

OVERVIEW


We are a fast-growing nutritional supplements retailer in a large and rapidly growing nutritional supplements industry in China. The nutritional supplements industry in China had a market size of over RMB580 billion in 2012, according to SMERI. We manufacture and sell high quality and safe nutritional supplements under our two key brands, namely Zhongsheng (中生) and Cobayer (康培爾), through self-managed retail stores in first- and second-tier cities in China, and a number of our key products are among the top selling products in their respective product categories in China.

We have adopted a branding-focused specialty store business model under which we manage all of our retail stores through our centralized management system, whereby our policies concerning customer services, marketing strategy, business development and financial management are formulated by our headquarters and executed by our self-managed retail stores on a uniform and consistent basis. Our branding-focused specialty store business model enables us to enhance our brand image and effectively provide a comprehensive selection of nutritional supplements and personalized health solutions to our customers. As of June 30, 2013, we operated a total of 49 self-managed retail stores under our two brands, namely Zhongsheng and Cobayer, in first- and second-tier cities in China with key focuses on Jiangsu and Zhejiang provinces, two of the most affluent regions in China. Our self-managed retail stores are strategically located in densely populated areas of our target markets to target affluent individuals, middle to high income families, elderly population and population under sub-health condition. Over the past few years, we have identified and captured market opportunities by successfully developing and launching a number of products in China ahead of our competitors. As a result of our first-mover advantages, we have achieved a leading market position with respect to some of our best-selling products in their respective product categories in China. According to SMERI, our Coenzyme Q₁₀ Tablets/Capsules (輔酶Q₁₀片/膠囊) accounted for the largest market share of 67.1% of coenzyme Q₁₀ products in China by sales revenue in 2012, representing 7.1 times of the market share of the second largest player for the same year. We are also among the very few companies in China which offer Olive Leaf Extract, Liver Tonic (Milk Thistle) Capsules and Emu Oil Capsules, or products similar to these products in terms of key ingredients and formula.

We have commenced our offering of Zhongsheng series products, a nutritional supplements product line developed and manufactured in China and designed for consumers in or over middle ages, since 2001. Following the success of our Zhongsheng series products, in 2009, we launched the Cobayer series products, a nutritional supplements product line manufactured in and imported from Australia. Through this product line, we aim to target a wider range of customers in China, in particular younger and affluent customers, in anticipation of increased customer demand for imported, high-quality nutritional supplements amid rising food safety concerns in China in recent years. In addition to the particular groups of customers we intend to target through our two product lines, we believe our potential customers also include those who are health-conscious or under sub-health condition. We currently own a total of 27 health food product approvals issued by CFDA, which approvals represent the highest product and regulatory standards imposed in China on nutritional supplements. We are currently in the process of applying for ten additional health food product approvals.

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As of June 30, 2013, our product offerings included:

- *Zhongsheng series*: consisting of 14 nutritional supplements developed and manufactured in China under our Zhongsheng, Keda and Guishi brands, of which ten were approved by CFDA as health food products; and
- *Cobayer series*: consisting of 24 nutritional supplements under our Cobayer, Conbair,  and CoKanga brands, of which 23 were manufactured in and imported from Australia and one was manufactured in and imported from New Zealand.

By leveraging our in-depth industry and operating experience, we have successfully replicated our branding-focused specialty store business model from our headquarters in Nanjing, Jiangsu province, to other areas of China. As of June 30, 2013, our branding-focused retail network covered 25 cities in eight provinces and centrally administered municipalities in China, consisting of:

- 35 self-managed retail stores under our Zhongsheng brand, comprising 20 specialty stores, 13 regional sales offices and two department store concession counters, in which we sell our Zhongsheng series products as well as selected Cobayer series products; and
- 14 self-managed retail stores under our Cobayer brand, all located in premium shopping malls, in which we sell our Cobayer series products.

In addition to self-managed retail stores, we currently have one distributor which exclusively markets and sells our Zhongsheng and Cobayer series products in Shanghai only. We also started operations of our online shopping platform at <http://conbair.tmall.com> to sell our Cobayer series products in May 2013.

We utilize a combination of our own production facilities and third-party manufacturing capabilities to maintain operating flexibilities and reduce fixed costs, which also enables us to respond quickly to evolving industry trends and customer demands to launch products with different quantities, sizes and packaging configurations. Currently substantially all of our Zhongsheng series products are manufactured in our own production facilities in Nanjing, Jiangsu province and all of our Cobayer series products are manufactured by third-party manufacturers in Australia or New Zealand. As part of our efforts to further strengthen our control of product quality and safety, we are in the process of expanding our in-house production capabilities to add a new production line for our PRC manufactured nutritional supplements in the forms of soft gelatin capsules, canned powder and miniature bottled drinks, so as to reduce our outsourcing of production to third party manufacturers in China. We intend to continue to outsource the production of our Cobayer series products to third party manufacturers in Australia and New Zealand in the near future.

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Benefiting from our competitive advantages and the favorable economic and industry trend in China, we have achieved rapid growth in recent years. From 2010 to 2012, our turnover increased from RMB66.9 million to RMB150.4 million and our net profit increased from RMB15.8 million to RMB57.2 million, representing a CAGR of 49.9% and 90.3%, respectively, outpacing the CAGR of the total revenue generated from the nutritional supplements industry in China of 17.3% during the same period. Our turnover increased by 32.7% from RMB64.8 million for the six months ended June 30, 2012 to RMB86.0 million for the six months ended June 30, 2013 and our net profit increased by 13.4% from RMB26.2 million to RMB29.7 million during the same period.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

We are well positioned to capitalize on high growth opportunities in the large and fast-growing nutritional supplements industry in China.

We operate in a large and fast-growing nutritional supplements industry. According to SMERI, the total sales revenue of the PRC nutritional supplements industry grew at a CAGR of 20.4% from 2010 to 2012 and reached approximately RMB580 billion in 2012, making the nutritional supplements industry one of the fastest growing industries in the PRC. SMERI estimates that the sales revenue of the nutritional supplements industry will continue to grow from 2013 to 2018 and reach approximately RMB1,730 billion in 2018. The growth of nutritional supplements industry in China is principally driven by the rising disposal income of consumers, increasing average age and life expectancy of the PRC population, growing population under sub-health condition in China and increasing awareness of nutritional supplements' benefits among the general population. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households in China increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of 11.7%. According to SMERI, China's per capita expenditure on nutritional supplements, however, remains significantly lower as compared with that of the United States and European countries. In addition, data from the National Bureau of Statistics indicates that the population in China over 60 years old, being part of our target customers, reached 194 million in 2012, representing 14.3% of the total PRC population in the same year, and is estimated by SMERI to further increase to 261 million by 2020. Furthermore, China's industrialization, economic growth and urbanization have been accompanied by rising pollution levels, increases in labor intensity and an increasingly stressful lifestyle, which in turn have led to a growing population under sub-health condition. According to SMERI, approximately 70% of the population in China are in sub-health condition and many of these people are in first- or second-tier cities. As a result of the combination of these factors, awareness of the benefits of and demand for nutritional supplements have been growing among populations of various age groups in China in recent years and are expected to further grow in the near future.

As a result of our 14-year operating history in the nutritional supplements industry in China, we have developed an in-depth understanding of this industry, which we believe affords us a significant competitive advantage to identify and capture high growth business opportunities in this industry. Driven in part by the favorable socio-economic factors and the rapid growth in the nutritional supplements industry, we have achieved significant growth in turnover and net profit in recent years, achieving a CAGR of 49.9% and 90.3%, respectively, from 2010 to 2012. We believe the growth in our industry will continue to be driven by consumers who increasingly embrace health and wellness as an important part of their lifestyles. By leveraging our branding-focused specialty store business model, broad and diversified product mix, wide spectrum of customers and solid knowledge and experience in the nutritional supplements industry, we believe we are well positioned to capture attractive market opportunities and deliver strong growth in terms of turnover, net profit and customer base.

We have established an effective brand-based marketing strategy and have achieved strong brand recognition in our target markets.

Through continuous brand building over the past years, we have successfully entrenched our brand with the core values which we have envisioned since our inception, and have won the recognition and trust of our target consumers. In particular, we believe our core value of promoting a healthier lifestyle and pursuing a higher standard of living is now shared by many of our customers. We place great emphasis on continuously strengthening the brand awareness of our two key brands, namely Zhongsheng and Cobayer, in our target markets and focus on product positioning, marketing, sales network and customer services:

- *Branding-focused sales chain:* We are focused on brand building through our own retail stores under Zhongsheng and Cobayer brands. By leveraging our centralized management structure, we have endeavored to consistently offer high quality, personalized shopping experience across all of our retail stores. We believe our branding-focused sales chain has significantly enhanced our brand awareness as compared with those competitors who are focused on wholesale distribution of products through supermarkets or drug stores.
- *Brand image and market positioning:* We believe product positioning is crucial to establish a distinctive and strong image of our brands against our competitors. Over the past years, in addition to our continuous endeavors to associate both Zhongsheng and Cobayer brands with high quality, safe nutritional supplements, we believe we have also successfully identified and built a distinctive brand image for each of these two brands and adopted differentiated marketing positioning strategies for these two product lines. We position our Zhongsheng series products as safe and reliable nutritional supplements for consumers in or over middle ages, a customer group which has a longer-term attention to health issues and demands in-depth education on nutritional supplements by our nutritionists. Our Cobayer series products, on the other hand, are positioned as high-end, fast-moving natural nutritional supplements and marketed to a wider range of consumers, in particular affluent and younger individuals and families who are more familiar with the

benefits of nutritional supplements and require less product education. We believe the fact that substantially all of our Cobayer series products are made in Australia, a country with strict product quality control and natural and clean environment, appeals to the Chinese consumers' ongoing demand for safe and reliable products. In addition, we strategically select premium shopping malls to open all of our Cobayer retail stores, which we believe would further strengthen our brand image of Cobayer as high-end nutritional supplements made in Australia.

