or a person has publicly announced the Competing Transaction.

### **12.4 No due diligence**

During the Exclusivity Period, except with the prior written consent of BidCo, Target must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly:

- (a) solicit, invite, initiate, or encourage, or facilitate or permit, any person (other than BidCo) to undertake due diligence investigations in respect of Target, its Related Bodies Corporate, or any of their businesses and operations, in connection with any person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Transaction; or
- (b) make available to any person (other than BidCo) or permit any such person to receive any non-public information relating to Target, its Related Bodies Corporate, or any of their businesses and operations, or access to Target management, in connection with any person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Transaction,

unless strictly required as a result of the operation of clause 12.7, provided always that:

- (a) no due diligence opportunity, information or access to management is provided which has not also been provided to BidCo in sufficient time for BidCo to consider it for the purposes of clause 12.6;
- (b) prior to any such due diligence opportunity, information or access to management being provided Target has first complied in full with its obligations under clause 12.5.



## 12.5 Notification of approaches

- (a) During the Exclusivity Period, Target must promptly notify BidCo in writing of:
- (i) any direct or indirect approach, inquiry or proposal made by any person to Target, any of its Related Bodies Corporate or any of their respective Authorised Persons, to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, a Competing Transaction (which, for the avoidance of doubt, must include:
    - (A) the fact that such an approach has been made;
    - (B) the nature of the approach, including the price or consideration proposed and any other material terms;
    - (C) the name of the person, and such of their authorised representatives as are known to the Target, and details of any relationship or connection with the Target or its Authorised Representatives); and
  - (ii) any request made by any person to Target, any of its Related Bodies Corporate, or any of their respective Authorised Persons, for any information relating to Target, its Related Bodies Corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Transaction.

A variation to a previous approach or proposal is taken to be a new approach or proposal for the purposes of this clause.

- (b) The obligations in this clause 12.5, do not apply to the extent that they require Target to provide information if the Target Board has determined in good faith, and after having considered written advice from the Target Board's external legal advisers, that the consequences of providing the relevant information would be likely to constitute a breach of the fiduciary and statutory duties owed by any Target director.

## 12.6 Target's response to Rival Acquirer and BidCo's right to respond

- (a) If Target receives a Competing Transaction and as a result, any Target Director proposes to either:
- (i) change, withdraw or modify his or her recommendation of the Scheme; or
  - (ii) approve or recommend entry into any agreement, commitment, arrangement or understanding relating to the Competing Transaction),

Target:

- (iii) - must ensure that no Target Director takes any action referred to in paragraphs (i) and (ii); and
- (iv) must ensure that Target, Target Directors or any Authorised Person does not enter into any legally binding agreement, arrangement or understanding (whether legally binding or otherwise) with respect to a Competing Transaction;

until each of the following has occurred:

- (v) the Competing Transaction is, or may reasonably be expected to lead to, a Superior Proposal;
- (vi) Target has given BidCo written notice (**Relevant Notice**) of the Target Director's proposal to take the action referred to in clauses 12.6(a)(i) or 12.6(a)(ii) (subject to BidCo's rights under clause 12.6(c)), including details of the grounds on which the Target Directors propose to take such action;
- (vii) subject to clause 12.6(b), Target has provided BidCo with the identity of the relevant third party (**Rival Acquirer**) and the material terms of the Competing Transaction and any information given to the Rival Acquirer (to the extent not already provided under clause 12.5);



- (viii) BidCo's rights under clause 12.6(c) have been exhausted; and
  - (ix) the Target Directors have determined that the Competing Transaction is, or may reasonably be expected to lead to, a Superior Proposal after BidCo's rights under clause 12.6(c) have been exhausted and after evaluation of any Counter Proposal (defined below).
- (b) Prior to giving BidCo the information under clause 12.6(a)(vii), Target must advise the Rival Acquirer that the Rival Acquirer's name and other details which may identify the Rival Acquirer will be provided by Target to BidCo on a confidential basis.
- (c) If Target gives a Relevant Notice to BidCo under clause 12.6(a)(vi), BidCo will have the right, but not the obligation, at any time during the period of at least (but not limited to) five full Business Days following the receipt of the Relevant Notice, to amend the terms of the Proposed Transaction including increasing the amount of consideration offered under the Proposed Transaction or proposing any other form of transaction (each a **Counter Proposal**), and if it does so then the Target Directors must review and make a determination in respect of the Counter Proposal in good faith.
- (d) If the Target Directors determine that the Counter Proposal would be more favourable, or at least no less favourable, to Target and the Target Shareholders than the Competing Transaction (having regard to the matters noted in clause 12.7), then Target and BidCo must use their best endeavours to agree the amendments to this deed that are reasonably necessary to reflect the Counter Proposal and to enter into an amended agreement to give effect to those amendments and to implement the Counter Proposal, and Target must use its best endeavours to procure that the Target Directors recommend the Counter Proposal to the Target Shareholders and not recommend the applicable Competing Transaction.
- (e) For the purposes of this clause 12.6, each successive modification of a material term of any third party expression of interest, offer or proposal in relation to a Competing Transaction will constitute a new Competing Transaction.

