

## BUSINESS OBJECTIVES AND FUTURE PLANS

### BUSINESS OBJECTIVES AND STRATEGIES

Our objectives are to consolidate and strengthen our position to become one of the leading distributors of pharmaceutical products in Zhejiang province. To further develop and continue our growth, we plan to pursue the following strategies:

#### **To continue expanding through obtaining new exclusive distribution rights**

We manage and develop our product portfolio based on a comprehensive assessment of market, demand, growth potential and government policies.

During the Track Record Period and up to the Latest Practicable Date, we identified and acquired 1 new product with exclusive national distribution rights and 6 new types of products (including 8 specifications) with exclusive provincial distribution rights of products in relation to antibiotics, medicines applied in treatment of cardiovascular diseases, digestive system illness, rheumatism, urinary system illness, antiplatelet agents and anti-viral infection. In addition, we also identified 1 market potential product with exclusive provincial distribution right in relation to medicine applied in treatment of cerebral related diseases, where we have entered into a legally binding contract before entering into exclusive distribution agreement with the suppliers, the product is currently pending for the grant of the pharmaceutical production permit (藥品生產許可證) of the product acquired by the pharmaceutical manufacturer of the product. All of the aforementioned products which are all prescription drugs will complement our existing product portfolio and our growth strategy. For further details on the new distribution rights that our Group has acquired during the Track Record Period, please refer to the paragraph headed “Step 1 – Identifying and acquiring new products in the market” under sub-section headed “Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers” under the “Business” section of this prospectus. In the long term, we will continue to obtain exclusive distribution rights of pharmaceutical products with a focus on prescription drugs, which are complementary to our existing product portfolio. In addition, we will selectively acquire the new exclusive distribution rights of products which can obtain separate pricing status in PRC. In order for a product to obtain a separate pricing status from NDRC, the applicant and the product must satisfy the efficacy and safety conditions required by the relevant regulatory authority.

We have set out certain criteria while selecting and assessing the new products, the potential and existing suppliers. Please refer to the sub-sections headed “Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers” and “Phase 2 – Procurement of products from our suppliers” under the section headed “Business” of this prospectus, respectively, for details.

We cannot ascertain the number of new exclusive distribution rights that we will obtain in the future. However, we will continue to identify and obtain the new exclusive distribution rights of the prescription drugs should appropriate potential products and chances arise.

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### **To continue enhancing and expanding our market share, distribution network and marketing efforts**

We will maintain the market share of our existing products by identifying and sourcing new products complementary to our existing product portfolio in order to gain a leading position in the prescription drug segment of the pharmaceutical distribution industry through:

- expanding our product offerings to second and third tier cities and to new markets in Zhejiang province and the other Eastern China regions which we have not yet explored;
- affecting our products to more district hospitals and other medical institutions within the geographical areas covered by our distribution network in the PRC; and
- obtaining new product distribution rights with commercial potential.

We will work closely with our suppliers and Distributor Customers throughout the PRC to expand the sales and marketing of our products to those regions and cities, in which our distribution network currently has limited or no presence. We also intend to hire additional sales and marketing personnel to our current existing sales and marketing team, to support the expansion of our distribution network. We believe that establishing a good, strong and long-term relationship with our suppliers and Distributor Customers on how to market and sell our products is crucial to our success. With a view to maintain good relationship with, and enhance our reputation built in the pharmaceutical distribution industry among hospitals, medical institutions and medical practitioners, we will actively organise, participate and sponsor medical seminars, conferences and product launch events to share views and clinical application results of our products sold through our Distributor Customers. We consider our active roles in such marketing activities to be crucial, particularly in assisting our Distributor Customers to provide sub-distributors and/or ultimate customers with accurate and consistent information on our products. For further details in relation to the marketing activities, please refer to paragraph headed “Formulation of marketing strategies and marketing activities” under the sub-section headed “Facilitation of sales of products” under the “Business” section of this prospectus.

### **IMPLEMENTATION PLANS**

To implement the abovementioned strategies, our Group has formulated and prepared the following implementation plans for the period from the Latest Practicable Date up to and including 31 December 2015. Our Group’s implementation plan is based on certain bases and assumptions as set out in the paragraph headed “Bases and key assumptions of the business plans” below. It should also be noted that the following implementation plans only reflect our Directors’ current understandings of the market situation and may be changed along with any changes in market conditions. Our Directors will use their best endeavors to implement the following plans:

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### 1. For the Latest Practicable Date to 31 December 2013

Strategies	Implementation activities	Amount to be applied from the net proceeds of the Placing (HK\$ million)
To continue expanding and strengthening our distribution network and marketing efforts	<ul style="list-style-type: none"> <li>• We are planning to recruit approximately 3 to 4 sales and marketing personnel in our sales and marketing team for our business expansion.</li> <li>• We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events.</li> <li>• We will maintain our strong presence in Zhejiang province and will extend our presence to the second and third tier cities in the Zhejiang province and Eastern China region in the PRC.</li> <li>• We will cooperate with medical institutions and practitioners in the PRC to participate more clinical applications.</li> <li>• We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.</li> </ul>	1.2