- *Comprehensive customer services:* As part of our brand building efforts, we focus on developing lifetime relationships with our customers and emphasize serving their long-term health needs. Our personalized health solutions to customers are essential in promoting our brand name among target consumer groups. We have also endeavored to leverage the referrals of our existing customers to identify potential customers who may be interested in purchasing our products, and further promote our brand image among wider consumer groups and within a larger geographical area.
- *Top selling products:* Our proven track record in successfully launching top-selling products has also enabled us to further consolidate and enhance our brand image. With little product-specific advertisement in recent years, our Coenzyme Q₁₀ Tablets/Capsules accounted for the largest market share of 67.1% of coenzyme Q₁₀ products in China by sales revenue in 2012, representing 7.1 times of the market share of the second largest player for the same year, according to SMERI. In addition, according to SMERI, we are among the very few companies in China that offer Olive Leaf Extract, Liver Tonic (Milk Thistle) Capsules and Emu Oil Capsules, or products similar to these products in terms of key ingredients and formula. The proven sales record of these products has demonstrated our enhancement of brand building in these product categories.

We believe we are well positioned to further strengthen our brand awareness nationwide, consolidate and enhance market shares in the various product categories of nutritional supplements, and expand our customer base.

Our fast-growing retail network and diversified sales platform enable us to serve a broad customer base and meet growing and different customer demand.

We have a diversified sales platform with a wide geographic coverage of 25 cities in eight provinces and centrally administered municipalities in China as of June 30, 2013, which we believe effectively covers our target consumer groups and provides us with a strong base to further expand our network. Our diversified sales platform in China primarily consists of retail stores under our Zhongsheng brand, in the forms of specialty stores, regional sales offices and department store concession counters, and retail stores under our Cobayer brand, in the form of shopping mall stores. As of June 30, 2013, we had a total of 35 Zhongsheng retail stores in 22 cities and 14 Cobayer retail stores in 13 cities in China.

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- In respect of our Zhongsheng retail stores, since we established our first Zhongsheng retail store in Nanjing, Jiangsu province in May 1999, we have successfully expanded our Zhongsheng retail stores to other major cities in Jiangsu and Zhejiang provinces, which we believe have a high concentration of affluent individuals with the ability and willingness to afford mid- to high-end nutritional supplements. We then expanded to first-tier cities in China including Shenzhen, Guangzhou and Beijing, and further to densely populated Shandong, Hubei and Sichuan provinces, which, our Directors believe, have significant growth potential in terms of consumer purchasing power. We strategically select the sites of our Zhongsheng retail stores with a view to maximizing retail coverage area while at the same time avoiding potential cannibalization amongst various locations. Most of our Zhongsheng retail stores are located in central business districts, well-established residential areas or local transportation centers. The number of our Zhongsheng retail stores grew from 13 as of January 1, 2010 to 35 as of June 30, 2013.
- In respect of our Cobayer retail stores, as our first store was opened recently in June 2012, we typically select markets that we are familiar with from our experience of operating Zhongsheng retail stores, or markets we believe have significant demand for high-end nutritional supplements. Unlike our Zhongsheng retail stores, we consistently choose to locate all of our Cobayer retail stores in large, premium shopping malls in the relevant cities in order to target relatively young and affluent shoppers and to establish and strengthen the brand image of our Cobayer retail stores as a provider of high-end imported nutritional supplements. We believe we have executed this business strategy successfully with a proven record to rapidly grow our Cobayer retail stores from one as of June 30, 2012 to 14 as of June 30, 2013.

We believe our branding-focused and self-managed retail network differentiates us from many of our competitors, in particular those relying on distributors to sell products through supermarkets or drug stores. Due to the product nature of nutritional supplements, we believe extensive interactions with customers and consumer education on nutritional ingredients and benefits are essential to enable target customers to make well-informed decisions. Unlike other types of sales channels such as wholesale distributorship through supermarket or drug store chains, our self-managed retail stores serve as an effective platform to allow our professional sales team to provide personalized customer services to our customers and have face-to-face interactions with customers to understand the rapidly changing consumer preferences, which in turn helps us respond quickly to market trends, deliver a personalized shopping experience to our customers, enhance our brand awareness and maintain high customer satisfaction level. All these benefits have further allowed us to price our products with more flexibility and achieve a high gross profit margin in the past few years. In addition, our Cobayer retail stores in premium shopping malls afford our customers a branding-focused shopping experience that is unlikely to be offered by many of our competitors focusing on sales channels in supermarkets or drug stores. As all of our retail stores are established and managed by us, we have gained significant experience over the past years in opening and managing our retail stores. We have formulated a set of comprehensive, standardized and effective procedures in managing and expanding our retail network, including location selection, day-to-day operations, training of

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sales staff, inventory management and payment settlement arrangements, and have a well-trained, efficient team to execute these procedures in new markets. We believe we have successfully entered markets with different dynamics in recent years and are well positioned to replicate our sales model and expand into additional markets.

We provide comprehensive health solutions to a broad, age-balanced and loyal customer base.

Providing comprehensive health solutions to our customers is one of the core values of our Group which guides our operations from product development to customer service. When developing a new product, we assess, among other factors, whether it is complementary to our existing product offerings. Our current product offerings allow us to provide nutritional support to various age groups and meet a variety of health needs of our customers. In addition, we have also devoted substantial resources on customer interactions to understand the health status of our customers and their specific needs, introduce the ingredients and nutritional benefits of our products, and provide personalized healthcare solutions and product selection advice. From time to time, we invite customers to visit our production facilities and headquarters to form a positive perception of our corporate culture and production process. Furthermore, we offer extensive training programs to our employees, strongly encouraging them to obtain national public health nutritionist certificates (公共營養師國家職業資格證) so as to provide professional nutrition advice to our customers. As of June 30, 2013, 57 of our employees, representing approximately 18% of our sales representatives and customer service staff, obtained national public health nutritionist certificates. We believe all these efforts have allowed us to provide comprehensive health solutions to our customers and reinforced customer loyalty among our existing customers, which creates significant potential opportunities for us to up-sell and cross-sell our products, and promotes our brand reputation among potential new customers. These efforts also help us to charge a price premium for our nutritional supplements as compared with our industry peers who rely on supermarkets or drug stores operated by third parties to sell products to end consumers.

By leveraging our superb customer services, we have developed a broad, age-balanced and loyal customer base. Customers for our Zhongsheng series products are primarily consumers in or over middle ages, and customers for our Cobayer series products are relatively younger. We also leverage the customer base of our Zhongsheng retail stores to cross sell both of our Zhongsheng series products and Cobayer series products. Over the past years, we have endeavored to tailor our product offerings to the rapidly changing consumer preferences in the nutritional supplements industry, which in turn have helped us expand our customer base and attract customers with diversified preferences and health needs.

To further strengthen customer loyalty, we have also launched nationwide two customer loyalty programs for our customers of Zhongsheng retail stores and Cobayer retail stores, respectively. Members of these two programs not only enjoy discounts based on their aggregate purchase amounts, but also receive services we exclusively offer to our members such as free body check-up, invitation to our health seminars and special offers on birthdays. We believe our customer loyalty programs have further promoted the loyalty of our customers, motivating our customers to make repeat purchases and building and enhancing long-term relationships with our customers.

We offer a broad, diversified product mix with a number of top selling products in their respective product categories in China and maintain a strong pipeline of nutritional supplements for future development.

As of June 30, 2013, we offered 38 products, consisting of 14 Zhongsheng series products and 24 Cobayer series products. Our broad, diversified product offerings are designed to provide nutritional support to consumers in or over middle ages or consumers who are health conscious or are in sub-health condition. In particular, our Zhongsheng series products are focused on providing nutritional support to help alleviate physical fatigue and improve immune system, and the concept behind our Cobayer series products is to provide high-end nutritional supplements originated in Australia, which not only offers a variety of choices of imported nutritional supplements, but also contributes to a high-quality, healthy lifestyle that our consumers may be pursuing.

By leveraging our in-depth understanding of the PRC nutritional supplements industry from our 14-year operating history and our continuous study on the industry trend and customer preference, we have identified and captured market opportunities by successfully launching a number of products in China ahead of our competitors over the past few years. As a result of our first-mover advantages, we have achieved a leading market position with respect to some of our best-selling products in their respective product categories in China. For example, we obtained health food product approval from CFDA for our Coenzyme Q₁₀ Tablets/Capsules (輔酶Q₁₀片/膠囊) in November 2007, which was ahead of many of our competitors. Our Coenzyme Q₁₀ Tablets/Capsules accounted for the largest market share of 67.1% of coenzyme Q₁₀ products in China by sales revenue in 2012, representing 7.1 times of the market share of the second largest player for the same year, according to SMERI. Our Coenzyme Q₁₀ Capsules was approved as a “High-Tech Product” by Jiangsu Provincial Department of Science and Technology in 2012, making it the only coenzyme Q₁₀ product in China that has been approved as a “High-Tech Product” (高新技術產品) by provincial or national level authorities, according to SMERI. In addition, according to SMERI, some of our Cobayer series products, such as Olive Leaf Extract, Liver Tonic (Milk Thistle) Capsules and Emu Oil Capsules, are rarely offered by our competitors in China, which further afford us a competitive advantage to capture market shares in the relevant product categories and flexibility to price these products due to the lower degree of saturation of the relevant market segments.

In addition, we launched new products and introduced best-selling products with increased servings to meet the rapidly changing customer preferences from time to time in the past few years, which has further diversified our product mix and driven our turnover growth.