## 12.7 Fiduciary out

The restrictions in clauses 12.3, 12.4(a) and 12.4(b) do not apply to the extent they restrict Target or any Target Director from taking or refusing to take any action with respect to a Competing Transaction (in relation to which there has been no contravention of this clause 12) provided that the Target Board has determined in good faith and acting reasonably after:

- (a) consultation with Target's financial advisers, that the Competing Transaction is or may reasonably be expected to lead to a Superior Proposal; and
- (b) receiving written advice from Target's external Australian legal adviser practising in the area of corporate law,

that failing to take the action or refuse to take the action (as the case may be) with respect to the Competing Transaction would be likely to constitute a breach of the fiduciary or statutory obligations of the Target Board.

## 12.8 Target's Authorised Persons

Target undertakes and warrants that, on or about the date of this deed, it will obtain written undertakings and assurances from each of Target's Authorised Persons to the effect that:

- (a) they are not aware of, have not invited and are not involved in any discussions of the kind referred to in clause 12.1; and
- (b) without limiting the foregoing, they will comply with this clause 12 for the period of this deed.



## 13. Target Break Fee

### 13.1 Background

- (a) Target and BidCo acknowledge that, if they enter into this deed and the Scheme is subsequently not implemented:
  - (i) BidCo will incur significant costs which are expected to exceed those described in clause 13.2; and
  - (ii) those costs are substantially increased by the cross-border nature of the Transaction, and the multi-jurisdiction operations of the Target.
- (b) In light of the circumstances referred to in clause 13.1(a), BidCo has requested that provision be made for the payments outlined in clause 13.3 as well as the obligations under clause 12, without which BidCo would not have entered into this deed.
- (c) The Target Board believes that the Scheme will provide benefit to Target and Target Shareholders and that it is appropriate for Target to agree to the payments referred to in this clause 13 in order to secure BidCo's participation in the Proposed Transaction.

### 13.2 Costs incurred by BidCo

- (a) The fee payable under clause 13.3 has been calculated to reimburse BidCo for the following:
  - (i) fees for reasonable legal and financial advice in planning and implementing the Proposed Transaction;
  - (ii) reasonable opportunity costs incurred in engaging in the Proposed Transaction or in not engaging in other alternative acquisitions or strategic initiatives;
  - (iii) costs of management and directors' time in planning and implementing the Proposed Transaction;
  - (iv) out of pocket expenses incurred in planning and implementing the Proposed Transaction; and
  - (v) any damage to the Guarantors' reputation associated with a failed transaction and the implications of those damages if the Guarantors seek to execute alternative acquisitions in the future,in each case, incurred by BidCo directly or indirectly as a result of having entered into this deed and pursuing the Proposed Transaction.
- (b) The parties acknowledge that the amount of fees, costs and losses referred to in this clause 13.2 is inherently unascertainable and that, even after termination of this deed, the costs will not be able to be accurately ascertained.

### 13.3 Payment by Target to BidCo

- (a) Target agrees to pay to BidCo \$3,130,729 (exclusive of GST) (**Target Break Fee**) if any of the following occur:
  - (i) (**withdrawal or modification of recommendation**):
    - (A) any Target Director fails to recommend the Scheme as contemplated by clauses 8.1 or 8.2; or
    - (B) each of that number of Target Directors as constitutes a majority of the Target Board withdraws or adversely modifies their recommendation of the Scheme and do not, within three Business Days, reinstate their recommendation,except:
    - (C) in the circumstances contemplated in clause 8.3(b); or
    - (D) as a result of any matter or thing giving Target the right to terminate under clause 17.1;



