

15 October 2015

Minority Shareholders Watchdog Group
Tingkat 11, Bangunan KWSP,
No: 3, Changkat Raja Chulan,
Off Jalan Raja Chulan,
50200 Kuala Lumpur.

Attn : Mr. Quah Ban Aik
(Head – Corporate Monitoring Division)

Dear Sir,

Re : 3rd Annual General Meeting (“AGM”) of Caring Pharmacy Group Berhad

Refer to your letter dated 9 October 2015; enclose herewith our replies for your perusal.

Strategic & Financial Matters

- 1) What are the Group's plans to leverage on the possible restriction on doctors from dispensing drugs to patients?

Reply:

Dispensing separation between doctors and pharmacists in Malaysia will be a major policy shift which will significantly impact our current health care system. It has been actively discussed over the years, much ground works and preparations has been done towards the realization of this policy, no conclusive and solid plan has been made on this complex, multiple parties multiple disciplinary involved topic. Thus it is premature to comment or make any plans on a possible separation of dispensing rights, until the content of the relevant bill is known.

Nevertheless, being one of the largest professional community pharmacy group who always want to provide the best pharmacy care to our customer, we consistently raise our bar on all angles of good pharmacy practice from medicine sourcing, distributing and storage, prescription screening, dispensing, labelling, recording and counselling. We believe all these noble initiatives will significantly improving the pharmacy service in our country and deliver great benefits to the patients we serve. This will set the benchmark of the good community pharmacy practice in our country and get ourselves better prepare for the dispensing separation environment.

- 2) What were the reasons for the increase in the Group's other operating income of 59.5% in FYE 2015? Was the growth in the other operating income sustainable going forward? What were the components of the other operating income?

Reply:

The increase in the Group's other operating income was mainly due to:

- a) increase in advertising & promotion ("A&P") income and distribution income ("DC") which aligned with the number of new outlets opened and higher purchases from suppliers during the financial year 2015; and*
- b) Increase in interest income earned from the deposits with financial institution*

As long as the Group continue to grow the revenue and open new outlets, we will be able to sustain our A&P income.

The major components of the other operating income are A&P income, DC income and interest income.

- 3) What is the status of the investment to expand the capacity of the e-commerce business? What will be the expected revenue and profit contribution of the e-commerce business to the Group? How much will be the expected operating profit margin of the e-commerce business? How much CAPEX would be utilised for the e-commerce business?

Reply:

The Group has rolled out our own e-commerce website beside the collaboration with the third party e-commerce operators. We continue to invest and expand our fulfilment capacity to support the ever growing sales volume.

Revenue and profit contribution has increased significantly from e-commerce business and will continue the exponential trend in this financial year.

The operating profit margin of the e-commerce business will be higher than the conventional retail channel due to lower selling and distribution expenses in terms of manpower and rental cost.

We shall further enhance on our current Enterprise Resources Planning capacity to support the e-commerce business. We expect there will not be any significant CAPEX investment for e-commerce for this financial year.

- 4) In view of the Group's relatively low net gearing ratio of 0.12 times in FYE 2014 which was also largely attributed to the large cash reserve of RM86.4 million, would the Board consider raising its dividend policy payout ratio to be more than 30% as this would not only reward shareholders with more profits but also enhance return on shareholders' equity through relatively higher gearing?

Reply:

The Group has no intention to revise its dividend policy as of now as:

- a) *The large cash reserve is partly contributed by the unutilised IPO proceeds amounting to RM15.1 million as at 31 May 2015. On 28 Jul 2015, the Group has announced that part of IPO proceeds amounting to RM12.5 million will be used for working capital purpose. This amount will be fully utilised by end of November 2015.*
- b) *The Group has proposed to purchase not more than ten percent (10%) of the issued and paid-up share capital of the Company in this AGM. The potential advantages of this exercise are clearly stated out in note 3 of 'statement to shareholders in relation to share buy-back'.*

Thank you.

Yours sincerely,



Chong Yeow Siang
Managing Director
Caring Pharmacy Group Berhad