Furthermore, we currently have a strong pipeline of products that we plan to launch over the next several years depending on market demands and conditions. Product candidates of our Zhongsheng series products include five CFDA-approved vitamin products and three new products for which we are preparing to apply to the CFDA for approval as health food products, which are primarily designed to help maintain a normal, healthy blood glucose level, provide antioxidant supplements and improve immune system. Product candidates of our Cobayer series products primarily include certain dairy products, cereal products and bottled drinks. We are also in the process of applying for health food product approvals issued by CFDA for seven existing Cobayer series products. If and when approved by the CFDA, we intend to sell these Cobayer series products as health food products in China, which we believe should further enhance positive consumer perception of the safety and quality of these products. As of the Latest Practicable Date, we commenced sales of three honey products and two cereal products. For details of our product pipeline, see “– Our Product Pipeline”.

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Our experienced management team has strong execution capabilities and a proven track record of generating growth for us.

We have a relatively stable management team and the core members of our senior management team have worked together for more than a decade. Our senior management team possesses solid industry knowledge, extensive operational experience and a proven track record of generating rapid growth for us. Mr. Gui, our founder, chairman and executive Director, has over 14 years of experience in the nutritional supplements industry. By leveraging Mr. Gui's leadership and vision in business strategies, product selection, business operations and regulatory compliance, as well as his relationships with our suppliers and third-party manufacturers in China and Australia, we are able to understand and capitalize on the ever-evolving market trends in the nutritional supplements industry in China, and capture high growth market opportunities. Besides Mr. Gui, other members of our senior management team also have extensive experience in the nutritional supplements industry, and have successfully led and directed our sales and marketing, research and development, production and management of retail network.

We believe our senior management possesses the capabilities and expertise required to anticipate changes in consumer preferences, develop new products and expand our retail network, which has played and will continue to play a key role in the success of our business.

STRATEGIES

We intend to become a leading provider of nutritional supplements in China, offering comprehensive health-related products and solutions. To achieve this goal, we plan to pursue the following strategies:

Further expand our Zhongsheng and Cobayer sales network to enhance geographical and customer coverage

We intend to further replicate our self-managed retail stores in new and existing markets so as to consolidate our market position and enter new geographical areas. When entering new markets, we intend to consider, among other factors, the purchasing power and consumption level of the local consumers, demographic characteristics of the local region and competitive landscape of the local nutritional supplements markets, and set up appropriate forms of self-managed retail stores based on the consumption and spending habits of different cities and regions. Our target regions in the near future primarily include first-tier cities, provincial capitals and affluent second-tier cities in China. Due to the different product positioning strategies and target consumer groups, we intend to take different approaches to enhance turnover generated from our two sales chains:

- *Zhongsheng sales chain:* We plan to focus on same store sales growth for our existing Zhongsheng retail stores in the near future, which we believe will be supported by the forecasted industry growth, marketing and brand building initiatives we intend to take and future product introductions. We also seek to increase the number of our Zhongsheng retail stores to 45 by the end of 2014 and may use a portion of the proceeds from the Global Offering to open not less than 20 additional Zhongsheng retail stores in 2015 and 2016, depending on prevailing market conditions. The average investment amount per new Zhongsheng retail store, assuming the store has approximately 80 square meters, is RMB410,000, and the average payback period is approximately five months.

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To avoid over-saturation of markets in our target regions and based on our current estimates, we intend to open not more than four Zhongsheng retail stores in each first-tier city, such as Beijing, Shanghai, Guangzhou and Shenzhen, not more than three Zhongsheng retail stores in each target provincial capital and other centrally administered municipality of China and not more than two Zhongsheng retail stores in each of the other target cities in China. The following table sets forth a breakdown of our expansion plan of Zhongsheng retail stores from 2014 to 2016, based upon our current expectation and subject to prevailing market conditions.

| Year | Number of new stores for each location | Location | Minimum capital required ⁽¹⁾ |
|-------|--|--|---|
| 2014 | 1 | • Beijing, Chengdu, Wuhan, Xiamen, Hefei, Chongqing, Kunming, Shenyang and Zhengzhou | RMB3.7 million |
| | 2 | • Guangzhou | RMB0.8 million |
| 2015 | 1 | • Shaanxi province, Jiangxi province, Shandong province and Tianjin | RMB1.6 million |
| | 3 | • Jiangsu province and Fujian province | RMB2.5 million |
| 2016 | 1 | • Fujian province, Jiangxi province, Shandong province and Jiangsu province | RMB1.6 million |
| | 2 | • Anhui province, Guangdong province and Zhejiang province | RMB2.5 million |
| Total | <u>31</u> | | <u>RMB12.7 million</u> |

Note:

(1) Minimum capital required is calculated on the assumption that the minimum investment amount per Zhongsheng retail store is RMB410,000.

- *Cobayer sales chain:* Subject to market conditions, we plan to increase the number of our Cobayer retail stores to 72 by the end of 2014 and may use a portion of the proceeds from the Global Offering to open not less than 80 additional Cobayer retail stores in 2015 and 2016. The average investment amount per new Cobayer retail store, assuming the store has approximately 30 square meters, is RMB220,000, and the average payback period is approximately four months. In addition, we plan to devote more resources to the development of our online Cobayer store at <http://conbair.tmall.com>, which commenced operations in May 2013, so as to enhance sales through this new platform. Through our online Cobayer store, we expect to benefit from the rapidly growing e-Commerce business in China.

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To avoid over-saturation of markets in our target regions and based on our current estimates, we intend to open not more than eight Cobayer retail stores in each first-tier city, such as Beijing, Shanghai, Guangzhou and Shenzhen, not more than four Cobayer retail stores in each target provincial capital and other centrally administered municipality of China and not more than two Cobayer retail stores in each of the other target cities in China. The following table sets forth a breakdown of our expansion plan of Cobayer retail stores from 2014 to 2016, based upon our current expectation and subject to prevailing market conditions.

| Year | Number of new stores for each location | Location | Minimum capital required ⁽¹⁾ |
|------|--|---|---|
| 2014 | 1 | • Jiangyin, Nantong, Taiyuan, Xi'an, Kunming, Changzhou and Fuzhou | RMB1.5 million |
| | 2 | • Chengdu, Chongqing, Hangzhou, Suzhou, Wuxi, Nanjing, Shenzhen, Guangzhou, Qingdao, Dalian, Changchun, Harbin and Shenyang | RMB5.7 million |
| | 3 | • Beijing, Tianjin and Shanghai | RMB2.0 million |
| 2015 | 1 | • Yunnan province | RMB0.2 million |
| | 2 | • Tianjin, Chongqing, Guangdong province, Heilongjiang province, Jilin province, Liaoning province, Shaanxi province and Anhui province | RMB3.5 million |
| | 3 | • Beijing, Shanghai, Shanxi province, Sichuan province and Shandong province | RMB3.3 million |
| | 4 | • Jiangsu province and Zhejiang province | RMB1.8 million |
| 2016 | 1 | • Yunnan province and Shaanxi province | RMB0.4 million |
| | 2 | • Tianjin, Chongqing, Heilongjiang province, Jilin province, Liaoning province, Shanxi province, Shandong province and Anhui province | RMB3.5 million |
| | 3 | • Beijing, Shanghai, Guangdong province and Sichuan province | RMB2.6 million |
| | 5 | • Jiangsu province and Zhejiang province | RMB2.2 million |
| | Total | 122 | |

Note:

(1) Minimum capital required is calculated on the assumption that the minimum investment amount per Cobayer retail store is RMB220,000.

Enhance our brand recognition to attract new customers

We will focus on promoting our core brands Zhongsheng and Cobayer in the future, with a particular focus to associate these two brands with high-quality, safe nutritional supplements that contribute to a healthy lifestyle that our customers may pursue. To achieve these goals, we plan to make the following efforts:

- *Improving our research and development capabilities:* We intend to build a research, development and testing center in our current production base in Nanjing, Jiangsu province, to support our day-to-day research and development activities as well as our testing of raw materials and finished products. We intend to build three departments within our research, development and testing center, consisting of quality control department (質量研究室), technology research department (工藝研究室) and natural plant extract department (天然植物提取研究室). The quality control department is expected to be equipped with machines to carry out toxicity and stability analysis and testing, so as to improve product quality and assess the shelf life and storage criteria for our products. The technology research department will conduct research on manufacturing technologies with respect to products in the forms of tablets, soft gelatin and hard-shell capsules, powder and miniature bottled drinks, so as to upgrade our existing technologies and support our manufacturing of products in new forms. The natural plant extract department will be equipped with machines for extraction, evaporation, separation and drying, so as to enable us to extract ingredients from natural plants and carry out quality analysis of such extracts during product development stages. We also intend to establish an information and logistic control center to ensure timely collection and sound analysis of consumer preferences and market trends and a smooth process of taking product concept from the idea stage, to product development, to testing and trials and ultimately to the shelf to be sold to our customers in a timely manner. We plan to expand our research and development team from nine employees as of June 30, 2013 to approximately 30 employees within the next three years and continue collaborating with research institutions in China on new product developments;
- *Enhancing production capacity to reduce outsourcing of production to third-party manufacturers with a great emphasis on product safety:* To supplement our existing product capacity and support our continuously evolving and diversifying product portfolio, we are in the process of constructing a new production line in our production base in Nanjing, Jiangsu province. This new production line is expected to enable us to manufacture nutritional supplements in new forms that we currently have no capacity of manufacturing, consisting of soft gelatin capsules, canned powder and miniature bottled drinks with a designed annual capacity of 800,000 units, 650,000 units and 2.0 million units, respectively, which is expected to complete by the end of 2015. Upon completion of this new production line, we will be able to manufacture nutritional supplements in the forms of hard-shell capsules, soft gelatin capsules, tea bags, powders, canned powder and miniature bottled drinks. For product candidates of our Zhongsheng series products that we plan to offer in the forms of soft gelatin capsules, canned powder and miniature bottled drinks in the near future, see “– Our Product Pipeline – Zhongsheng Series Products”; and

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- *Devoting more resources on advertising and other marketing efforts:* We intend to enhance our market efforts on nationwide television networks, newspapers, magazines, internet and other media that have broader geographic coverage, so as to enhance our brand awareness among new customers. In addition, we plan to design marketing campaigns consistent with our product promotion and branding strategies and, through extensive and uniform training courses, to ensure that such strategies are carried out consistently by our sales force.