- (ii) **(Competing Proposal)** either:
  - (A) Target enters into an agreement, arrangement or understanding (whether legally binding or otherwise) to undertake a Competing Transaction, or publicly announces an intention to do so; or
  - (B) a Competing Transaction is made or announced and at any time before 6 months after the End Date the proponent of the Competing Proposal (together with its Associates) has a Relevant Interest in more than 50% of the Target Shares, or acquires or obtains an economic interest in all or a substantial part of the assets of the Target Group;
- (iii) **(action causing a failure of Condition)** a Condition (other than the Conditions in clauses 3.1(b)(ii), 3.1(b)(iii), 3.1(b)(iv), 3.1(e) and 3.1(g)) is not satisfied due to an action (or failure to act) of Target or any of its Related Bodies Corporate in breach of Target's obligations under this deed, and BidCo and the Guarantors do not waive that Condition before the End Date; or
- (iv) **(termination due to material breach)** BidCo terminates this deed in accordance with clause 17.1(a).
- (b) Target must pay BidCo the Target Break Fee within five Business Days of receipt by Target of a demand for payment from BidCo made after the occurrence of the event referred to in clause 13.3(a), and in any event prior to entry into any agreement, arrangement or understanding (whether binding or otherwise) in respect of a Competing Proposal.
- (c) For the avoidance of doubt, the Target Break Fee is not payable merely because the resolution submitted to the Scheme Meeting in respect of the Scheme is not approved by the majorities required under section 411(4)(a)(ii) of the Corporations Act.
- (d) The Target Break Fee is only payable once and the maximum amount payable by Target under this clause 13.3 is \$3,130,729 (exclusive of GST).
- (e) Where the Target Break Fee becomes payable to BidCo under this clause 13.3 and is actually paid to BidCo, BidCo (for itself and as agent of every member of the BidCo Group):
  - (i) releases all rights against and agrees with Target that BidCo will not make a Claim against any Target Party (other than a claim under this clause 13.3) in connection with:
    - (A) the event that gave rise to the right to demand the payment of the Target Break Fee; nor
    - (B) any other event, matter or circumstance that may give rise to a separate right to the Target Break Fee or that constitutes or may constitute a breach of this deed; and
  - (ii) indemnifies any Target Party against a Claim that is made contrary to the release under clause 13.3(e)(i),with the effect that the payment of the Target Break Fee represents the sole and exclusive remedy of any BidCo Group Member and the Guarantors.
- (f) For the avoidance of doubt, the Target Break Fee is not payable where Target has become entitled to the BidCo Break Fee - if applicable.

## 14. BidCo Break Fee

### 14.1 BidCo Break Fee

- (a) BidCo agrees to pay to Target \$3,130,729 (exclusive of GST) (**BidCo Break Fee**) if:
  - (i) **(action causing a failure of Condition)** a Condition (other than the Conditions in clauses 3.1(c), 3.1(d) and 3.1(f)) is not satisfied due to an action (or failure to act) of BidCo, the Guarantors or any of their Related Bodies Corporate in breach of



BidCo's and the Guarantors obligations under this deed, and that Condition is not waived in accordance with this deed before the End Date;

- (ii) **(termination due to material breach)** Target terminates this deed in accordance with clause 17.1(a); or
- (iii) **(failure to perform scheme)** BidCo or the Guarantors on behalf of BidCo do not pay the cash component of, or procure the issue of the scrip component, of the Scheme Consideration (as the case may be) in accordance with the terms and conditions of this deed and the Deed Poll and fail to do so within five Business Days of the date on which the Scheme Consideration is required to be paid or issued (as the case may be).
- (b) BidCo must pay Target the BidCo Break Fee within five Business Days of receipt by BidCo of a demand for payment from Target made after the occurrence of the event referred to in clause 14.1(a).
- (c) The BidCo Break Fee is only payable once and the maximum amount payable by BidCo under clause 14.1(a) is \$3,130,729 (exclusive of GST).
- (d) Where the event referred to in clause 14.1(a) is caused by an act or omission of:
  - (i) Primavera or Primavera Capital Fund II alone, then Primavera is solely liable for payment of the aggregate amount of the BidCo Break Fee, limited to the maximum of \$3,130,729 (exclusive of GST); or
  - (ii) SIIC Medical Science or Shanghai Pharma alone, then SIIC Medical Science is solely liable for payment of the aggregate amount of the BidCo Break Fee, limited to the maximum of \$3,130,729 (exclusive of GST).

## 15. Modification of Target Break Fee or exclusivity arrangements

### 15.1 Modifications following regulatory intervention

If any of the following occurs:

- (a) a Governmental Agency finds that all or any part of the payment required to be made under clause 13 or an exclusivity arrangement under clause 12 is unacceptable or unenforceable; or
- (b) as a result of an application to the Takeovers Panel, the Takeovers Panel indicates that, in the absence of a written undertaking under section 201A of the *Australian Securities and Investments Commission Act 2001* (Cth) to modify the amount of the Target Break Fee, the BidCo Break Fee or the circumstances in which it is to be paid or the circumstances in relation to an exclusivity arrangement under clause 12, it will make a declaration of unacceptable circumstances,

then, subject to clause 15.2:

- (c) the parties must amend clause 13 and/or 12 to the minimum extent required to give effect to the requirements of the Governmental Agency or the Takeovers Panel (as the case may be) and (in circumstances referred to in clause 15.1(b)) must give the required undertaking(s); and
- (d) neither the occurrence of any of the events referred to in clauses 15.1(a) or 15.1(b) nor the amendment of clauses 13 and/or 12 will be taken to be a breach of, or permit any party to terminate, this deed.

