

Business Proposal
for
Galaxy Health International Limited



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1. Executive Summary

In this proposal, we have analyzed the current situation of Galaxy Health International Ltd (Galaxy). The analysis was performed by problems identification and we have used SWOT analysis as tools to analyze the internal operations and external environment of Galaxy.

In addition, we have conducted financial analysis and found that Galaxy's performance of profitability, liquidity, efficiency and return on investment has a downward trend. The company's gearing is also found to be high.

Moreover, we have discussed the issue of negotiating contract to supply patented products to the health authority of Luxembourg. It is suggested that Galaxy should re-consider the requirements from the health authority of Luxembourg which are also the regulatory requirements of ESG reporting and good practice of corporate governance in Hong Kong. Galaxy is also advised to take corrective actions on employee rights, clinical trials and anti-corruption.

Besides, Galaxy is also recommended to set up a relief fund for the poor to buy expensive medicines. Furthermore, to better handle customers' complaints, Galaxy may establish a customer services unit.

Regarding financial strategies, Galaxy is recommended to change the dividend policy, improve credit control, hedge the risk of floating interest, reduce capital gearing and optimise the policy on handling sale proceeds in foreign currency. On business strategy, Galaxy is advised to develop the Mainland China market, introduce robotic automation in production line, develop healthcare app, digitalise customer relation management and make use of AI technology in drug development.

We have also prepared an implementation plan, a cost and benefit analysis and financial projections which indicate that our recommendations are financially and operationally feasible.

2. Financial Analysis

We have performed ratio analysis on the profitability, liquidity, efficiency, solvency and return on investment of Galaxy Health International Limited.

2.1 Profitability Ratio			
Ratios	2021	2020	Change
Gross profit ratio (Gross profit ÷ Sales)	71.91%	75.90%	-3.99%
Net profit ratio (Net profit before tax ÷ Sales)	15.10%	23.45%	-8.35%
Return on capital employed (Profit before interests and tax ÷ Average capital employed)	11.35%	27.20%	-15.85%

It shows that all ratios are reduced and the profitability declines from 2020 to 2021.

2.2 Liquidity Ratio			
Ratios	2021	2020	Change
Current ratio (Current assets ÷ Current liabilities)	1.83:1	2.36:1	-0.53
Quick ratio [(Current assets – inventory) ÷ Current liabilities]	1.51:1	2.05:1	-0.54

Both the current ratio and quick ratio have decreased. The liquidity of the company has deteriorated to an alarming level.

2.3 Efficiency Ratio			
Ratios	2021	2020	Change
Inventory turnover (Closing inventory ÷ Cost of goods sold)	134.38 days	116.50 days	+17.88 days
Trade receivables collection period (Trade receivables ÷ Credit sales)	105.51 days	89.67 days	+15.84 days
Trade payables collection period (Trade payables ÷ Costs of sales)	79.50 days	66.00 days	+13.5 days

The inventory turnover period increased from 116.50 days in 2020 to 134.38 days in 2021. The trade receivables collection period grows from 89.67 days in 2020 to 105.61 days in 2021. Both ratios indicate that the company's efficiency in selling and receivables collection have room for improvement. The trade payables collection period increases from 66.00 days in 2020 to 79.50 days in 2021. The company takes a longer time to repay the trade credit.

2.4 Solvency Ratio			
Ratios	2021	2020	Change
Gearing ratio [Non-current liabilities ÷ (non-current liabilities + shareholders' fund)]	83.15%	76.97%	+6.18%

The gearing ratio increased from 76.97% in 2020 to 83.15% in 2021. It indicates that Galaxy is a highly geared company.

2.5 Return on investment			
Ratios	2021	2020	Change
Earnings per share (Net profit after tax ÷ Number of ordinary shares issued)	\$0.34	\$0.65	-\$0.31
Dividend cover for ordinary share (Net profit after tax ÷ Ordinary dividend paid)	0.75 times	1.51 times	-0.76 times

The earnings per share, total assets turnover, and the dividend cover for ordinary shares dived owing to the losses from 2020 to 2021.

