
INDUSTRY OVERVIEW

The information and statistics set out in this section have been extracted, in part, from various official governmental and official publications and the Frost & Sullivan Report commissioned by us. We believe that these sources are appropriate sources for such information and statistics and reasonable care has been exercised by us in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information false or misleading. None of our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriters and our or their respective directors, advisors and affiliates has independently verified such information and statistics. Accordingly, none of our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriters and our or their respective directors, advisors and affiliates or any other party involved in the Public Offer makes any representation as to the accuracy of such information and statistics. Accordingly, the information should not be unduly relied upon. The Directors confirm that, to the best of their knowledge and belief, there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have any material impact on the information in this section.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to conduct market research and prepare a report on the branded healthcare market in Hong Kong and other select countries in Asia with the Public Offer. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York that offers industry research and market strategies. We were charged RMB950,000 by Frost & Sullivan in connection with its preparation of the report. Our payment of such fee is not contingent upon the results of its research and analysis.

In preparing the Frost & Sullivan Report, Frost & Sullivan conducted detailed primary research which involved in-depth telephone and face-to-face interviews with industry participants. Frost & Sullivan also conducted secondary research which involved reviewing annual reports, industry publications and data based on its own research database. Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, and considered related industry drivers. Its forecasting methodology integrates several forecasting techniques with its internal analytics of critical market elements investigated in connection with its market research work. These elements primarily include identification of market drivers and restraints and integration of expert opinions. In preparation of the Frost & Sullivan Report, Frost & Sullivan assumed: (i) the social, economic and political environment is expected to remain stable from 2020 to 2024; (ii) key industry drivers are expected to continue to affect the market from 2020 to 2024; and (iii) the COVID-19 outbreak is expected to exert short-term and long-term impact on the global economy.

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BRANDED HEALTHCARE IN HONG KONG

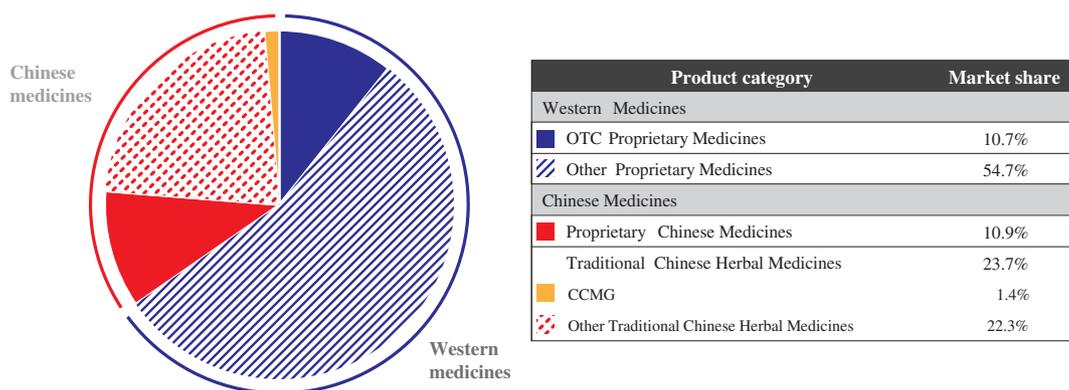
The healthcare market in Hong Kong consists of pharmaceutical products and non-pharmaceutical products for the general health and wellness of consumers. In particular, pharmaceutical products are broadly divided into Chinese medicines and Western medicines as they are regulated under different Ordinances, and may be further categorized by means of sales as follows:

Western Medicines			Chinese Medicines		
1 Over-the-Counter	<ul style="list-style-type: none"> Western medicines that can be sold without an advice from a registered pharmacist or doctor's prescription 	<ul style="list-style-type: none"> Primarily regulated under the Pharmacy and Poisons Ordinance Includes: <ul style="list-style-type: none"> Proprietary medicines Generic medicines 	1 Over-the-Counter	<ul style="list-style-type: none"> Chinese medicines that can be sold over-the-counter at general retailers 	<ul style="list-style-type: none"> Primarily regulated under the Chinese Medicine Ordinance Includes: <ul style="list-style-type: none"> Proprietary Chinese medicines Traditional Chinese herbal medicines
2 Behind-the-Counter	<ul style="list-style-type: none"> Western medicines that only be sold with the advice of a registered pharmacist 		2 Licensed Premises	<ul style="list-style-type: none"> Chinese medicines that can only be sold at licensed premises, such as Chinese herbal medicine retailers and Chinese medicine practitioner clinics 	
3 Prescription-Only	<ul style="list-style-type: none"> Western medicines that can only be sold according to a doctor's prescription 				