### 15.2 No requirement to act unless decision final

The parties are only required to take steps under 15.1(c) in relation to any requirement of a Governmental Agency or the Takeovers Panel if:

- (a) no appeal or review proceeding is available from the decision to impose that requirement or the period for lodging an appeal or commencing review proceedings has expired without an appeal having been lodged or review proceedings commenced; or



- (b) BidCo and Target agree in writing not to appeal or seek review of the decision to impose that requirement.

### 15.3 Appeals and review of regulatory decisions

Nothing in this deed requires either party to appeal or seek review of any decision of a Court, a Governmental Agency or the Takeovers Panel referred to in clauses 15.1(a) or 15.1(b). If either BidCo or Target wishes to appeal or seek review of any such decision then the other must make submissions in the course of those proceedings supporting the review made by the first party.

### 15.4 Determination by Governmental Agency

If a Governmental Agency determines that payment of all or any part of the Target Break Fee or the BidCo Break Fee is unacceptable, unlawful or involves a breach of the fiduciary or statutory duties of the members of the Target Board (**Impugned Amount**) and either no appeal from that determination is available or the period for lodging an appeal has expired without having an appeal having been lodged then:

- (a) the obligation of Target to pay the Target Break Fee and the obligation of BidCo to pay the BidCo Break Fee does not apply to the extent of the Impugned Amount; and
- (b) if BidCo has received any part of the Impugned Amount, it must refund it within five Business Days after that determination is made or the period for lodging has expired, whichever is later.

## 16. Confidentiality and Public Announcement

### 16.1 Confidentiality

Each party agrees and acknowledges that it is bound by the terms of the Confidentiality Agreement save that the terms of this deed will prevail over the Confidentiality Agreement to the extent of any inconsistency.

### 16.2 Public Announcements on execution

Immediately after the execution of this deed, the parties must issue public announcements in a form previously agreed to in writing between them which announcement will include a statement:

- (a) by Primavera Capital Fund II that the amount of Primavera Capital Fund II's Relevant Proportion of the Scheme Consideration is "fully funded" by Primavera Capital Fund II;
- (b) by Shanghai Pharma that the amount of Shanghai Pharma's Relevant Proportion of the Scheme Consideration is "fully funded" by Shanghai Pharma; and
- (c) that all Management Shareholders (in respect of all Target Shares held by them at the relevant time) intend supporting and voting in favour of the Scheme, qualified only by the words to the effect of 'unless the Target Directors withdraw their recommendation of the Scheme and subject to the independent expert concluding that the scheme is in the best interests of Target shareholders'.

### 16.3 Further public announcements

Subject to clause 16.4, any further public announcements by Target, the Guarantors or BidCo in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this deed or the Scheme may only be made in a form approved by each party in writing (acting reasonably) subject to where a party is required by law or the Listing Rules to make any announcement or to make any disclosure in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this deed or the Scheme.

### 16.4 Required announcement

Where Target is required by applicable law, the ASX Listing Rules or any other applicable financial market regulation to make any announcement or to make any disclosure in connection with the Proposed Transaction or any other transaction the subject of this deed or the Scheme, it may do so but must use reasonable endeavours, to the extent practicable and lawful, to consult



with BidCo and the Guarantors to the fullest extent possible before making the relevant disclosure and must give those parties as much notice as reasonably practical.

#### **16.5 Statements on termination**

The parties must use all reasonable endeavours to issue agreed statements in respect of any termination of this deed and, to that end but without limitation, clauses 16.3 and 16.4 apply to any such statements or disclosures.