3. Internal Strategic Analysis

3.1 Strengths

- 1) **Excellent Brand Reputation & Oversea Distribution:** Galaxy has grown successfully in the past 20 years and achieved a stock exchange listing. It develops its business in four of the world's five biggest geographical markets and some new markets.
- 2) **Experienced and committed talent - Human Capital:** The board of directors and members are well-qualified professionals who are experienced in the pharmaceutical industry. They take the initiative to attract well-trained and well-educated talent and trained a large sales and marketing force.
- 3) **Wide range of customer base:** Galaxy's customer base comprises government organizations, major independent hospitals, private clinics, and companies operating drug stores and pharmacies in different geographical markets. Galaxy can obtain continuous income.

3.2 Weaknesses

- 1) **Low success rate of new products:** Only about 20% of Galaxy's new product developments eventually reach the market. Some new products were withdrawn from the market in a short time.
- 2) **Insufficient production capacity:** The production line was shut down during the epidemic. In addition, Galaxy has production difficulties due to limited production capacity. Therefore, it failed to increase sales as expected.
- 3) **Deficient internal management:** First, it is illegal for Galaxy not fully implementing the minimum wages rules. Next, the discontinuation of clinical trials audit of its patient treatment has resulted in unknown efficacy and side effects of the product. Furthermore, Galaxy has not adopted any code of anti-corruption. Moreover, customers' complaints are not properly handled.

4. External Environment Analysis

4.1 Opportunities

- 1) **Innovative technologies development:** It can be applied in pharmaceutical industries. e.g., AI and digitalization can improve the efficiency of drugs development and business operational performance.
- 2) **Mainland development trend:** With an estimated population of 1.426 billion, China has a large population and an increase in average income per person bringing more business opportunities to Galaxy to enter this promising market.
- 3) **Aging population:** Facing the problem of aging population and in order to reduce the burden on the medical system; more efforts could be made in drug reform to improve the public's confidence in medical system. Also, actively developing new drugs can guarantee future profit growth.
- 4) **Health care consumption trend:** Under the pandemic, people having a higher

awareness on health, and the demand for health care products is increasing. Most consumption of health care products are contributed by the middle- and high-income groups. Therefore, health care products have tremendous potential in the foreseeable future.

4.2 Threats

1) The shortage of direct material supplies: One major problem faced by all pharmaceutical companies is the shortage of direct material supplies. Direct materials account for about 70% of the cost of production.

2) Uncertainties of Global Environment: The outlook is unclear, especially uncertainties such as U.S. interest rates, the slow down of global economic growth, and geopolitical tensions. All of these factors will affect Hong Kong. The cost of materials will be affected and therefore get higher.

3) More environmental and social responsibility regulations: Public and governments' awareness of environmental protection has been increasing. The government in place has set up regulations to regulate the company.

5. The issue of negotiating contract to supply patented product to the health authority of Luxembourg

The health authority of Luxembourg requires all suppliers to follow Global Reporting Initiative triple bottom line reporting procedures in both quantitative and qualitative manners. For this, we have formulated the following recommendations:

5.1 Re-consider the requirements from the health authority of Luxembourg:

The requirements from the health authority of Luxembourg follow the global trend of ESG and CSR. Actually, following such requirements is helpful to the business.

Investors are increasingly inclined to focus on ESG & CSR as it reflects the company's management strengths and gives them confidence in its long-term prospects. In addition, ESG and CSR can enhance corporate image and may secure long-run profits.

5.2 Compliance with legal and regulatory requirements and follow good practices of corporate governance

5.2.1 ESG Reporting: According to Appendix 27 of the Listing Rule¹, a company listed in Hong Kong must publish a ESG Report on an annual basis. The report needs to follow the principles of materiality, quantitative and consistency. Some disclosures are mandatory and the others are on 'comply or explain' basis.

5.2.2 Corporate governance: According to C.2.1, Appendix 14 Corporate Governance Code of the Listing Rule², the roles of chairman and chief executive should be separate and should not be performed by the same individual. Galaxy is presently not following this principle of good corporate governance practice. Therefore, Galaxy should designate another separate person as the chairman of the board or the CEO in order to achieve a balance of power and authority.