Source: Frost & Sullivan Report

The following chart sets forth the Hong Kong pharmaceutical market by product categories in 2019:

Breakdown of Hong Kong Pharmaceutical Market by Product Categories, 2019



Source: Frost & Sullivan Report

Our Branded Healthcare Product Portfolio

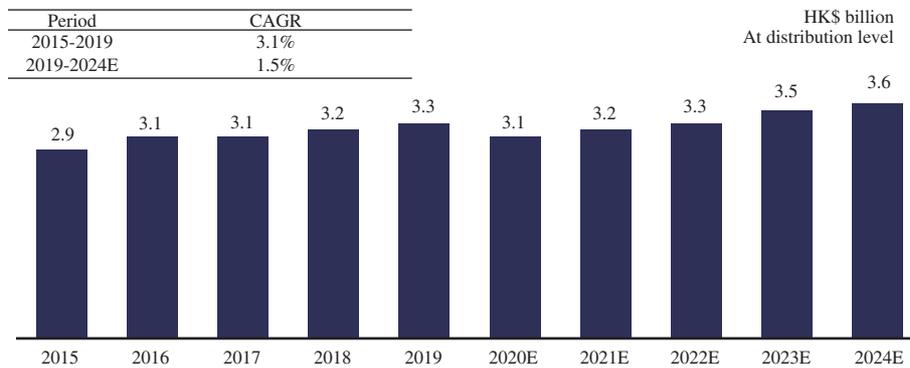
Our portfolio of branded healthcare products are broadly divided into two product categories, namely consumer healthcare and proprietary Chinese medicines. Our consumer healthcare products are further categorized into: (i) branded medicines (primarily OTC proprietary medicines, which fall within the classification of Western medicines in Hong Kong); and (ii) health and wellness products (which fall within the classification of non-pharmaceutical products in Hong Kong). Our proprietary Chinese medicines, on the other hand, consist of OTC proprietary Chinese medicines and CCMG products, which fall within the classification of Chinese medicines in Hong Kong.

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Overview of Branded Medicines

Proprietary medicines refer to medicines carrying proprietary names which are mostly registered or recognized by brand names, trade marks or tradenames. They are mixtures of pharmaceutical ingredients with a certain composition and specific dosage form and dosage, prepared for dispensing to the public over-the-counter, behind-the-counter or with prescription only, and with a uniform name, packaging, container, and labeling approved for marketing by the regulatory authority. The Hong Kong proprietary medicine industry segment and our branded medicine business segment represent the same category of drugs. Our branded medicines are primarily distributed over-the-counter. The OTC proprietary medicine market in Hong Kong has increased gradually in recent years, which was mainly a result of rising health consciousness and higher outbound demand for OTC drugs. However, the market experienced a negative growth in 2020, which was mainly a result of the negative impact of the COVID-19 outbreak on the terminal sales channel. The following chart sets forth the sales value of OTC proprietary medicines at the distribution level in Hong Kong:

Market Size of Hong Kong OTC Proprietary Medicines, 2015-2024E

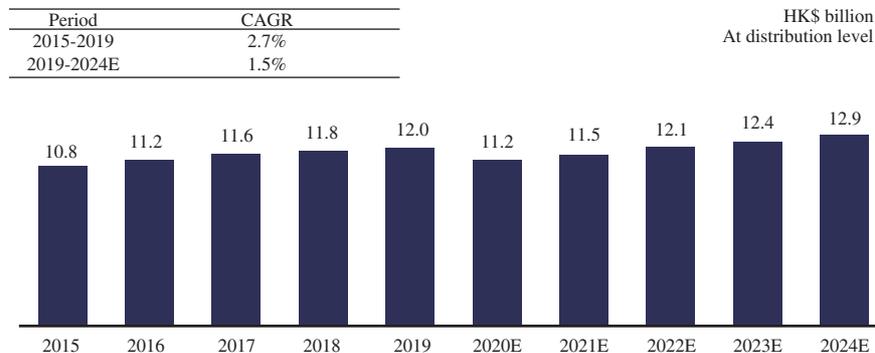


Source: Frost & Sullivan Report

Overview of Health and Wellness Products

Health and wellness products comprise supplements, medical consumables and other non-pharmaceutical products for the general health and wellness of consumers. The market of health and wellness products has increased gradually in recent years as consumers have become more health conscious, coupled with increased resident income and improved living standard. However, the negative growth of the health and wellness market in Hong Kong in 2020 was primarily due to the negative impact of the COVID-19 outbreak. The following chart sets forth the sales value of health and wellness products at the distribution level in Hong Kong:

Market Size of Hong Kong Health and Wellness Products, 2015-2024E



Source: Frost & Sullivan Report

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Overview of Proprietary Chinese Medicines

Proprietary Chinese medicines comprise proprietary products (i) composed solely of (a) any Chinese herbal medicines specified in the Chinese Medicine Ordinance, or (b) any materials of herbal, animal or mineral origin customarily or widely used by the Chinese, or (c) any medicines and materials referred to in (a) and (b) respectively, as active ingredients; (ii) formulated in a finished dosage form; and (iii) known or claimed to be used for the diagnosis, treatment, prevention or alleviation of any disease or any symptom of a disease in human beings, or for the regulation of the functional states of the human body. Proprietary Chinese medicines have greatly developed over the past decades, primarily driven by improved health consciousness and favorable government policies. However, the market experienced negative growth in 2020 as a result of the negative impact of the COVID-19 outbreak in 2020. The following table sets forth the sales value of proprietary Chinese medicines (excluding CCMG products) at the distribution level in Hong Kong:

Market Size of Hong Kong Proprietary Chinese Medicines, 2015-2024E

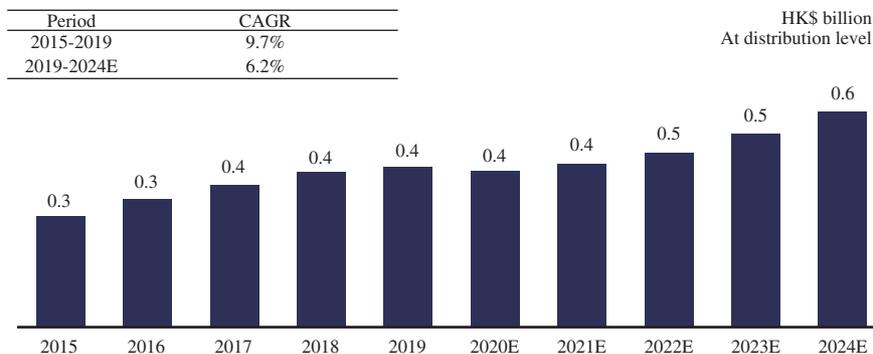


Source: Frost & Sullivan Report

CCMG products

The CCMG market in Hong Kong has grown steadily in the past five years. This growth was primarily due to the rising health awareness and the ease of use of CCMG products when compared to the decoction process of other traditional Chinese herbal medicines. Despite the negative impact of the COVID-19 on its market growth in 2020, the CCMG market in Hong Kong is projected to undergo fast growth in the future as a result of increasing customer acceptance, convenience of use compared to other traditional Chinese herbal medicines, and government initiatives to promote the use of CCMG products. The following table sets forth the sales value of CCMG products at the distribution level in Hong Kong:

Market Size of Hong Kong CCMG Products, 2015-2024E



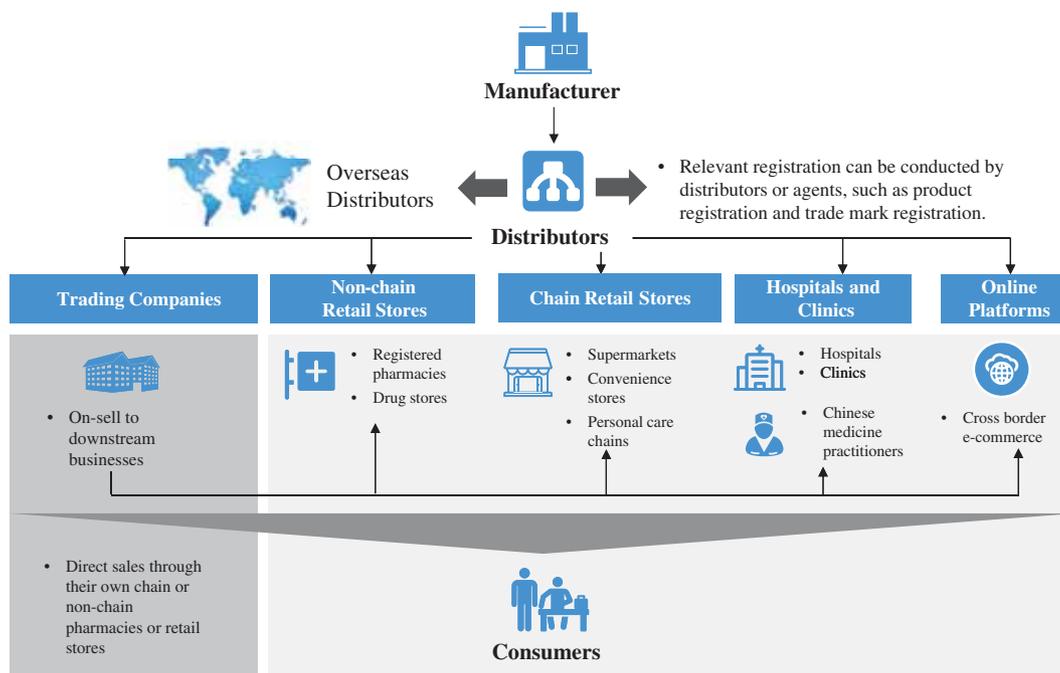
Source: Frost & Sullivan Report

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Distribution Channels

Most branded healthcare companies adopt a multi-channel distribution strategy to reach a wider group of consumers. Major distribution channels for branded healthcare companies in Hong Kong include (i) trading companies; (ii) non-chain retail stores (such as registered pharmacies and drug stores); (iii) chain retail stores (such as supermarkets, convenience stores, personal care chains and drug store chains); (iv) hospitals, clinics and Chinese medicine practitioners; and (v) online platforms.

The following diagram illustrates the relationship among the stakeholders involved in the supply and manufacturing, distribution and consumption of branded healthcare products:



Source: Frost & Sullivan Report

The following table sets forth the major chain retailers in Hong Kong:

Retail chain	Type	Number of outlets (as of March 31, 2020)
7-Eleven	Convenience store	962
Circle K	Convenience store	336
Mannings	Health and beauty chain	303
Wellcome	Supermarket	280
Japan Home Centre	Supermarket	275
PARKnSHOP	Supermarket	258
Watsons	Health and beauty chain	181
Sa Sa Boutique.....	Beauty chain	104
CRVanguard	Supermarket	103
CRCare	Health chain	94
Beijing Tong Ren Tang	Health chain	85

Source: Frost & Sullivan Report

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Market Drivers

The major market drivers of the Hong Kong branded healthcare market are as follows:

- *Rising health awareness:* Growing health awareness and emphasis on physical appearance, reinforced by branding and marketing activities that influence consumer behavior and encourage acceptance of new treatments, have resulted in an increased demand for branded healthcare products that address a wide spectrum of consumer needs, ranging from personal care, skincare, self-medication to home diagnostic products that are relatively more convenient, accessible and affordable. In addition to the rising health awareness, it is indicated that there is an increasing portion of people aged between 25 and 49 years old that use branded healthcare products in recent years.
- *Increasing living standards:* People are increasingly expecting and demanding personalized healthcare and willing to pay for branded healthcare products as living standards and disposable income increase. Per capita resident income increased from approximately HK\$335,000 in 2015 to approximately HK\$401,500 in 2019, representing a CAGR of 4.6%, and is expected to reach approximately HK\$431,500 by 2024. The total healthcare expenditure (consisting of all expenditures or outlays for medical care, prevention, promotion, rehabilitation, community health activities, health administration and regulation and capital formation with the predominant objective of improving health) also grew at a CAGR of 6.8% from HK\$146.8 billion in 2015 to HK\$190.8 billion in 2019, and is expected to reach HK\$261.0 billion by 2024.
- *Aging population:* The aged population in Hong Kong has increased in recent years. The number of people aged 65 years old or above, who are at a higher risk of encountering health problems, grew from 1.1 million in 2015 to 1.3 million in 2019, at a CAGR of 4.4%, and is expected to reach 1.6 million by 2024.
- *Higher outbound demand:* Economic growth in China and other regions has led to the escalation of cross-border trade, and may in turn continue to drive the increase in demand for branded healthcare products from Hong Kong, which are desirable for their high quality and relatively lower commodity tax.

Entry Barriers

The major entry barriers of the Hong Kong branded healthcare market are as follows:

- *Sourcing:* Established companies are prone to obtain distribution rights to high quality products from reputable local or overseas suppliers, due to their regional influence, proven track record of existing products and sufficient capacity to increase their portfolio.
- *Distribution channels:* Long-term and stable relationships with terminal sales channels are crucial to the successful distribution of products and takes time to establish. These may deter new players from entering the market.
- *Brand loyalty:* End consumers may prefer products that are distributed by companies that have an established reputation for carrying quality products with long heritage and high brand awareness, thereby discouraging new market entrants.
- *Product promotion:* Effective product promotion and marketing are crucial to the successful commercialization of a product. For example, endorsements from medical professionals or international authoritative institutions has significant influence over the consumer decision-making process to purchase. New entrants may be impeded due to lack of financial support, effective marketing approaches and ability to obtain such endorsements for their products.
- *Pricing:* Established companies with economies of scale may have better product price flexibility to sell their products at more competitive prices to discourage new market entrants.

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Future Trends

The major future trends of the Hong Kong branded healthcare market are as follows:

- *Product customization and increasing prevalence:* Increasing health awareness has widened the consumer base of branded healthcare products to include people of all ages. To cater for the needs of consumers of different ages and differentiate from competitors, product customization is expected with respect to dosage form, packaging and flavor. The prevalence of branded healthcare products are also expected to increase. Branded medicines may be used for intermediate self-care treatment, health and wellness products such as home diagnostic kits are expected to negate the need for clinical intervention in a large number of circumstances and proprietary Chinese medicines are no longer limited to disease treatment but also used for daily wellness and disease prophylaxis.
- *More concentrated market:* Emphasis on healthcare, pursuit of product quality, regulatory development and industry standardization have increasingly differentiated higher quality branded healthcare products from lower quality ones. In addition, healthcare providers have increasingly adopted marketing strategies that aim at informing and education the population on healthcare. These developments have in turn led to increased consumer knowledge and capability to identify quality branded healthcare products. Under-qualified companies and products may be weeded out of the market, resulting in a more concentrated market consisting of the remaining companies and quality products driven by trusted brand images.
- *Diversification of distribution channels:* Distribution channels have diversified from traditional wholesalers and retailers to (i) chain stores for a more stable and greater scale of distribution of products; and (ii) e-commerce platforms that increase product accessibility. Going forward, new distribution models are expected to be adopted, such as online-to-offline commerce designed to draw potential customers from online channels to make purchases in physical stores.
- *Overseas markets and products:* Increasing number of dispensaries and chain registered pharmacies along with online merchants and social media have increased the overseas exposure and popularity of Hong Kong branded healthcare products. In particular, overseas consumers are projected to be a major consumption source of proprietary Chinese medicines as a result of government policies in Hong Kong and China in favor of cooperation and expansion of international trade of proprietary Chinese medicines. Meanwhile, an increasing number of overseas consumer healthcare products is also expected to be introduced in Guangdong-Hong Kong-Macau Greater Bay Area as a result of its improving regulatory environment, robust purchasing power and high education level.