### **17. Termination**

#### **17.1 Termination by notice**

BidCo or Target may, by notice in writing to the other, terminate this deed at any time prior to the Delivery Time:

- (a) if the other (or, in the case of Target, if a Guarantor) is in material breach of any of its obligations under this deed (including a material breach of a representation or warranty) and in the case of BidCo includes any failure by it to pay an amount when due (including an amount of damages or amounts due under an indemnity), and the relevant party has failed to remedy that breach within five Business Days (or prior to the Delivery Time if earlier) of receipt by it of a notice in writing from the terminating party setting out details of the relevant circumstance and requesting the other party to remedy the breach;
- (b) in accordance with clause 3.7;
- (c) in accordance with clause 4.2(d)(ii)(B) or clause 4.2(d)(iii);
- (d) if the Court refuses to make any order directing Target to convene the Scheme Meeting, provided that Target, BidCo and the Guarantors have met and consulted in good faith and agreed that they do not wish to proceed with the Scheme;
- (e) if the Effective Date for the Scheme has not occurred on or before the End Date; or
- (f) each of that number of Target Directors as constitutes a majority of the board of directors of Target change their recommendation or cease to recommend to Target Shareholders that they vote in favour of the Scheme as contemplated by clause 8.1, including any adverse modification to their recommendation as contemplated by clause 8.1 and do not, within three Business Days, reinstate their recommendation of the Proposed Transaction.

#### **17.2 Automatic termination**

Without limiting any other term of this deed, this deed will terminate automatically if the Scheme is not approved by the necessary majorities at the Scheme Meeting.

#### **17.3 Effect of termination**

- (a) In the event of termination of this deed under clause 3.6, 17.1 or 17.2, this deed will become void and have no effect, except that the provisions of clauses 11.8, 11.9, 13, 14, 16, 17 and 21.3 to 21.17 (inclusive) survive termination.
- (b) Termination of this deed does not affect any accrued rights of a party in respect of a breach of this deed prior to termination.

### **18. Releases**

#### **18.1 Release of Target Indemnified Parties**

- (a) Subject to any restrictions imposed by law, BidCo releases any and all rights that it may have as at the date of this deed and from time to time, and agrees with Target that it will not make any Claim, against any Target Indemnified Party in connection with:
  - (i) Target's execution or delivery of this deed;
  - (ii) any breach of any representation, covenant and warranty of Target in this deed;



- (iii) the implementation of the Scheme; or
  - (iv) any disclosure made by any Target Indemnified Party which is false or misleading (whether by omission or otherwise),
- except to the extent the relevant Target Indemnified Party has not acted in good faith or has engaged in fraud, wilful misconduct or wilful concealment. To avoid doubt, nothing in this clause 18.1(a) limits the rights of BidCo to terminate this deed under clause 17.
- (b) Target receives and holds the benefit of clause 18.1(a) as trustee for the Target Indemnified Parties.

## **18.2 Release of BidCo Indemnified Parties**

- (a) Subject to any restrictions imposed by law, Target releases any and all rights that it may have as at the date of this deed and from time to time, and agrees with BidCo that it will not make any Claim, against any BidCo Indemnified Party in connection with:
  - (i) any breach of any representation, covenant and warranty given by BidCo in this deed;
  - (ii) any disclosure containing any statement which is false or misleading (whether by omission or otherwise); or
  - (iii) any failure to provide information,except to the extent the relevant BidCo Indemnified Party has not acted in good faith or has engaged in fraud, wilful misconduct or wilful concealment. To avoid doubt, nothing in this clause 18.2(a) limits the rights of Target to terminate this deed under clause 17.
- (b) BidCo receives and holds the benefit of clause 18.2(a) as trustee for the BidCo Indemnified Parties.

## **18.3 Deeds of indemnity**

- (a) Subject to the Scheme becoming Effective, BidCo undertakes in favour of Target and each other person who is a Target Party that it will:
  - (i) subject to clause 18.3(d), for a period of 7 years from the Implementation Date, ensure that the constitutions of Target and each other member of the Target Group continue to contain such rules as are contained in those constitutions at the date of this deed that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a member of the Target Group; and
  - (ii) procure that Target and each other member of the Target Group complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time.
- (b) The undertakings contained in clause 18.3(a) are subject to any Corporations Act restriction, or any restriction in the law of a jurisdiction in which an entity is incorporated, and will be read down accordingly.
- (c) Target receives and holds for the benefit of clause 18.3(a), to the extent it relates to the other Target Parties, as trustee for them.
- (d) The undertakings contained in clause 18.3(a) are given:
  - (i) in the case of clause 18.3(a)(i), until the earlier of 7 years from the Implementation Date or the relevant member of the Target Group ceasing to be part of the BidCo Group; or
  - (ii) in the case of clause 18.3(a)(ii), until the earlier of 7 years from the retirement of each director and officer or the relevant member of the Target Group ceasing to be part of the BidCo Group.