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**2. For the period from 1 January 2014 to 30 June 2014**

<b>Strategies</b>	<b>Implementation activities</b>	<b>Amount to be applied from the net proceeds of the Placing (HK\$ million)</b>
To obtain exclusive distribution rights of new products	<ul style="list-style-type: none"> <li>• We will evaluate, explore and obtain 1 exclusive national distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.</li> </ul>	12.5
<b>Strategies</b>	<b>Implementation activities</b>	
To continue expanding and strengthening our distribution network and marketing efforts	<ul style="list-style-type: none"> <li>• We are planning to recruit approximately 3 to 4 sales and marketing personnel in our sales and marketing team for our business expansion.</li> <li>• We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events.</li> <li>• We will maintain our strong presence in Zhejiang province and will extend our presence to the second and third tier cities in the Zhejiang province and Eastern China region in the PRC.</li> <li>• We will cooperate with medical institutions and practitioners in the PRC to participate in more clinical applications.</li> <li>• We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.</li> </ul>	1.9

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**3. For the period from 1 July 2014 to 31 December 2014**

<b>Strategies</b>	<b>Implementation activities</b>	<b>Amount to be applied from the net proceeds of the Placing (HK\$ million)</b>
To continue expanding and strengthening our distribution network and marketing efforts	<ul style="list-style-type: none"> <li>• We are planning to recruit approximately 3 to 4 sales and marketing personnel in our sales and marketing team for our business expansion.</li> <li>• We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events.</li> <li>• We will maintain our strong presence in Zhejiang province and will extend our presence to the second and third tier cities in the Zhejiang province and Eastern China region in the PRC.</li> <li>• We will cooperate with medical institutions and practitioners in the PRC to participate more clinical applications.</li> <li>• We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.</li> </ul>	1.8

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**4. For the period from 1 January 2015 to 30 June 2015**

<b>Strategies</b>	<b>Implementation activities</b>	<b>Amount to be applied from the net proceeds of the Placing (HK\$ million)</b>
To obtain exclusive distribution rights of new products	<ul style="list-style-type: none"> <li>• We will evaluate explore and obtain 1 exclusive national distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.</li> </ul>	12.5
To continue expanding and strengthening our distribution network and marketing efforts	<ul style="list-style-type: none"> <li>• We are planning to recruit approximately 3 to 4 sales and marketing personnel in our sales and marketing team for our business expansion.</li> <li>• We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events.</li> <li>• We will maintain our strong presence in Zhejiang province and will extend our presence to the second to third tiers cities in the Zhejiang province and Eastern China region in the PRC.</li> <li>• We will cooperate with medical institutions and practitioners in the PRC to participate in more clinical applications.</li> <li>• We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.</li> </ul>	0.4

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### 5. For the period from 1 July 2015 to 31 December 2015

Strategies	Implementation activities	Amount to be applied from the net proceeds of the Placing (HK\$ million)
To obtain exclusive distribution rights of new products	<ul style="list-style-type: none"> <li>• We will evaluate, explore, and obtain 1 to 2 exclusive provincial distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.</li> </ul>	0.6

### BASES AND KEY ASSUMPTIONS OF THE BUSINESS PLANS

In formulating our business strategies and implementation plans set out above, our Directors have made reference to their industry knowledge and experience, after evaluating the existing market conditions and growth potential for our products, and based on a number of bases and assumptions in the preparation of the future plans for the period from the Latest Practicable Date up to and including 31 December 2015:

#### General assumptions:

- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any other part of the world), policies or industry or regulatory treatment relating to our Group, or in the political, economic or market conditions in which we operate;
- there will be no significant economic change, such as changes in interest rate, inflation rate, tax rate and currency exchange rate, or other aspects of fiscal or monetary policies, in the PRC and other jurisdictions where our Group is operating business or sells, directly or indirectly, such as through distributors or importers and exporters, that will adversely affect the business of our Group; and
- there will be no disasters, natural, political or otherwise, which will materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our properties and facilities.

#### Specific assumptions:

- there will be no material adverse change in the existing pharmaceutical distribution market in the PRC;
- the current trend of increase in expenditure and investment in healthcare by the governments and peoples of the jurisdictions where we operate will continue;
- there will be no material changes in the estimated funding requirement for each of the near term implementation plans described herein;

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- external financing will be readily available to our Group if and when needed;
- our Group is not materially and/or adversely affected by any of the risk factors set out in the section headed “Risk factors” in this prospectus;
- our Group will retain key staff in our management and professional teams;
- the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” in this prospectus;
- there will be no significant changes in our business relationships with our existing strategic, business partner, major Distributor Customers and suppliers; and
- we will be able to continue its operations in substantially the same way as we have been operating and we will also be able to carry out our development plans without disruptions.