Continue improving our customer services to maintain high customer satisfaction level and attract new customers

We believe superior customer services are critical to attracting new customers and retaining our existing customers so as to generate repeat businesses. We intend to continue providing in-house and external training courses to our sales representatives and customer service staff, covering general health knowledge, market trend of nutritional supplements, our corporate culture, information about our products and sales skills. Through these training courses, we expect that the number of our employees with national public health nutritionist certificates will continue to increase in the future, reaching 200 employees by the end of 2014. In addition, we intend to improve the efficiency and function of our centralized customer service database through technical upgrades on a regular basis to ensure that it will support our growing customer base and enable us to provide personalized services to our customers. Furthermore, we seek to enhance our services to members of our two customer loyalty programs by designing exclusive marketing activities for our members and evaluating our services to them through interviews, surveys and customer service hotlines.

Seek to develop new products with high growth potential to optimize and diversify our product offerings

We seek to continuously introduce new products with high growth potential to enhance our profitability. We believe our strong product pipelines will enable us to continue to enrich and diversify our product portfolio. These product pipelines primarily include five CFDA-approved vitamin products, 25 Zhongsheng product candidates which we intend to develop prior to 2016, seven Cobayer series products for which we are in the process of applying for imported CFDA health food product approvals, and certain other Cobayer series products we intend to launch in the near future. We also intend to launch new products from time to time that are complementary to, and can generate significant cross-selling potential for, our existing product offerings and match our brand image and product positioning. Furthermore, we plan to closely monitor the market trends in countries with a mature nutritional supplements industry, in particular, Australia, and analyze such trends with a view to introducing new product candidates and concepts into China.

Seek to identify compelling investment and acquisition opportunities

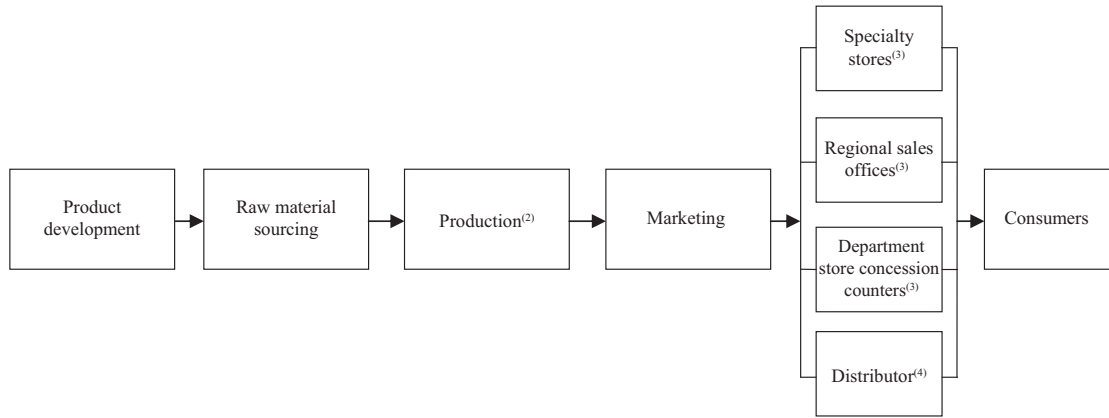
As the nutritional supplements industry in China continues to develop and has experienced increasing consolidation in recent years, we expect investment and acquisition opportunities will continue to emerge. We plan to devote resources to identify investment and acquisition opportunities, including without limitation, opportunities related to the expansion of retail network, improvement of research and development capabilities and vertical integration of supply chain, manufacturing process and other aspects of our business operations so as to further consolidate and develop our market position. In determining whether to make an investment or acquisition, we intend to take into account many factors, including the expected growth of the nutritional supplements industry, our management and financial resources and potential synergies with our current business.

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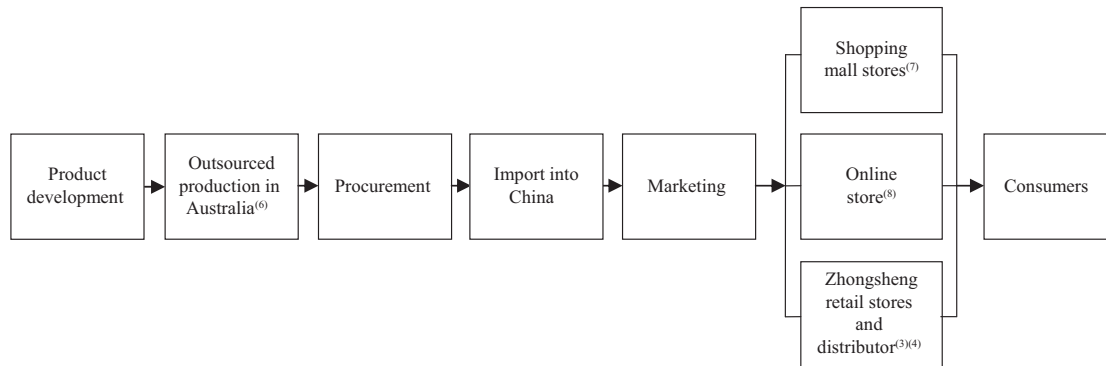
OUR BUSINESS MODEL

We have a branding-focused specialty store business model based on our two product lines. The following diagram illustrates our current business model.


Zhongsheng series products⁽¹⁾



Cobayer series products⁽⁵⁾




Notes:

- (1) All Zhongsheng series products are sold under our Zhongsheng, Keda and Guishi brands.
- (2) All Zhongsheng series products are manufactured in our own production facilities in Nanjing, Jiangsu province, except that production of three soft gelatin capsule products and two miniature bottled drinks is outsourced to certain Independent Third Parties.
- (3) These retail stores are operated under our own Zhongsheng brand. Both of our Zhongsheng series products and a selected number of Cobayer series products are sold in these Zhongsheng retail stores.
- (4) This distributor is authorized to exclusively market and sell our products, including both Zhongsheng series products and Cobayer series products, in Shanghai only.
- (5) Most of our Cobayer series products are sold under our own Cobayer brand and a small portion is sold under our Conbair,  and CoKanga brands.
- (6) During the Track Record Period, all of our Cobayer series products were manufactured by third-party manufacturers in Australia except one product which was manufactured in New Zealand.
- (7) All of our shopping mall stores are operated under our Cobayer brand.
- (8) Our online Cobayer store commenced operation in May 2013.

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OUR PRODUCTS

Overview

We are primarily engaged in (i) the development, production and sale of a wide range of nutritional supplements developed and manufactured in China under our Zhongsheng, Keda and Guishi brands, most of which are CFDA-approved health food products; and (ii) the import and offer of a variety of Australian made nutritional supplements in our retail stores under our Cobayer, Conbair,  and CoKanga brands. During the Track Record Period, we also offered a small number of third-party branded Australian nutritional food and gifts. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, substantially all of our turnover was generated from our sales of products in China.

The following table sets forth, for the periods indicated, selected financial information of our product lines.

| | Year ended December 31, | | | Six months ended June 30, | |
|-----------------------------------|---|--------|--------|---------------------------|--------|
| | 2010 | 2011 | 2012 | 2012 | 2013 |
| | <i>(RMB in thousands, except percentages)</i> | | | | |
| Zhongsheng series products | | | | | |
| Turnover. | 48,410 | 61,332 | 95,744 | 38,547 | 36,635 |
| Gross profit. | 41,399 | 55,147 | 88,843 | 35,802 | 33,563 |
| Gross margin. | 85.5% | 89.9% | 92.8% | 92.9% | 91.6% |
| Cobayer series products | | | | | |
| Turnover. | 16,922 | 40,837 | 52,613 | 25,505 | 45,537 |
| Gross profit. | 11,570 | 27,849 | 40,782 | 18,909 | 38,711 |
| Gross margin. | 68.4% | 68.2% | 77.5% | 74.1% | 85.0% |

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The following table sets forth, for the periods indicated, a breakdown of our turnover by product lines.

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|-----------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|---------------|--------------|
| | 2010 | | 2011 | | 2012 | | 2012 | | 2013 | |
| | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total |
| Zhongsheng series products | | | | | | | | | | |
| Coenzyme Q ₁₀ | | | | | | | | | | |
| Tablets/Capsules | 18,107 | 27.1 | 34,504 | 33.4 | 42,179 | 28.0 | 16,489 | 25.4 | 14,969 | 17.4 |
| Linolenic Acid Soft | | | | | | | | | | |
| Capsules | – | – | 1,327 | 1.3 | 24,280 | 16.1 | 12,623 | 19.5 | 2,014 | 2.3 |
| Grapeseed Capsules | 253 | 0.4 | 574 | 0.6 | 20,076 | 13.4 | 5,063 | 7.8 | 7,391 | 8.6 |
| Weisi Capsules | 483 | 0.7 | 4,751 | 4.6 | 3,526 | 2.4 | 1,405 | 2.2 | 9,443 | 11.0 |
| Others ⁽¹⁾ | 29,567 | 44.2 | 20,176 | 19.5 | 5,683 | 3.8 | 2,967 | 4.6 | 2,818 | 3.3 |
| Subtotal | 48,410 | 72.4 | 61,332 | 59.4 | 95,744 | 63.7 | 38,547 | 59.5 | 36,635 | 42.6 |
| Cobayer series products | | | | | | | | | | |
| Olive Leaf Extract | 1,641 | 2.5 | 7,673 | 7.4 | 22,399 | 14.9 | 11,279 | 17.4 | 13,504 | 15.7 |
| Emu Oil Capsules | – | – | 3,980 | 3.9 | 10,311 | 6.8 | 6,600 | 10.2 | 10,312 | 12.0 |
| Evening Primrose Oil | | | | | | | | | | |
| Capsules | 627 | 0.9 | 463 | 0.4 | 557 | 0.4 | 128 | 0.2 | 25 | – |
| Liver Tonic (Milk Thistle) | | | | | | | | | | |
| Capsules | 2,127 | 3.2 | 6,767 | 6.6 | 5,276 | 3.5 | 931 | 1.4 | 5,339 | 6.2 |
| Algal DHA Composite Oil | – | – | – | – | 17 | – | – | – | 4,450 | 5.2 |
| Squalene Capsules | 3,533 | 5.3 | 7,076 | 6.9 | 1,662 | 1.1 | 937 | 1.4 | 712 | 0.8 |
| Blueberry Capsules | 3,680 | 5.5 | 5,766 | 5.6 | 1,323 | 0.9 | 622 | 1.0 | 860 | 1.0 |
| Others ⁽²⁾ | 5,314 | 7.9 | 9,112 | 8.8 | 11,068 | 7.4 | 5,008 | 7.7 | 10,335 | 12.1 |
| Subtotal | 16,922 | 25.3 | 40,837 | 39.6 | 52,613 | 35.0 | 25,505 | 39.3 | 45,537 | 53.0 |
| Others ⁽³⁾ | 1,518 | 2.3 | 1,075 | 1.0 | 2,015 | 1.3 | 767 | 1.2 | 3,793 | 4.4 |
| Total | 66,850 | 100.0 | 103,244 | 100.0 | 150,372 | 100.0 | 64,819 | 100.0 | 85,965 | 100.0 |