#### 18.4 Directors' and officers' insurance

- (a) BidCo acknowledges that Target will in respect of Target and all other members of the Target Group:
  - (i) prior to the Effective Date, arrange for the cover currently provided under the directors' and officers' insurance policy for Target and all other members of the Target Group (**Policy**) to be extended for a further period of 12 months; and
  - (ii) by no later than the Implementation Date, to the extent practicable at normal commercial rates, arrange for the cover provided under the Policy to be amended so as to provide run off cover in accordance with the terms of the Policy for a 7 year period from the end of the term of the Policy, and pay all premiums required so as to ensure that insurance cover is provided under the Policy on those terms until that date,and that any actions to facilitate that insurance or in connection therewith will not be a Target Prescribed Occurrence or breach any provision of this deed.
- (b) Target receives and holds the benefit of paragraph (a) as trustee for each director and office of a member of the Target Group.

#### 19. Notices

Any communication under or in connection with this deed:

- (a) must be in writing;
- (b) must be addressed as shown on the Details page (or as otherwise notified by that party to the other party from time to time);
- (c) must be signed by the party making the communication or by a person duly authorised by that party;
- (d) must be delivered or posted by prepaid post to the address of the addressee in accordance with clause 19(b); and
- (e) will be deemed to be received by the addressee:
  - (i) **(in the case of prepaid post)** on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;
  - (ii) **(in the case of delivery by hand)** on delivery at the address of the addressee as provided in clause 19(b), unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day; and
  - (iii) **(in the case of email)** 4 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered.

#### 20. Primavera and SIIC Medical Science

##### 20.1 References to BidCo

All references to "BidCo" in this deed are references to each of Primavera and SIIC Medical Science:

- (a) individually and severally; and
- (b) in each of Primavera's and SIIC Medical Science's respective Relevant Proportions.



## 20.2 Rights, obligations and liability

- (a) **(Primavera and SIIC Medical Science)** Notwithstanding any other provision in this deed, the Scheme and the Deed Poll:
- (i) subject to 20.2(a)(iii), each of Primavera and SIIC Medical Science is severally responsible and liable in its Relevant Proportion for all obligations of BidCo under this deed, the Scheme and the Deed Poll;
  - (ii) all of the rights of BidCo under this deed, the Scheme and the Deed Poll are exercisable severally by Primavera and SIIC Medical Science and any failure by either of them to exercise its rights under this deed, the Scheme and the Deed Poll does not constitute a waiver by the other of its rights; and
  - (iii) **(exceptions to clause 20.2(a)(i))**
    - (A) neither of Primavera or Primavera Capital Fund II is responsible for, or incurs any liability arising from any:
      - (I) act;
      - (II) omission; or
      - (III) breach of any of this deed, the Scheme or the Deed Poll by Shanghai Pharma, SIIC Medical Science or either of their Subsidiaries, Authorised Persons or Related Bodies Corporate.
    - (B) neither of SIIC Medical Science or Shanghai Pharma is responsible for, or incurs any liability arising from any:
      - (I) act;
      - (II) omission; or
      - (III) breach of any of this deed, the Scheme or the Deed Poll by Primavera Capital Fund II, Primavera or either of their Subsidiaries, Authorised Persons or Related Bodies Corporate.
- (b) **(Primavera Capital Fund II and Shanghai Pharma)** Notwithstanding any other provision in this deed, the Scheme and the Deed Poll, save as provided in clause 6.1, the obligations of the Guarantors is several and in each Guarantor's Relevant Proportion.

## 20.3 AcquireCo

- (a) If BidCo procures the incorporation of AcquireCo to act as nominee for BidCo to acquire all of the Scheme Shares under the Scheme, BidCo (being Primavera and SIIC Medical Science severally liable and in their Relevant Proportions) will as soon as practicable and in any event no less than 5 Business Days prior to the Implementation Date, provide a notice to Target which confirms the incorporation of AcquireCo and sets out the incorporation details of AcquireCo.
- (b) All references in this deed to AcquireCo are to AcquireCo as BidCo's nominee, with effect from its incorporation.
- (c) BidCo holds all rights of AcquireCo under this deed as trustee and may enforce them on AcquireCo's behalf and for its benefit.

## 20.4 Representations and warranties

Each of BidCo's warranties and representations in clause 11.1 are given:

- (a) by Primavera:
- (i) in respect of itself and Primavera Capital Fund II only;
  - (ii) in respect of AcquireCo, but limited to the knowledge which Primavera possesses relating to AcquireCo; and
  - (iii) in respect of the Primavera Capital Fund II Information only; and



- (b) by SIIC Medical Science:
  - (i) in respect of itself and Shanghai Pharma only;
  - (ii) in respect of AcquireCo, but limited to the knowledge which SIIC Medical Science possesses relating to AcquireCo; and
  - (iii) in respect of in respect of the Shanghai Pharma Information only.

## 21. General

### 21.1 Further acts

Each party will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this deed.