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Competitive Landscape

The branded healthcare market is highly fragmented with a large number of players due to a wide range of product offerings. We primarily compete with brand operators that generally provide a series of value-added services, such as registration, promotion, commercialization or sales, to its own brand products or third-party brand products. The competitive landscape of brand operators in Hong Kong is relatively diversified and include both manufacturers and trading companies.

The following table sets forth the top five Hong Kong-based brand operators that carry both OTC proprietary medicines and OTC proprietary Chinese medicines, in terms of revenue, in 2019:

Rank	Company	Background	Market share
1	Company A	A distributor with a focus on OTC and non-OTC pharmaceuticals, health and wellness products and medical devices with capillary distribution network in Hong Kong reaching into chain and independent pharmacies, convenience stores, supermarkets and hypermarkets.	8.1%
2	Company B	An agent and distributor for pharmaceutical companies that handles the marketing and distribution of OTC products	5.8%
3	Company C	A pharmaceutical company known for its own OTC brand	4.7%
4	Our Group		4.2%
5	Company D	A pharmaceutical company that carries medicines and ointments under its own brand and other third-party brand products	3.3%
			26.1%

Source: Frost & Sullivan Report

The major competitive factors are as follows:

- *Product offering*: Product offering, in terms of source of products, product variety and market needs, is an important selection criteria for customers. They tend to take into account brand name, reputation, popularity and quality of the products during the procurement process. It is important to source or develop a wide variety of products that are safe, effective and of high quality from time-honored and trusted brands and offer products in conformity with market trends to meet the prevailing demand of consumers.
- *Brand management and marketing*: Companies with effective brand management and marketing strategies may drive high brand engagement and sales through successful marketing campaigns, enhance consumers' loyalty and thereby preferred by retailers and non-retailers over other competitors.
- *Sales and distribution network*: The size of a sales and distribution network represents the potential product turnover rate. Companies that have established large sales and distribution networks are likely able to sell their products at a faster rate through a higher number of point of sales.
- *Supply stability*: Most retail and non-retail customers value the stability of supply of products since it affects the availability of products being on-sold to their customers. Companies that are able to guarantee stable supply and replenish the products in time before they are out of stock are preferred.

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HEALTH AND WELLNESS IN ASIA

We aspire to develop into a branded healthcare product sourcing and distribution platform in Asia. The following table sets forth the health and wellness market size in certain strategically selected countries or regions in which we plan to increase our presence:

	2015	2019	2024E	CAGR 2015-2019	CAGR 2019-2024E
	HK\$ in billions			%	
China ⁽¹⁾	698	1,082	1,900	11.6	11.9
South Korea	33	41	48	5.6	3.0
Taiwan	20	23	23	3.3	0.5
Malaysia	5	6	7	5.6	3.6
Singapore	2	3	3	6.0	0.6

Note:

(1) Excluding Hong Kong, Macau and Taiwan.

Source: Frost & Sullivan Report

- China:* The general health and wellness market in China is one of the largest components of its national economy. Demand for health and wellness products is expected to continue to increase as the proportion of elderly citizens increases. The percentage of population aged 65 or above reached 12.6% in 2019 and is forecasted to reach 16.0% by 2024.
- South Korea:* The health and wellness market in South Korea grew from 2015 to 2019 as its government exhibited robust willingness to develop of the healthcare industry and to improve the general well-being of South Koreans in recent years. In addition, there is an increasing trend of self-medication practice in South Korea. Together, these factors are expected to drive the continued growth of the health and wellness market going forward, despite the COVID-19 outbreak.
- Taiwan:* Taiwan is a prominent player in the Asian health and wellness market and has been actively involved in the global market. It is renowned for its well-regulated and mature healthcare industry conforming to international standards. The government of Taiwan has been steadily supporting the development of the health and wellness industry in Taiwan for years. As a result of the foregoing, the health and wellness market in Taiwan grew steadily from 2015 to 2019 and is projected to continue to grow in the future, despite the COVID-19 outbreak.
- Malaysia:* Malaysia has relatively high healthcare standards when compared to other Southeast Asian countries, and offers significant growth opportunities for healthcare companies. Despite the negative impact of COVID-19, the health and wellness market is expected to benefit from the steady growth of the healthcare industry in Southeast Asia and grow at a CAGR of 3.2% to reach HK\$77.7 billion by 2024.
- Singapore:* Singapore is becoming a new hub for health and wellness products and daily healthcare necessities as residents place more emphasis on personal health and healthy life styles. Its health and wellness market is forecasted to continue to grow steadily in the future, despite the adverse impact of COVID-19 on the market growth in 2020.