Notes:

- (1) Including primarily CFDA health food products such as Keda Green Capsules (科大牌綠芝膠囊), Natural α -Linolenic Acid Soft Capsules (天然 α -亞麻酸膠丸), Zhongsheng Goat Milk Calcium Tablets (中生牌羊乳鈣片), Zhongsheng Calcium and Magnesium/Vitamin D Tablets (中生牌鈣鎂/維D片) and Zhongsheng Propolis Soft Capsules (中生牌蜂膠軟膠囊), and regular nutritional supplements without health food product approvals issued by CFDA such as Zhongsheng Natto Oxytropis Argentata Capsules (中生牌納豆銀棘膠囊), Zhongsheng Cordyceps Capsules (中生牌蛹蟲草膠囊), Zhongsheng Collagen Capsules (中生牌膠原蛋白膠囊), Zhongsheng Prebiotics Yeast Extract Capsules (中生牌益生源酵母精膠囊), Zhongsheng Meridian Soft Capsules (中生牌通絡康軟膠囊), Zhongsheng Oyster Capsules (中生牌生蠔膠囊), Guishi Vegetable Extract Powder (桂氏蔬菜精粉), Keda Sea Cucumber Capsules (科大牌海參寶膠囊), Pomegranate Fruit Drink (石榴果飲) and Blueberry Fruit Drink (藍莓果飲).
- (2) Including primarily Australian Extra Virgin Olive Oil, Salmon Oil Capsules, Saw Palmetto Capsules, Omega-3 Capsules, Algal DHA Composite Oil, Cod Fish Oil Capsules, Organic Tasmania Leatherwood Honey and certain protein powder and milk powder products.
- (3) Representing third-party branded Australian nutritional food and gifts.

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The following table sets forth, for the periods indicated, the turnover of our CFDA-approved health food products and regular nutritional supplements, and their respective percentages of our total turnover.

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|---------------|--------------|
| | 2010 | | 2011 | | 2012 | | 2012 | | 2013 | |
| | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total | RMB'000 | % of total |
| CFDA-approved health food products | | | | | | | | | | |
| Zhongsheng series products ⁽¹⁾ | 41,174 | 61.6 | 57,485 | 55.7 | 93,001 | 61.8 | 37,176 | 57.4 | 35,400 | 41.2 |
| Regular nutritional supplements | | | | | | | | | | |
| Zhongsheng series products ⁽²⁾ | 7,236 | 10.8 | 3,847 | 3.7 | 2,743 | 1.8 | 1,371 | 2.1 | 1,235 | 1.4 |
| Cobayer series products | 16,922 | 25.3 | 40,837 | 39.6 | 52,613 | 35.1 | 25,505 | 39.3 | 45,537 | 53.0 |
| Others ⁽³⁾ | 1,518 | 2.3 | 1,075 | 1.0 | 2,015 | 1.3 | 767 | 1.2 | 3,793 | 4.4 |
| Subtotal | 25,676 | 38.4 | 45,759 | 44.3 | 57,371 | 38.2 | 27,643 | 42.6 | 50,565 | 58.8 |
| Total | 66,850 | 100.0 | 103,244 | 100.0 | 150,372 | 100.0 | 64,819 | 100.0 | 85,965 | 100.0 |

Notes:

- (1) All of our CFDA-approved health products are Zhongsheng series products.
- (2) During the Track Record Period, the regular nutritional supplements offered by us under Zhongsheng series products without health food product approvals issued by CFDA consisted of Zhongsheng Natto Oxytropis Argentata Capsules (中生牌納豆銀棘膠囊), Zhongsheng Cordyceps Capsules (中生牌蛹蟲草膠囊), Zhongsheng Collagen Capsules (中生牌膠原蛋白膠囊), Zhongsheng Prebiotics Yeast Extract Capsules (中生牌益生源酵母精膠囊), Zhongsheng Meridian Soft Capsules (中生牌通絡康軟膠囊), Zhongsheng Oyster Capsules (中生牌生蠔膠囊), Guishi Vegetable Extract Powder (桂氏蔬菜精粉), Keda Sea Cucumber Capsules (科大牌海參寶膠囊), Pomegranate Fruit Drink (石榴果飲) and Blueberry Fruit Drink (藍莓果飲).
- (3) Representing third-party branded Australian nutritional food and gifts.

Zhongsheng Series Products

During the Track Record Period, we offered 28 products under our Zhongsheng, Keda and Guishi brands, respectively, of which 18 were approved as health food products by the CFDA. All of these products were manufactured in our production facilities in Nanjing, Jiangsu province, except the production of certain products in the forms of soft gelatin capsules and miniature bottled drinks has been outsourced to certain Independent Third Parties. We commenced sales of Zhongsheng series products in 2001 and all of these products are sold in our Zhongsheng retail stores. Through this product line, we aim to offer a broad product mix to provide nutritional supports to consumers in or over middle ages with a focus on helping alleviate physical fatigue and improving immune system. During the Track Record Period, our best-selling products within this product line included Coenzyme Q₁₀ Tablets/Capsules (輔酶 Q₁₀片/膠囊), Linolenic Acid Soft Capsules (亞麻酸軟膠囊) and Grapeseed Capsules (葡芪膠囊) under our Zhongsheng brand, and Weisi Capsules (維思膠囊) under our Guishi brand.

Coenzyme Q₁₀ Tablets/Capsules (輔酶Q₁₀片/膠囊)



Our Coenzyme Q₁₀ Tablets/Capsules are designed to help alleviate physical fatigue. Our Coenzyme Q₁₀ Tablets/Capsules were approved as health food products by the CFDA in November 2007 and Coenzyme Q₁₀ Capsules was further approved as a “High-Tech Product” (高新技術產品) by Jiangsu Provincial Department of Science and Technology in August 2012. We have been manufacturing and selling our Coenzyme Q₁₀ Capsules since June 2008 and our Coenzyme Q₁₀ Tablets since October 2011, each under our Zhongsheng brand, and currently have a product liability insurance coverage of RMB1.0 million in aggregate for a one-year insurance period on these two products. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Coenzyme Q₁₀ Tablets/Capsules was RMB18.1 million, RMB34.5 million, RMB42.2 million and RMB15.0 million, respectively, accounting for 27.1%, 33.4%, 28.0% and 17.4% of our total turnover for the same periods, respectively. The average selling price of our Coenzyme Q₁₀ Tablets/Capsules ranged from RMB232.5 per bottle to RMB388.9 per bottle during the Track Record Period.

Our Coenzyme Q₁₀ Tablets/Capsules primarily comprise coenzyme Q₁₀, lactose and microcrystalline cellulose. We are not involved in the fermentation process of coenzyme Q₁₀, the key raw material for our manufacturing of Coenzyme Q₁₀ Tablets/Capsules, and source post-fermentation coenzyme Q₁₀ from third-party suppliers. Every 100.0g of our Coenzyme Q₁₀ Tablets/Capsules contains 3.3g coenzyme Q₁₀. Our Coenzyme Q₁₀ Tablets/Capsules are available in tablets and hard-shell capsules forms and sold in the forms of 120 tablets per bottle, 30 capsules per bottle, and 90 capsules per bottle. Our Coenzyme Q₁₀ Tablets/Capsules have a shelf life of 24 months.

Linolenic Acid Soft Capsules (亞麻酸軟膠囊)



Our Linolenic Acid Soft Capsules are designed to assist in lowering blood lipid level. It was approved as a health food product by CFDA in January 2011. We have been manufacturing and selling this product under our Zhongsheng brand since October 2011. For the years ended December 31, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Linolenic Acid Soft Capsules was RMB1.3 million, RMB24.3 million and RMB2.0 million, respectively, accounting for 1.3%, 16.1% and 2.3% of our total turnover for the same periods, respectively. The average selling price of our Linolenic Acid Soft Capsules ranged from RMB167.8 per bottle to RMB324.4 per bottle during the Track Record Period.

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Our Linolenic Acid Soft Capsules primarily comprise perilla oil, vitamin E and gelatin. Every 100.0g of our Linolenic Acid Soft Capsules contains 45.0g α -Linolenic acid. Our Linolenic Acid Soft Capsules are available in soft gelatin form and sold in the form of 120 soft gelatin capsules per bottle. Our Linolenic Acid Soft Capsules have a shelf life of 24 months.

