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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to the paragraph headed “Business — Business strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds available to us from the Global Offering (after deducting underwriting commissions and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$513 million (assuming the Over-allotment Option is not exercised and the Offer Price of HK\$2.77 per Offer Share, being the mid-point of the indicative Offer Price range). We intend to apply these net proceeds in the following manner:

- (i) approximately HK\$154 million (equivalent to approximately 30% of our total estimated net proceeds) will be used for the expansion of our pharmaceutical chain in the Guangdong province. We plan to establish 200 self-operated pharmacies by the end of 31 December 2018, this will include:
  - approximately 9% or HK\$46 million for the establishment of 30 self-operated pharmacies in each of Jiangmen and Zhuhai in 2016;
  - approximately 12% or HK\$62 million for the establishment of 40 self-operated pharmacies in each of Fosun and Dongguan in 2017;
  - approximately 9% or HK\$46 million for the establishment of 60 self-operated pharmacies in other cities of the Guangdong province in 2018;

Our Directors confirm that they are not aware of any regulatory restrictions for expanding our pharmaceutical chain in the Guangdong province. It is expected that we will recover our planned capital expenditure on each pharmacy in two years from the date of its establishment.

- (ii) approximately HK\$103 million (equivalent to approximately 20% of our total estimated net proceeds) will be used for the expansion of our distribution networks. This will include:
  - approximately 10% or HK\$51.5 million for the recruitment of additional sales staff to increase our sales and marketing activities over the next three years. Such sales and marketing activities will include organisation of seminars and conferences to consolidate our relationship with our existing distributors and independent chain pharmacies and explore new relationship with other distributors and independent chain pharmacies, with a focus on the Eastern and Southern China; and

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- approximately 10% or HK\$51.5 million for placing advertisements through television, newspapers, medical journals and sponsoring certain pharmaceutical conferences to promote (a) our core brands; (b) our own-branded products; and (c) our chain pharmacies;

Our extensive distribution network has been very crucial to the distribution of our own-branded products. Our Directors believe that the aforesaid expenditure on the expansion of our distribution network will have significant contributions to our future sales growth and hence such expenditure will be recovered in a short period of time.

- (iii) approximately HK\$103 million (equivalent to approximately 20% of our total estimated net proceeds) will be used to continue our research and development activities with a focus on the application of modern decoction pieces production techniques and strengthening our product portfolio thereof in order to support our long-term growth. This will include:

- approximately 5% or HK\$26 million for the recruitment of additional experts and staff for different aspects of research and development;
- approximately 7% or HK\$36 million for the purchase of new equipment required for our research and development activities; and
- approximately 8% or HK\$41 million for the funding of our research and development activities;

- (iv) approximately HK\$103 million (equivalent to approximately 20% of our total estimated net proceeds), will be used for the purchase of machineries for our manufacturing of modern decoction pieces and to upgrade our existing production facilities as we expect that the production volume of our modern decoction pieces will increase by 20% for each of the two years ending 31 December 2016 to meet the increase in demand for our products. This will include:

- approximately 16% or HK\$82 million for the purchase of machineries for the manufacturing of our modern decoction pieces. We plan to acquire five jet stream ultra-fine pulverisation machines, five granulating machines and four fully-automated production lines; and
- approximately 4% or HK\$21 million for the automation of our current production procedures by upgrading our existing production facilities;

It is expected that we will recover our planned capital expenditure on the expansion of our production capacity in three years when the expansion is completed.

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- (v) approximately HK\$50 million (equivalent to approximately 10% of our total estimated net proceeds) will be used for working capital and other general corporate purposes.

In the event that the Over-allotment Option is exercised in full and the Offer Price is set at the low-end or high-end of the Offer Price, the net proceeds from the Global Offering will decrease or increase by approximately HK\$69.2 million. Under such circumstances, we will adjust our allocation of the net proceeds in the same proportion as set out above.

Our pilot production status of modern decoction pieces may be terminated or subject to any prohibition, restrictions, limitation or suspension. For details, please refer to the paragraph headed “Risk Factors — Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC” in this prospectus. In such event or if the Contractual Arrangements become invalid as detailed in the “Contractual Arrangements” section in this prospectus, taking into consideration the rapidly increasing total retail sales value of Chinese medicines in the PRC as set out in the “Industry Overview” section in this prospectus, we will fully reallocate the net proceeds mentioned in paragraphs (iii) and (iv) above to the (i) research and development of Chinese patent medicines; and (ii) expansion of the production capacity of our existing Chinese patent medicines and those which we have already obtained production approvals from the relevant government authorities, but yet to be launched in the market.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC.

We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.