### REASONS FOR THE PLACING AND THE USE OF PROCEEDS

Our Directors believe that the listing of the Shares on GEM could enhance our Group’s profile and the net proceeds from the Placing will strengthen our Group’s financial position and enable our Group to implement our business plans set out in this section. Furthermore, a public listing status on GEM will offer our Group access to the capital market for future corporate finance exercises to assist in future business development and strengthen our competitiveness.

Based on the Placing Price of HK\$0.25 per Placing Share, we estimate that the net proceeds of the Placing (after deduction of underwriting fees and expenses payable by the Company of approximately HK\$29.0 million in relation to the Placing), are estimated to be approximately HK\$41 million. We currently intend to use the net proceeds from the Placing as follows:

- as to approximately 62.4% or HK\$25.6 million, to expand our Group’s distribution network in the PRC by obtaining new exclusive national and provincial distribution rights of new products to our existing pharmaceutical distribution business. We will look for the new exclusive distribution rights for the products with high potential to generate long-term revenues. We take into consideration such factors as (i) reputation and reliability of the supplier or manufacturer; (ii) superior safety record; (iii) proven efficacy of the products; and (iv) demonstrated market acceptance or potential to generate revenue. Such arrangements also depend on whether we are able to conclude commercially acceptable terms with the suppliers or manufacturers. We believe that we have sufficient knowledge to identify and source the new exclusive distribution rights that will satisfy the above criteria and will complement our existing product portfolio. Our Directors plan to obtain 2 exclusive national distribution rights of new pharmaceutical products for the period from 2013 to 2015. We will evaluate and explore, and obtain 1 to 2 exclusive provincial distribution rights of new pharmaceutical products with a focus on Zhejiang province and Eastern China region during the second half of 2015.



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- as to approximately 13.0% or HK\$5.3 million, to strengthen our Group's sales and marketing capabilities, including expanding and enhancing our distribution network by (i) extending our products to the second and third tier cities to those new markets particularly in the Zhejiang province and the Eastern China regions which we have not yet explored; (ii) attracting more quality Distributor Customers to expand our products to more district hospitals and other medical institutions in those covered geographic areas in the PRC; (iii) hiring approximately additional 16 sales and marketing personnel by 31 December 2015; (iv) organising and sponsoring various medical seminars, conferences and product launch events; and (v) organising and providing training programmes and marketing materials to medical practitioners and our Distributor Customers respectively.
- as to approximately 14.6% or HK\$6.0 million, to repay the principal and interest of bank loan used for the acquisition of distribution rights in January 2013.
- as to approximately 10.0% or the remaining balance of HK\$4.1 million, to be used as additional general working capital of the Group.

In case that the net proceeds from the Placing will not be immediately applied for the aforesaid purposes, we currently intend that the amount be placed on short term deposits with licensed banks in Hong Kong and/or commercial banks in the PRC or other financial institutions.

The following table sets out the manner in which the net proceeds will be used for implementation of our future business plans for the period from the Latest Practicable Date to the year ending 31 December 2015:

	From the Latest Practicable Date to 31 December 2013 <i>(HK\$ million)</i>	From 1 January 2014 to 30 June 2014 <i>(HK\$ million)</i>	From 1 July 2014 to 31 December 2014 <i>(HK\$ million)</i>	From 1 January 2015 to 30 June 2015 <i>(HK\$ million)</i>	From 1 July 2015 to 31 December 2015 <i>(HK\$ million)</i>	Total <i>(HK\$ million)</i>
To obtain new exclusive distribution rights of product	-	12.5	-	12.5	0.6	25.6
To continue expanding and strengthening our distribution network and marketing efforts	1.2	1.9	1.8	0.4	-	5.3
To repay a portion of our Group's principal and interest of bank loan facilities	6.0	-	-	-	-	6.0
Additional general working capital	4.1	-	-	-	-	4.1
<b>Total</b>	<b>11.3</b>	<b>14.4</b>	<b>1.8</b>	<b>12.9</b>	<b>0.6</b>	<b>41.0</b>

## **BUSINESS OBJECTIVES AND FUTURE PLANS**

Our Directors expect that the net proceeds from the Placing of approximately HK\$41.0 million, the cash in bank and on hand, and bank facilities available to us as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient for the implementation of our future plans up to 30 June 2015. In the event that our Group cannot obtain sufficient funding for implementing our future plans as set out above, our Directors will then re-evaluate the requirement of our Group and take into consideration all other relevant factors and circumstances where our Company may revise the allocation of resources to the above areas as appropriate. In addition, the future plans may be scaled up or down depending on such factors as market conditions, consumer trends and financial resources available to our Group. In the event that there is any material modification to the use of proceeds from the Placing as stated above, our Company will issue an announcement via the GEM Website and the Company's website at [www.newraymedicine.com](http://www.newraymedicine.com), when appropriate.