5.2.3 Employee rights and welfare standards: Under duty of care in common law and the statutory requirement (such as Factories and Industrial Undertakings Ordinance), the employer has the responsibility to ensure that the workplace is safe and there are proper measures such as manpower, equipment and schedule etc. to prevent accidents. Therefore, Galaxy should re-consider and see whether the cutting

¹ <https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0>

² https://en-rules.hkex.com.hk/pdf-manipulate?/sites/default/files/net_file_store/HKEX4476_3828_VER18304.pdf

costs on safety checks will undermine the compliance with the above mentioned requirements.

Regarding the minimum wage, Galaxy should immediately fully implement the rules required by the Minimum Wage Ordinance, Chapter 608. Otherwise, the company commits an offence.

5.2.4 Clinical trials: The Pharmacy and Poisons Board of HK generally adopts ICH Good Clinical Practice guideline. According to the ICH E6 (R2) Good clinical practice, Section 5.19.3. Auditing Procedures, Galaxy should ensure that the auditing of clinical trials/systems is conducted and should document on what to audit, how to audit, the frequency of audits, and the form and content of audit reports³ & ⁴. Otherwise, it may affect its registration of the medicine being studied.

5.2.5 Anti-corruption: Galaxy should develop and implement anti-corruption policies together with establishing good corporate governance system and effective measures to prevent corruption. Seminars, workshops and activities etc may be organised for staff members to cultivate the culture of integrity and probity. Galaxy may also develop a whistleblower policy and system that allows employees and senior management to raise concerns covertly and anonymously about any misconduct with the Audit Committee.

5.2.6 Price setting: Galaxy can set up a relief fund to provide free medicines to the poor. Or it could work with hospitals to expand their customer base by offering lower-priced generic drugs⁵. Galaxy can partner with global non-profit organizations to

³ https://www.drugoffice.gov.hk/eps/do/tc/doc/guidelines_forms/FAQ_modified_tc.pdf?dev=yk2lg

⁴ https://www.ema.europa.eu/en/documents/scientific-guideline/ich-e-6-r2-guideline-good-clinical-practice-step-5_en.pdf

⁵ <https://www.pfizer.com.tw/company/corporatesocialresponsibility>

provide humanitarian assistance, such as vaccines to prevent deadly diseases and contraceptives for women in poor countries. Meanwhile, support the United Nations Sustainability Programs that work together to provide preventive and wellness medicines for patients with cardiovascular disease, cancer, and diabetes.

5.2.7 Customers' complaints: Galaxy should set up a customer services unit and provide training programs that enable its staff to familiarize the procedures of the customers' complaints. Galaxy should not only find out and explain the causes of the problems but also take further action and inform the complaints' results to the customers through email, telephone or letter within 2 weeks.

6. Recommendations on Business Strategies

6.1 Change the dividend policy: Under the current policy, dividend being distributed would be maintained or increased each year. The problem is that the dividend in 2021 is more than the retained profits which should not be allowed as it constitutes distribution out of capital. As such, the company should change its dividend policy to that the distribution should be based on to the level of profit as well as the need for future development of the company.

6.2 Improve the credit control: The current trade receivables period is too long. Galaxy should improve the credit control by measures such as reminding customers when the due date is approaching, chasing up late payment periodically (say, every 7 days) until paid and closely monitoring the aged debtors. Galaxy may even consider applying technology to automate the credit control process. Furthermore, cash discounts may be offered as an incentive for prompt payment.

6.3 Treasury policy

6.3.1 Hedge the risk of floating interest: The risk of floating interest of the bank borrowings can be hedged by tools such as HIBOR floating rate deposits or interest rate swap contract etc. These hedging tools can minimize the risk exposure brought by the floating interest rate.

6.3.2 Reduce gearing of the company: Galaxy is a highly geared company and the gearing is increasing year-on year from 2020 to 2021. Galaxy is under a burden of interest payment. In worst case, there is a financial risk which may lead to the failure of the company. Galaxy is recommended to raise capital by equity financing instead.