Grapeseed Capsules (葡芪膠囊)



Our Grapeseed Capsules are designed to help improve immune system. It was approved as a health food product by CFDA in August 2006 and acquired by us from Nanjing Zhongsheng Pharmaceutical in August 2010. We have been manufacturing and selling this product under our Zhongsheng brand since August 2007 pursuant to the then authorization by Nanjing Zhongsheng Pharmaceutical. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Grapeseed Capsules was RMB0.3 million, RMB0.6 million, RMB20.1 million and RMB7.4 million, respectively, accounting for 0.4%, 0.6%, 13.4% and 8.6% of our total turnover for the same periods, respectively. The average selling price of our Grapeseed Capsules ranged from RMB32.6 per bottle to RMB941.7 per bottle during the Track Record Period.

Our Grapeseed Capsules primarily comprise grapeseed extracts (葡萄籽提取物), milk vetch root extracts (黃芪提取物) and Chinese angelica extracts (當歸提取物). Every 100.0g of our Grapeseed Capsules contains 6.9g Oligomeric Proanthocyanidins and 10.0g polysaccharide. Our Grapeseed Capsules are available in hard-shell capsules form and sold in the forms of 90 capsules per bottle and 120 capsules per bottle. Our Grapeseed Capsules have a shelf life of 24 months.

Weisi Capsules (維思膠囊)



Our Weisi Capsules are designed to help improve memory. It was approved as a health food product by CFDA in January 2002 and acquired by us from Jiangsu Xiansheng Medical Company Limited* (江蘇先聲藥業有限公司) in June 2005. We have been manufacturing and

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selling this product under our Guishi brand since July 2006. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Weisi Capsules was RMB0.5 million, RMB4.8 million, RMB3.5 million and RMB9.4 million, respectively, accounting for 0.7%, 4.6%, 2.4% and 11.0% of our total turnover for the same periods, respectively. The average selling price of our Weisi Capsules ranged from RMB155.2 per bottle to RMB311.0 per bottle during the Track Record Period.

Our Weisi Capsules primarily comprise polygonatum. Every 100.0g of our Weisi Capsules contains 70g polysaccharides. Our Weisi Capsules are available in hard-shell capsules form and sold in the forms of 60 capsules per bottle and 90 capsules per bottle. Our Weisi Capsules have a shelf life of 24 months.

Others

During the Track Record Period, we offered 23 other Zhongsheng series products, of which 13 were CFDA approved health food products, in addition to our Coenzyme Q₁₀ Tablets/Capsules, Linolenic Acid Soft Capsules, Grapeseed Capsules and Weisi Capsules. For a list of these products and their CFDA approvals, see “– Approvals and Permits”. These products are available in tablets, hard-shell capsules, tea and powder forms, and are offered in traditional bottle or box packaging form. The shelf life of these products ranges from 24 months to 36 months. During the Track Record Period, we launched new products from time to time and have endeavored to focus our resources primarily on products with greater market demand and potential or higher profit margins, while reducing or phasing out products with lower or decreasing market demand or profit margins. As such, the turnover contribution by our other Zhongsheng series products fluctuated during the Track Record Period. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Zhongsheng series products (excluding Coenzyme Q₁₀ Tablets/Capsules, Linolenic Acid Soft Capsules, Grapeseed Capsules and Weisi Capsules) was RMB29.6 million, RMB20.2 million, RMB5.7 million and RMB2.8 million, respectively, accounting for 44.2%, 19.5%, 3.8% and 3.3% of our total turnover for the same periods, respectively.


Cobayer Series Products

During the Track Record Period, we offered 27 Cobayer series products under our Cobayer, Conbair,  and CoKanga brands, all of which were developed by us and manufactured in Australia through our third party manufacturers except one product which was manufactured in New Zealand. We commenced sales of this product line in August 2009. During the Track Record Period, our best-selling Cobayer series products included Olive Leaf Extract (橄欖葉提取液), Emu Oil Capsules (鸚鵡油膠囊), Squalene Capsules (角鯊烯膠囊), Blueberry Capsules (藍莓複合膠囊) and Liver Tonic (Milk Thistle) Capsules (奶薊草膠囊). During the Track Record Period, the average selling price of our Olive Leaf Extract ranged from RMB274.4 per bottle to RMB473.3 per bottle, the average selling price of our Emu Oil Capsules ranged from RMB205.8 per bottle to RMB451.9 per bottle, the average selling price of our Squalene Capsules ranged from RMB172.0 per bottle to RMB288.1 per bottle, the average selling price of our Blueberry Capsules ranged from RMB193.1 per bottle to RMB491.4 per bottle, and the average selling price of our Liver Tonic (Milk Thistle) Capsules ranged from RMB308.4 per bottle to RMB766.8 per bottle.

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The concept behind our Cobayer series products is to provide high-end nutritional supplements originated in Australia, which not only offers a variety of choices of imported nutritional supplements, but also contributes to a high-quality, healthy lifestyle that our consumers may be pursuing. Through this product line, we primarily target affluent, health-conscious consumers who are young to middle aged. As of the Latest Practicable Date, none of our Cobayer series products or other products was approved by CFDA as health food products. We are in the process of applying for health food product approvals issued by CFDA for certain Cobayer series products. For details, see “– Our Product Pipeline – Cobayer Series Products”.



For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from sales of our Cobayer series products was RMB16.9 million, RMB40.8 million, RMB52.6 million and RMB45.5 million, respectively, representing 25.3%, 39.6%, 35.0% and 53.0% of our total turnover for the same periods, respectively. These products are manufactured and sold under our Cobayer, Conbair,  and CoKanga brands. For details of the outsourcing of production of our Cobayer series products to third-party manufacturers in Australia, see “– Production, Quality Control and Supplies – Production of Cobayer Series Products”.


The following table sets forth selected information about our major Cobayer series products as of June 30, 2013.

| Products⁽¹⁾ | Year of launch | Principal description | Shelf life |
|-------------------------------------|-----------------------|---|-------------------|
| Essence of Kangaroo Capsules | January 2010 | Available in hard-shell capsules and its key ingredient is kangaroo meat extract | Three years |
| Liver Tonic (Milk Thistle) Capsules | March 2010 | Available in hard-shell capsules and its key ingredients are milk thistle extract and hordeum vulgare leaf powder | Three years |
| Evening Primrose Oil Capsules | March 2010 | Available in soft gelatin capsules and its key ingredient is evening primrose oil | Three years |
| Kangaroo Bone Extract Capsules | March 2010 | Available in hard-shell capsules and its key ingredient is kangaroo bone powder | Three years |

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| Products⁽¹⁾ | Year of launch | Principal description | Shelf life |
|------------------------------------|-----------------------|--|-------------------|
| Squalene Capsules | March 2010 | Available in soft gelatin capsules and its key ingredient is squalene | Three years |
| Blueberry Capsules | June 2010 | Available in hard-shell capsules and its key ingredient is blueberry extract | Three years |
| Olive Leaf Extract | November 2010 | Available in liquid form and its key ingredient is olive leaf extract | Three years |
| Australian Extra Virgin Olive Oil | January 2011 | First cold pressed and cholesterol free olive oil | Two years |
| Emu Oil Capsules | September 2011 | Available in soft gelatin capsules and its key ingredient is emu oil | Three years |
| Salmon Oil Capsules | October 2011 | Available in soft gelatin capsules and its key ingredient is salmon oil | Three years |
| Saw Palmetto Capsules | October 2011 | Available in soft gelatin capsules and its key ingredient is serenoa repens soft extract | Three years |
| Omega-3 Capsules | December 2011 | Available in soft gelatin capsules and its key ingredient is fish oil | Three years |
| Protein powder products | January 2012 | Comprising three types of protein powder products | Three years |
| Milk powder products | April 2012 | Comprising four types of milk powder products | Two years |
| Organic Tasmania Leatherwood Honey | May 2012 | High-purity leatherwood honey | Five years |
| Algal DHA Composite Oil | December 2012 | Available in liquid form and its key ingredients are Algal DHA Oil, flaxseed oil and vitamin E | Three years |
| Cod Fish Oil Capsules | March 2013 | Available in soft gelatin capsules and its key ingredient is cod fish oil | Three years |

Note:

- (1) All products are under our Cobayer brand except (i) Olive Leaf Extract and our milk powder products, which are also concurrently sold under our Conbair brand; (ii) Algal DHA Composite Oil, which is sold under our  brand; and (iii) Emu Oil Capsules, Saw Palmetto Capsules and Salmon Oil Capsules, which are sold under our CoKanga brand.

Other Products

Other products offered by us during the Track Record Period consisted of third-party branded Australian nutritional food and gifts. Third-party branded Australian nutritional food primarily included macadamia oil, avocado oil, balsamic vinegar, honey products and jams, which were imported by us from Independent Third Parties in Australia for retail in China. We did not enter into any distribution agreements with any suppliers of the third-party brand products during the Track Record Period. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from sales of other products was RMB1.5 million, RMB1.1 million, RMB2.0 million and RMB3.8 million, respectively, representing 2.3%, 1.0%, 1.3% and 4.4% of our total turnover for the same periods, respectively.

OUR PRODUCT PIPELINE

We are continuously developing new products to meet consumer needs. Our current pipeline of products includes CFDA-approved health food products, nutritional supplements for which we are in the process of preparing to apply for CFDA approval as health food products, and regular nutritional supplements. We believe our product candidates are complementary to and will enrich our existing product portfolio. For example, the designed benefits of our product candidates for Zhongsheng series products are expected to include improvement of hypoxia tolerance, improvement of gastrointestinal function and promotion of skin health, which are not covered by our existing products.