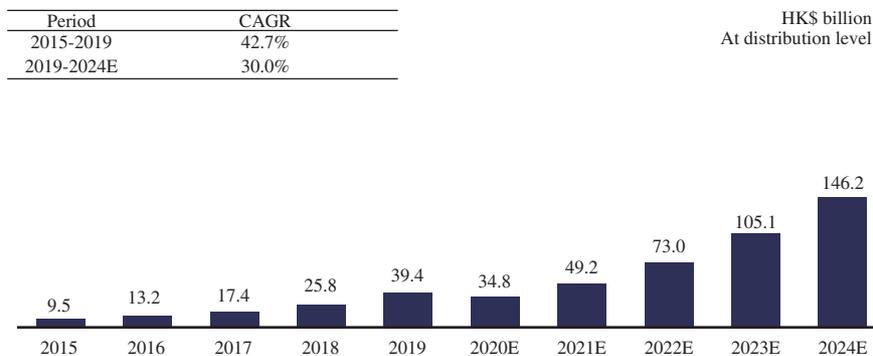
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Cross-border E-commerce Market in China

The e-commerce market in China has been growing rapidly and is one of the country's major sales channels. An increasing number of PRC consumers has switched to online consumption as they can purchase a wide range of products at the same site.

In particular, local demand for overseas healthcare products have increased in recent years as a result of the pursuit of quality products, increasing healthcare awareness and aging population. The PRC government has enacted favorable policies since 2012 to stimulate the cross-border e-commerce market, which allows multinational companies to sell overseas products directly to PRC consumers without engaging local dealers. Specifically, pilot cities for cross-border e-commerce that allow bonded imports via online shopping were set up in all 31 first-level administrative regions in China to further stimulate the cross-border e-commerce market. Furthermore, the Notice on Improving Supervision over Cross-border E-commerce Retail Imports (《關於完善跨境電子商務零售進口監管有關工作的通知》) that came into effect on January 1, 2019 permits sellers outside China to sell goods, including selected branded healthcare products, that fall within the List of Imported Goods in Cross-border E-commerce Retail directly to PRC consumers through certain registered e-commerce platforms. The following chart sets forth the gross merchandise volume of cross-border e-commerce market from Hong Kong to China at the distribution level:

**Gross Merchandise Volume of Cross Border E-commerce Market
from Hong Kong to China, 2015-2024E**



Source: Frost & Sullivan Report

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The following chart sets forth the key players in the cross-border e-commerce business:



Source: Frost & Sullivan Report

Future trends

Going forward, cross-border e-commerce for healthcare products is expected to continue to increase. The major future trends are as follows:

- *More cross-border e-commerce pilot zones:* An increasing number of cross-border e-commerce pilot zones are expected to be set up across China to cater for the strong demand in China for overseas healthcare products, which in turn will lead to a growth in the import market of healthcare products.
- *Involvement of multinational companies:* Current cross-border e-commerce landscape primarily consists of small to mid-sized manufacturers of over-the-counter drugs and health and wellness products. In the future, an increasing number of multinational companies are expected to distribute their products through cross-border e-commerce platforms to take advantage of the favorable PRC tax policies and lower cost of distribution with the need of local dealers negated.
- *Emerging sales method:* Online sales methods are constantly evolving. For example, internet celebrities with massive fan bases (or “wang hong” in Chinese) have upended traditional retailing by driving online sales, increasing the frequency among manufacturers, retailers and consumers with big data application, and significantly improving the efficiency of retailing.
- *Increased adhesiveness of consumers:* Various factors including the pursuit of higher life quality, increasing health awareness and comprehensiveness of the regulatory framework for cross-border e-commerce will continue to reinforce user stickiness to and improve the credibility of cross-border e-commerce platforms.