### 21.2 Timetable

The parties agree that the Timetable is indicative only and is not binding on the parties. The parties agree to consult regularly with each other in relation to:

- (a) performing their respective obligations within the framework established by the Timetable; and
- (b) any need to modify the Timetable.

### 21.3 Payments

Unless otherwise expressly provided in this deed, where an amount is required to be paid to a party (**Receiving Party**) by another party under this deed, that amount shall be paid:

- (a) in immediately available and irrevocable funds by electronic transfer to a bank account or accounts notified by the Receiving Party in writing on or before the due date for payment, or in other such immediately payable funds as the parties may agree; and
- (b) without deduction, withholding or set-off.

### 21.4 Interest

- (a) If a party fails to pay any amount payable under this deed on the due date for payment or within any period for remedying the failure to do so, that party must pay interest on the amount unpaid at the higher of the Interest Rate plus 3% per annum or the rate (if any) fixed or payable under any judgment or other thing into which the liability to pay the amount becomes merged.
- (b) The interest payable under clause 21.4(a):
  - (i) accrues from day to day from and including the due date for payment up to the actual date of payment, before and, as an additional and independent obligation, after any judgment or other thing into which the liability to pay the amount becomes merged; and
  - (ii) may be capitalised by the person to whom it is payable at monthly intervals.

### 21.5 Consents or approvals

A party may:

- (a) give conditionally or unconditionally; or
- (b) withhold,

its approval or consent in its absolute discretion unless this deed expressly provides otherwise.



## 21.6 GST

- (a) Any reference in this clause 21.6 to a term defined or used in the *A New Tax System (Goods and Services Tax) Act 1999* is, unless the context indicates otherwise, a reference to that term as defined or used in that Act.
- (b) Unless expressly included, the consideration for any supply under or in connection with this deed does not include GST.
- (c) To the extent that any supply made by a party (**Supplier**) to another party (**Recipient**) under or in connection with this deed is a taxable supply, the Recipient must pay to the Supplier, in addition to the consideration to be provided under this deed but for the application of this clause 21.6(c) for that supply (**GST Exclusive Consideration**), an amount equal to the amount of the GST Exclusive Consideration (or its GST exclusive market value) multiplied by the rate at which GST is imposed in respect of the supply. This clause 21.6(c) does not apply to any taxable supply under or in connection with this deed that is expressly stated to include GST.
- (d) The amount on account of GST payable in accordance with this clause 21.6 will be paid at the same time and in the same manner as the consideration otherwise payable for the supply is provided.
- (e) Any reference in the calculation of any consideration or of any indemnity, reimbursement or similar amount to a cost, expense or liability incurred by a person (**Relevant Expense**) is a reference to the relevant expense reduced by an amount equal to any input tax credit entitlement of that person (or of the representative member of any GST group to which the person belongs) in relation to the Relevant Expense. A party will be assumed to have an entitlement to a full input tax credit unless it demonstrates otherwise prior to the date on which the relevant payment or consideration must be provided.
- (f) Unless expressly included, any monetary thresholds specified in this deed are exclusive of GST.

## 21.7 Stamp duty

BidCo must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this deed or the Scheme or the steps to be taken under this deed or the Scheme (including without limitation the acquisition or transfer of Scheme Shares pursuant to the Scheme).

## 21.8 Expenses

Except as otherwise provided in this deed, each party will pay its own costs and expenses in connection with the negotiation, preparation, execution, and performance of this deed and the Scheme Booklet and the proposed, attempted or actual implementation of this deed and the Scheme.

## 21.9 Amendments

This deed may only be varied by a document signed by or on behalf of each of the parties.

## 21.10 Assignment

Except as specifically provided for in this deed, a party cannot assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of each other party, which consent that other party may give or withhold in its absolute discretion.

## 21.11 Business Day

Except where otherwise expressly provided, where under this deed the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing will be done on the next Business Day.

## 21.12 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed by any



party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this deed.

- (b) Any waiver or consent given by any party under this deed will only be effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this deed will operate as a waiver of another breach of that term or of a breach of any other term of this deed.
- (d) Nothing in this deed obliges a party to exercise a right to waive any conditional term of this deed that may be in its power.

#### **21.13 Counterparts**

- (a) This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart. Each counterpart is an original but the counterparts together are one and the same deed.
- (b) This deed is binding on the parties on the exchange of duly executed counterparts.
- (c) The parties agree that a copy of an original executed counterpart sent by facsimile machine to the facsimile number of the other party specified in clause 18, instead of the original, is sufficient evidence of the execution of the original and may be produced in evidence for all purposes in place of the original.