Zhongsheng Series Products

We have five CFDA-approved vitamin products, which we currently expect to launch in 2014 taking into account market and business considerations. For CFDA approvals of these products, see “– Approvals and Permits”. We currently also have three product candidates for which we are preparing to apply to CFDA for approval as health food products among our Zhongsheng series products. These product candidates include products designed to help maintain a normal, healthy blood glucose level, provide antioxidant supplements and improve immune system. As of the Latest Practicable Date, we had submitted two product candidates, namely Olive Leaf Capsules (橄欖葉膠囊) and Natto Oxytropis Argentata Capsules (納豆銀棘膠囊), to Jiangsu Provincial Center for Disease Prevention and Control (江蘇省疾病預防控制中心), a CFDA-authorized testing institution, to conduct testing on these products’ effectiveness and safety. These two product candidates are designed to help improve immune system and to help maintain a normal, healthy blood glucose level, respectively. Upon completion of the testing, the testing result will be submitted to CFDA for review. Further testing may be required by CFDA until it is satisfied with the testing result, upon which time CFDA will issue the health food product approval. Once a CFDA approval is issued and if we decide to officially launch the relevant health food product, we are required to add such specific health food product onto our health food manufacturing permit before we commence mass production. The inclusion of a new health food product onto our health food manufacturing permit is determined by local agencies of CFDA, upon their examination and satisfaction of our production capability. We expect to obtain CFDA approvals for these products by 2014 and plan to launch these products in accordance with market conditions under our Zhongsheng brand if and when approved by CFDA.

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We expect to launch over 25 product candidates up to 2016 consisting of health food products with designed benefits to help, amongst others, lower blood sugar, relieve physical fatigue, improve gastrointestinal function, improve hypoxia tolerance, promote skin health, improve memory and lose weight. A majority of these product candidates are in the forms of soft gelatin capsules, powder and miniature bottled drinks. As of the Latest Practicable Date, these products candidates are product concepts except two products, namely Olive Leaf Capsules (橄欖葉膠囊) and Natto Oxytropis Argentata Capsules (納豆銀棘膠囊), which were submitted to testing institutions by us for testing.

The following table sets forth the name, designed benefit, form, estimated time to receive CFDA approval and estimated launch time of our product candidates for Zhongsheng series products. We intend to apply for CFDA approvals for all of these product candidates.

| <u>Product name</u> | <u>Designed benefit</u> | <u>Form</u> | Estimated time to receive CFDA approval | Estimated launch time |
|---|---|--------------------------------|--|--------------------------------------|
| Olive Leaf Capsules (橄欖葉膠囊) | Lower blood sugar | Hard-shell capsules | 2014 | 2015 |
| Natto Oxytropis Argentata Capsules (納豆銀棘膠囊) | Enhance immunity | Hard-shell capsules | 2014 | 2015 |
| Chitosan Capsules (殼聚糖膠囊) | Promote removal of lead in body content | Hard-shell capsules | 2015 | 2016 |
| Cordyceps Capsules (蛹蟲草膠囊) | Improve hypotia tolerance | Hard-shell capsules | 2015 | 2016 |
| Rhodiola Capsules (紅景天膠囊) | Improve hypotia tolerance | Hard-shell capsules | 2015 | 2016 |
| Throat Drop Tablets (倍潤系列含片) | Soothe throat | Tablets | 2015 | 2016 |
| Wheat and Dietary Fiber Chewable Tablets (小麥膳食纖維嚼片) | Lower blood sugar | Tablets | 2015 | 2016 |
| Bitter Gourd Chromium Yeast Tablets (苦瓜鉻酵母片) | Lower blood sugar | Tablets | 2015 | 2016 |
| Amino Acid Drink (氨基酸口服液) | Help to maintain a healthy liver | Miniature bottled drinks | 2015 | 2016 |
| Olive Leaf Drink (橄欖葉口服液) | Antioxidant | Miniature bottled drinks | 2015 | 2016 |

BUSINESS

| Product name | Designed benefit | Form | Estimated time to receive CFDA approval | Estimated launch time |
|---|-----------------------------------|--------------------------|--|------------------------------|
| Dendrobium Nobile Drink (金釵石斛口服液) | Improve hypoxia tolerance | Miniature bottled drinks | 2015 | 2016 |
| Enzymatic Drink (酵素口服液) | Improve gastrointestinal function | Miniature bottled drinks | 2015 | 2016 |
| Fruit Vinegar (果醋) | Improve gastrointestinal function | Miniature bottled drinks | 2015 | 2016 |
| Bilberry Vision Complex Soft Capsules (越橘益視軟膠囊) | Relieve visual fatigue | Soft gelatin capsules | 2015 | 2016 |
| Cod Liver Oil Soft Capsules (鱈魚肝油軟膠囊) | Help to maintain a healthy liver | Soft gelatin capsules | 2015 | 2016 |
| Astaxanthin Soft Capsules (蝦青素軟膠囊) | Antioxidant | Soft gelatin capsules | 2015 | 2016 |
| Lycopene Soft Capsules (番茄紅素軟膠囊) | Antioxidant | Soft gelatin capsules | 2015 | 2016 |
| Acer Truncatum Oil Soft Capsules (元寶楓油軟膠囊) | Antioxidant | Soft gelatin capsules | 2015 | 2016 |
| Salina Lutein Soft Capsules (鹽藻葉黃素軟膠囊) | Relieve visual fatigue | Soft gelatin capsules | 2015 | 2016 |
| Aloe Powder (蘆薈粉) | Improve gastrointestinal function | Powder | 2015 | 2016 |
| Dual Algae Powder (雙藻粉) | Improve hypoxia tolerance | Powder | 2015 | 2016 |
| Left Carnitine Powder (左旋肉鹼沖劑) | Weight loss | Powder | 2015 | 2016 |
| Oligochitosan Powder (殼寡糖粉) | Help to maintain a healthy liver | Powder | 2015 | 2016 |
| Dietary Fiber Powder (膳食纖維沖劑) | Improve gastrointestinal function | Powder | 2015 | 2016 |
| Collagen Powder (膠原蛋白粉) | Promote skin health | Powder | 2015 | 2016 |

Cobayer Series Products

We are in the process of identifying new Australian made nutritional supplements which we intend to develop in the future, depending on market conditions. Our product candidates up to 2016 include certain dairy products and a number of Australian nutritional supplements with elements of, amongst others, oatmeal, acai berry, cranberry, MACA powder, sheep oil, goat milk and marine plants. Between June 30, 2013 and the Latest Practicable Date, we commenced sales of three honey products and two cereal products. As of the Latest Practicable Date, our third-party manufacturer in Australia has also commenced mass production of a MACA powder (瑪咖粉) product, which will be ready for sale in China after each batch of products is shipped to China and passes the testing at CIQ. All the remaining product candidates are currently product concepts.

Furthermore, we are in the process of applying for health food product approvals issued by CFDA for seven existing Cobayer series products. If and when approved by CFDA, we intend to sell these seven Cobayer series products as health food products in China, which we believe should further enhance positive consumer perception of these products. As of the Latest Practicable Date, we have submitted the Squalene Capsules (角鯊烯膠囊) to the Chinese Center for Disease Control and Prevention (中國疾病預防控制中心), and the Evening Primrose Oil Capsules (月見草油膠囊) and Wheat Germ Capsules (小麥胚芽膠囊) to the Analysis and Testing Center of the Nanjing Medical University (南京醫科大學衛生分析檢測中心), both of which are CFDA-authorized testing institutions, to conduct testing on the products' effectiveness and safety. We expect to obtain CFDA approval for Squalene Capsules by 2014, and for Evening Primrose Oil Capsules and Wheat Germ Capsules by 2015. Similar to other Zhongsheng series products that we apply for health food product approvals, the testing result of imported products shall be submitted to CFDA for review and further testing may be required by CFDA until CFDA is satisfied and issues an imported health food product approval. Before each batch of our Cobayer series products is officially launched and sold in China, it is also required to pass testing at CIQ under the applicable PRC laws and regulations and meet our internal quality control standards. For our quality control of Cobayer series products, see "Business – Production, Quality Control and Supplies – Production of Cobayer Series Products – Control of product safety and quality".

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The following table sets forth the name, designed benefit, form, estimated time to receive CFDA approval and estimated launch time of our product candidates for Cobayer series products for which we intend to obtain imported health food product approval from CFDA.

| <u>Product name</u> | <u>Designed benefit</u> | <u>Form</u> | <u>Estimated time to receive CFDA approval</u> | <u>Estimated launch time</u> |
|--|----------------------------------|--------------------------|--|--------------------------------------|
| Squalene Capsules (角鯊烯膠囊) | Enhance immunity | Soft gelatin capsules | 2014 | 2015 |
| Evening Primrose Oil Capsules (月見草油膠囊) | Lower blood sugar | Soft gelatin capsules | 2015 | 2016 |
| Wheat Germ Capsules (小麥胚芽膠囊) | Relieve physical fatigue | Soft gelatin capsules | 2015 | 2016 |
| Blueberry Complex Capsules (藍莓複合膠囊) | Relieve visual fatigue | Hard-shell capsules | 2015 | 2016 |
| Glucosamine Composite Tablets (氨基葡萄糖複合片) | Enhance immunity | Tablets | 2015 | 2016 |
| Olive Leaf Extract (橄欖葉提取液) | Antioxidant | Miniature bottled drinks | 2016 | 2017 |
| Milk Thistle Complex Capsules (奶薊複合膠囊) | Help to maintain a healthy liver | Hard-shell capsules | 2016 | 2017 |

The following table sets forth the type of products, form and estimated launch time of our regular food product candidates for Cobayer series products.

| <u>Type of products</u> | <u>Form</u> | <u>Estimated launch time</u> |
|-------------------------|---------------------|------------------------------|
| Acai berry | Bottled drinks | 2014 |
| Cranberry | Bottled drinks | 2014 |
| Grapeseed | Bottled drinks | 2014 |
| MACA powder | Hard-shell capsules | 2014 |
| Goat milk | Tablets | 2014 |
| Colostrum | Tablets | 2014 |
| Marine plants | Powder | 2014 |

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APPROVALS AND PERMITS

We operate in the health food products industry which is heavily regulated by the PRC government. We have implemented a series of measures to enable us to comply with applicable laws, regulations and procedures, and we intend to conduct our operations in accordance with any future laws, regulations and procedures issued by the PRC government to regulate the health food products industry that are applicable to us. Currently we have obtained CFDA approvals for most of our Zhongsheng series products, either through our own applications to CFDA, supported by research and development conducted by our in-house team, or through acquisitions from third parties.