6.3.3 Optimise the policy on handling sale proceeds in foreign currency: The sale proceeds in foreign currencies may not need to be converted to Hong Kong dollars at the receipt date. Those foreign currencies may be converted to Hong Kong dollars if the exchange rates reach the favorable level. In addition, it is important to pay attention to the company's plan to see whether there is a need to pay by foreign currencies and keep enough amount of them.

6.4 Handle the risk of supply of raw material: Galaxy is suggested to keep a safety stock of materials for about four to six months. Meanwhile, as far as possible, substitutes of raw materials should be explored. In addition, Galaxy should source its suppliers in different geographical areas to reduce shortage risks and build a close relationship with them in order to receive the latest raw material supply news and take swift corrective actions.

6.5 Develop the Mainland China Market: There is a great demand potential for pharmaceuticals in Mainland China. Galaxy is recommended to set up a sales office there to enhance the development of this important market. Galaxy may even

consider establishing a production centre in Mainland China in view of the advanced production technology and good quality of labour. Also, the production costs are lower than that in the U.S.A and Hong Kong.

6.6 Introduce robotic automation in production line: Concerning Galaxy's limited production capacity problems, it is suggested that the company introduce robotic automation in production lines. If robots are used, people can control the machines easily and remotely. The production lines can keep running to reduce the production labor cost and the lockdown risk even if there is an outbreak of pandemic. Hence, the higher production capacity can increase revenue in the long run.

6.7 Develop a healthcare app: To enhance the publicity and corporate reputation, Galaxy may develop a healthcare app with which users can better monitor their health. The app can also assist and enhance users' treatment by designing the most suitable treatment plan. Customers can get useful information and have more confidence in the use of drugs.

6.8 Digitalise the customer relations management (CRM): Galaxy may digitalise the customer relation management with governments, public health agencies, hospitals, health care providers, clinics, pharmacies, and retailers etc. In particular, the company can make use of it to provide more pro-active approach to serve the needs of the customers.

6.9 Make use of AI technology in drug development: Galaxy can use AI technology to shorten drug development time, reduce the cost and improve the quality. In the time of pandemic, AI can identify effective mitigation or treatment of the virus through algorithms. Galaxy can develop proprietary products faster.

6.10 Promotion and marketing: Galaxy may hold medical seminars and talks online and offline to raise public awareness of the disease, prevention and care, and important public health issues. This can build up corporate image and promote its reputation.

7. Implementation Plan and Cost & Benefit Analysis

Date	Details	Budgeted Cost (\$)	Expected Benefits
<u>2022</u>			
Apr	Improvement of customers' complaints handling		
	Establish a customer services unit	300,000	Improve customer satisfaction and facilitate increase in sales (Refer Section 8 Financial Projections)
	Training expenses	5,000	
	Total:	<u>305,000</u>	
Aug	Promotion and marketing		
	Hold online medical seminars	50,000 (per year)	Facilitate increase in sales
	Hold offline medical seminars	500,000 (per year)	
	Total:	<u>550,000</u> (per year)	
<u>2023</u>			
Jan	Handle the risk of raw material supply		
	Explore alternative suppliers/ substitute raw materials	500,000	Avoid the risk of "stockout" in raw materials
May	Price setting		
	Set up a relief fund for expensive medicine	30,000,000	Enhance corporate image and facilitate increase in sales
<u>2024</u>			
Feb	Digitalization		
	Digitalize CRM and apply AI technology in drug development	200,000	Improve customer satisfaction. Increase the success rate in drug R&D. Raise the production capacity. All these facilitate increase in sales.
	Introduce robotic automation in production line	30,000,000	
	Develop healthcare app	150,000	
	Total:	<u>30,350,000</u>	
July	Developing the Mainland China Market		
	Staff cost	7,500,000 (per year)	Enhance the market development in

Rent, electricity and water expenses	350,000 (per year)	mainland China and facilitate increase in sales
Purchase equipment	1,000,000	
Business registration fee	15,000	