HISTORICAL PRICE TRENDS OF RAW MATERIALS AND FINAL PRODUCTS

We manufacture various branded medicines and proprietary Chinese medicines with a wide variety of raw materials and packaging materials. Our key raw materials include menthol, paracetamol and Cang Zhu (or Black Atractylodes Rhizome) and one of our key packaging materials is paper. From 2015 to 2019, the average price of our key raw materials and packaging material generally increased. This increase was primarily due to the increased market demand for these raw materials and packaging material (which are commonly used in the production of many well-selling products in the market) driven

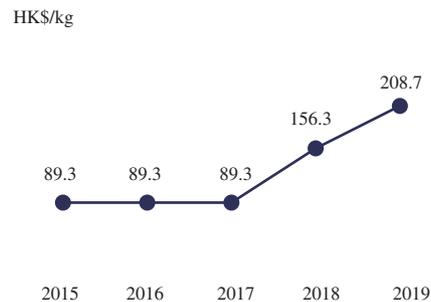
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by the increased consumer demand for healthcare products as a result of rising health consciousness. The following charts illustrate the historical prices for menthol, paracetamol, Cang Zhu and paper from 2015 to 2019:

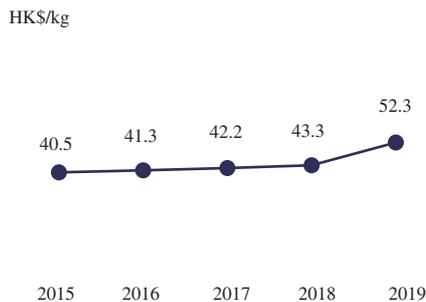
Historical average price of menthol, 2015-2019



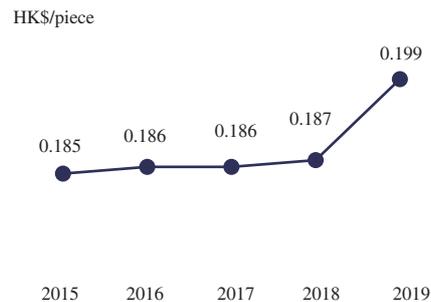
Historical average price of Cang Zhu (or Black Atractylodes Rhizome), 2015-2019



Historical average price of paracetamol, 2015-2019



Historical average price of paper for packaging, 2015-2019



Source: Frost & Sullivan Report

POTENTIAL MARKET IMPACT FROM THE OUTBREAK OF COVID-19

The COVID-19 outbreak has impacted the branded healthcare market in Hong Kong in various aspects. In particular, various social-distancing measures, travel restrictions and mandatory quarantine requirements implemented from time to time in an effort to contain the outbreak have caused a decline in local economic activities. For example, the temporary compulsory closure of certain retail businesses imposed by the Hong Kong government, coupled with consumers' efforts to avoid outdoor activities to minimize the risk of infection, have in general weakened consumer sentiment, shifted consumers' shopping habits to online e-commerce portals and increased market demand for personal hygiene products, such as antiseptic hand rubs, cleaning wipes, medical supplies and face masks. In addition, the COVID-19 outbreak has caused the number of tourists, business travelers and visitors to decline, which in turn reduced the overall purchase power and adversely impacted retail spending in Hong Kong.

In the long term, according to the Frost & Sullivan Report, consumers' rising health consciousness is expected to lead to increased healthcare expenditure, in particular on OTC drugs and wellness products such as nutritional supplements. Meanwhile, consumer acceptance of proprietary Chinese medicines, including CCMG products, may potentially increase as a result of the extensive attention brought to Chinese medicines due to the PRC government's utilization of certain proprietary Chinese medicines in the treatment of COVID-19. With the on-going development of attractions in Hong Kong and the campaigns promoted by the Hong Kong Tourism Board, upon recovery of the tourism industry, Hong Kong is well-positioned to remain an attractive tourist destination for the purchase of branded healthcare products due to their high quality and efficacies, according to the Frost & Sullivan Report.