#### **21.14 Entire agreement**

- (a) This deed and the Equity Commitment Letters:
  - (i) embodies the entire understanding of the parties and constitutes the entire terms agreed on between the parties; and
  - (ii) supersedes any prior agreement (whether or not in writing) between the parties.
- (b) Despite clause 21.14(a), the Confidentiality Agreement continues to apply to the parties in accordance with its terms, except to the extent of any express inconsistency, in which case this deed prevails.

#### **21.15 No representation or reliance**

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and the Equity Commitment Letters.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed and the Equity Commitment Letters.

#### **21.16 No merger**

The rights and obligations of the parties will not merge on completion of any transaction under this deed. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

#### **21.17 Governing law**

- (a) This deed is governed by and will be construed according to the laws of New South Wales.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales and of the courts competent to determine appeals from those courts.



#### **21.18 Appointment of agent for service**

Each of Primavera Capital Fund II and Shanghai Pharma appoints King & Wood Mallesons as its agent to accept on its behalf service of initiating process in any proceedings relating to or arising out of the transactions contemplated by this deed.



## Schedule 1 – Indicative timetable

Event	Date*
Enter into Scheme Implementation Deed	August 2016
Lodge Scheme Booklet with ASIC for review and comment	October 2016
First Court Date	October 2016
Scheme Booklet registered with ASIC	October 2016
Despatch Scheme Booklet to Target Shareholders	October 2016
Satisfaction or waiver of all conditions (other than the conditions relating to the Scheme Meeting and Court approval of the Scheme)	November 2016
Scheme Consideration Escrow Date	10.00am on the Proxy Deadline Date
Proxy Deadline	7:00pm on the date which is no more than 48 hours before the Scheme Meeting
Scheme Meeting	November 2016 or at least one week after the Conditions have been satisfied or waived
Second Court Date	November/December 2016
Effective Date – lodge office copy of Court order approving the Scheme with ASIC	December 2016
Record Date	December 2016
Implementation Date: Pay and issue the Scheme Consideration to Scheme Shareholders. Reconstitute boards of each Target Group company	December 2016
End Date	31 March 2017

\* Precise dates to be settled once the timing for receipt of Regulatory Approvals and the Court dates are known.



## Signing page

**EXECUTED** as a deed.

**Executed** by **VITACO HOLDINGS LIMITED** in accordance with section 127 of the *Corporations Act 2001* (Cth)

Signature of director

RON D'ALMEIDA

Name of director (print)

Signature of director/company secretary  
(Please delete as applicable)

KATRIANT ONISHI

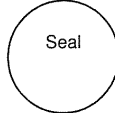
Name of director/company secretary (print)

**Executed** by **PV ZEUS LIMITED** acting by the following authorised officer

Signature of authorised officer

KENNETH WONG

Name of authorised officer (print)

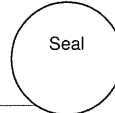


**Executed** by **SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED** acting by the following authorised officer

Signature of authorised officer

CMO MAN

Name of authorised officer (print)

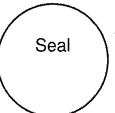


**Executed** by **PRIMAVERA CAPITAL FUND II L.P.**, by its general partner **PRIMAVERA CAPITAL GP II LTD.**, acting by the following authorised officer

Signature of authorised officer

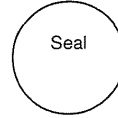
KENNETH WONG

Name of authorised officer (print)



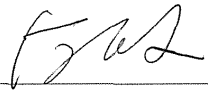


**Executed** by CHO Man as attorney for  
**SHANGHAI PHARMACEUTICALS HOLDING  
CO., LTD.** under power of attorney in the presence  
of:

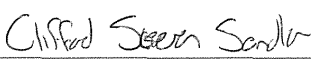




Signature of witness



By executing this document the attorney states that the  
attorney has received no notice of revocation of the power of  
attorney



Name of witness (print)



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# Corporate Directory

## Vitaco Holdings Limited

### ASX Code: VIT

Level 1, 82 Waterloo Road  
North Ryde NSW 2113

## Financial Adviser

J.P. Morgan Australia Limited  
Level 18, J.P. Morgan House  
85 Castlereagh Street  
Sydney NSW 2000

## Legal Adviser

MinterEllison  
Level 40, Governor Macquarie Tower  
1 Farrer Place  
Sydney NSW 2000

## Independent Expert

KPMG Corporate Finance, a division of KPMG Financial  
Advisory Services (Australia) Pty Ltd  
Level 38, Tower Three  
International Towers Sydney  
300 Barangaroo Avenue  
Sydney NSW 2000

## Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

## Shareholder Information Line

1800 262 299 (within Australia)  
+61 1800 262 299 (outside Australia)

## Website

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