8. Financial Projections

Budget Statement of Comprehensive Income for the year ended 31 December

	Notes	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000
Revenue	1	7,237,032	8,684,438	10,855,548
Cost of sales	2	<u>(1,959,230)</u>	<u>(2,194,338)</u>	<u>(2,457,659)</u>
Gross Profit		5,277,802	6,490,100	8,397,889
Distribution costs	3	(131,865)	(158,238)	(174,062)
R&D expense	4	(1,347,479)	(1,549,601)	(1,782,041)
Selling and general admin expenses	5	(2,313,697)	(2,707,025)	(3,167,219)
Other operating expenses	6	<u>(216,916)</u>	<u>(229,931)</u>	<u>(248,325)</u>
Operating profit		1,267,845	1,845,305	3,026,242
Net financial expense	7	(90,731)	(80,571)	(68,638)
Taxation	8	<u>(194,039)</u>	<u>(290,966)</u>	<u>(487,820)</u>
Net income		<u>983,075</u>	<u>1,473,588</u>	<u>2,469,784</u>

Note 1: It is expected that revenues will increase by 10% in 2022, 20% in 2023 and 25% in 2024.

Note 2: It is estimated that the cost of sales will raise by 6% in 2022, 12% in 2023 and 2024.

Note 3: It is anticipated that an increase of 11% in 2022 16% in 2023 and 13% in 2024.

Note 4: It is foreseen that an increase of 8% in 2022, 15% in 2023 and 2024.

Note 5: It is estimated that an increase of 12% in 2022, 17% in 2023 and 2024.

Note 6: It is anticipated that an increase of 3% in 2022, 6% in 2023 and 8% in 2024.

Note 7: It is forecast that a decrease of 8% in 2022, 11% in 2023 and 15% in 2024.

Note 8: Referring to the information on the website of IRO⁶, the tax rate for the first two million is 8.25% and the tax rate for another two million is 16.5%.

9. Services provided by us

Universal Consulting & Advisory Ltd is the leading consulting and professional service firm in Hong Kong with more than 400 staff members. We are industry-specific experts who have much experience of providing consulting services for industries such as healthcare, real estate, retail, media and entertainment etc. We would provide the following services to assist your company in implementing the recommendations to improve its performance.

Accounting outsourcing and financial reporting advisory – To address the financial risk, our team can provide advice on foreign exchange transactions and hedging tools through our network. Additionally, we can advise your company how to raise capital by equity financing. Moreover, we can provide big data analytics and business intelligence with highly optimized in-database integrations; digitalized big data database can analyze the debtor's payment behavior and risk, thus facilitate the credit control process and strengthen your financial position.

Tax – We provide professional planning and management service on tax and tax reporting under mainland China regulations, which is conducive to expanding to the Chinese market to achieve profitable growth.

Internal audit – Collaborating with us, you will receive a comprehensive solution for reviewing and optimizing operational measures, such as: setting up the CRM system

⁶ <https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm>

and customer service unit. In addition, sourcing the raw materials and applying the technology for digitalizing the health care app, e-commerce, AI inventory systems, and automated production ensure a hassle-free experience from concept to completeness.

Compliance advisory - This division standardizes the company policy to comply with the regulations and rules in place. We can handle the multiple procedures of registering a Chinese company for your company. In addition, our legal professionals will custom design the internal policy and training materials, such as the code of anti-corruption, conduct, and ethics, to reduce the bribery risk. Our team offers a custom CSR reporting service that tailors the requirements of GRI triple bottom line reporting procedures. Assist in implementing the CSR good practices to pull on the Luxembourg contract negotiation as well.

10. Conclusion

Galaxy has excellent business reputation and an outstanding team of staff. However, the company's success rate in developing new products is low and there is a limitation of production capacity due to Covid-19. In addition, Galaxy also has weaknesses in financial management and internal management. These problems have led to a deterioration in profitability.

The recommendations in the proposal are financially and operationally feasible. With the support of our firm's service, we believe that Galaxy will continue to be a successful business.