The following table sets forth our major permits in respect of manufacturing facilities, including their respective expiry dates. We have successfully renewed each of our health food manufacturing permits and food circulation permits on a continuous basis historically, in each time prior to the expiry date of such permit.

| <u>Permit</u> | <u>Grant date</u> | <u>Expiry date</u> |
|---|-------------------|--------------------|
| • Health food manufacturing permit | | |
| – Our Company | January 15, 2013 | June 30, 2014 |
| – Nanjing Zhongsheng | January 15, 2013 | June 30, 2014 |
| • Food circulation permit | | |
| – Our Company | June 20, 2011 | June 19, 2014 |
| – Nanjing Zhongsheng | November 4, 2010 | November 3, 2016 |
| • Hazard Analysis and the Critical Control Point (HACCP) certificate | October 26, 2012 | October 25, 2015 |
| • ISO 9001:2008 certificate | October 24, 2012 | October 23, 2015 |
| • ISO 22000:2005 certificate | October 26, 2012 | October 25, 2015 |

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The following table sets forth selective information of our CFDA approvals for health food products.

| CFDA approval | Grant date | Expiry date | Number of renewals obtained since the original grant date |
|--|----------------------------------|----------------------------------|---|
| <i>Products sold for a period within the Track Record Period⁽¹⁾</i> | | | |
| 1. Zhongsheng Coenzyme Q ₁₀ Tablets (中生牌輔酶Q ₁₀ 片) | November 14, 2007 | August 18, 2018 | 1 |
| 2. Zhongsheng Coenzyme Q ₁₀ Capsules (中生牌輔酶Q ₁₀ 膠囊) | November 14, 2007 | April 11, 2018 | 1 |
| 3. Zhongsheng Linolenic Acid Soft Capsules (中生牌亞麻酸軟膠囊) | January 28, 2011 | January 27, 2016 | 0 |
| 4. Zhongsheng Kanger Capsules (中生牌康爾膠囊) ⁽²⁾ | August 1, 2006 ⁽³⁾ | July 15, 2018 | 1 |
| 5. Keda Green Capsules (科大牌綠芝膠囊) | January 24, 2005 | N/A ⁽⁴⁾ | – |
| 6. Keda Propolis Yangshengbao Capsules (科大牌蜂膠養生寶膠囊) | November 14, 2001 | N/A ⁽⁴⁾ | – |
| 7. Guishi Weisi Capsules (桂氏牌維思膠囊) | January 22, 2002 ⁽⁵⁾ | N/A ⁽⁴⁾ | – |
| 8. Keda Propolis Soft Capsules (科大牌蜂膠軟膠囊) | April 18, 2008 | April 17, 2013 ⁽⁶⁾⁽⁷⁾ | 0 |
| 9. Zhongsheng Colostrum Milk Chewable Tablets (中生牌牛初乳咀嚼片) ⁽⁸⁾ | June 23, 2006 ⁽³⁾ | September 22, 2018 | 1 |
| 10. Zhongsheng Goat Milk Calcium Tablets (中生牌羊乳鈣片) ⁽⁸⁾ | January 13, 1998 ⁽³⁾ | N/A ⁽⁴⁾ | – |
| 11. Zhongsheng Propolis Soft Capsules (中生牌蜂膠軟膠囊) ⁽⁹⁾ | August 29, 2006 | April 11, 2018 | 1 |
| 12. Keda Jinshengyuan Tea (科大牌金聖源茶) ⁽⁸⁾ | March 27, 2000 ⁽³⁾ | N/A ⁽⁴⁾ | – |
| 13. Zhongsheng Calcium and Magnesium/Vitamin D Tablets (中生牌鈣鎂/維D片) | September 21, 2007 | September 2, 2018 | 1 |
| 14. Keda Propolis and Ganoderma Capsules (科大牌蜂芝膠囊) ⁽⁸⁾ | June 24, 2004 | N/A ⁽⁴⁾ | – |
| 15. Zhongsheng Tianbao Ankang Powder (中生牌天寶安康沖劑) ⁽⁸⁾ | December 10, 2001 ⁽³⁾ | N/A ⁽⁴⁾ | – |
| 16. Dongyuan Gaiyanchun Tablets (東元牌蓋延春片) ⁽⁸⁾ | March 28, 2006 | September 2, 2018 | 1 |
| 17. Zhongsheng Antler and Ginseng Capsules (中生牌鹿茸洋參膠囊) ⁽⁸⁾ | July 7, 1999 ⁽³⁾ | N/A ⁽⁴⁾ | – |

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| CFDA approval | Grant date | Expiry date | Number of renewals obtained since the original grant date |
|--|---------------------------------|----------------------------------|---|
| <i>Products not sold for any period within the Track Record Period and up to the Latest Practicable Period</i> | | | |
| 1. Keda Sleeping Kangbao Capsules (科大牌睡眠康寶膠囊) | April 15, 2004 | N/A ⁽⁴⁾ | – |
| 2. Zhongsheng Deer Blood Capsules (中生牌鹿血膠囊) | October 31, 2002 ⁽³⁾ | N/A ⁽⁴⁾ | – |
| 3. Zhongsheng Royal Jelly Lyophilized Powder (中生牌蜂王漿凍乾粉) | January 16, 2004 | N/A ⁽⁴⁾ | – |
| 4. Zhongsheng Royal Jelly Lyophilized Powder Capsules (中生牌蜂王漿凍乾粉膠囊) | January 16, 2004 | N/A ⁽⁴⁾ | – |
| 5. Zhongsheng Fengzhijiao Capsules (中生牌蜂之驕膠囊) | September 20, 2002 | N/A ⁽⁴⁾ | – |
| <i>Products in the pipeline for future development</i> | | | |
| 1. Zhongsheng Vitamin Chewable Tablets For Children (中生牌維生素咀嚼片(兒童用)) | July 25, 2007 | July 24, 2012 ⁽⁶⁾⁽¹⁰⁾ | 0 |
| 2. Zhongsheng Multi Vitamin and Mineral Tablets For Women (中生牌多種維生素礦物質片(女士用)) | July 25, 2007 | September 4, 2018 | 1 |
| 3. Zhongsheng Multi Vitamin and Mineral Tablets for Pregnant Women (中生牌多種維生素礦物質片(孕婦用)) | July 25, 2007 | September 22, 2018 | 1 |
| 4. Zhongsheng Multi Vitamin and Mineral Tablets for Men (中生牌多種維生素礦物質片(男士用)) | July 25, 2007 | September 4, 2018 | 1 |
| 5. Zhongsheng Vitamin D Chewable Tablets For Children (中生牌鈣維D咀嚼片(兒童型)) | August 29, 2007 | August 8, 2018 | 1 |

Notes:

- (1) We sold the Natural α -Linolenic Acid Soft Capsules (天然 α -亞麻酸膠丸) under our Zhongsheng brand during the Track Record Period, which was sourced from and authorized by an Independent Third Party. We ceased sales of this product in the first quarter of 2012.
- (2) The name of this product was formerly known as Zhongsheng Grapeseed Capsules (中生牌葡苳膠囊).
- (3) The grant date for the product was the date on which the CFDA approval was initially granted. Such approval was transferred to us in August 2010 from Nanjing Zhongsheng Pharmaceutical at nil cost.

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- (4) CFDA approval certificates granted prior to July 1, 2005 have no expiry date. CFDA will commence the replacement work for all certificates granted prior to July 1, 2005 after the promulgation of the Regulation for the Supervision and Administration of Health Food (保健食品監督管理條例). The date of the promulgation of this regulation is not yet determined, and CFDA will allow reasonably sufficient time for the relevant enterprises to replace their respective certificates.
- (5) The grant date for the product was the date on which CFDA approval was initially granted. Such approval was transferred to us in June 2005 by Jiangsu Xiansheng Medical Company Limited* (江蘇先聲藥業有限公司), an Independent Third Party.
- (6) Our PRC legal advisor, Yongheng Partners, is of the opinion that there is no legal impediment to obtain the renewed CFDA approval, and our existing CFDA approval remains effective once the renewal application is duly filed with CFDA and until a final decision on the renewal application is made by CFDA. For the relevant regulations with respect to the renewal of CFDA approval, see “Regulatory Overview – PRC Laws and Regulations – Laws and Regulations Relating to Production and Sales of Health Food Products – Approval and registration for health food product”. Based on our past experience, it typically takes one to two years to receive the renewed CFDA approval after we file the application. We believe that such duration of the renewal process is in line with industry norm.
- (7) Renewal application of this product has been submitted before expiry of the CFDA approval and a notice of acceptance was issued by Jiangsu provincial agency of CFDA in February 2013. We expect to obtain the renewed application in the first quarter of 2014. Turnover derived from this product was approximately RMB246,000, RMB247,000, RMB14,000 and RMB9,000 for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.
- (8) We did not sell this product as of June 30, 2013.
- (9) The name of this product was formerly known as Dongyuan Propolis Soft Capsules (東元牌蜂膠軟膠囊).
- (10) Renewal application of this product has been submitted before expiry of the CFDA approval and a notice of acceptance was issued by Jiangsu provincial agency of CFDA in April 2012. We expect to obtain the renewed application in the first quarter of 2014. Turnover derived from this product during the Track Record Period was nil.

RETAIL STORES AND SALES

We sell substantially all of our products through self-managed retail stores and operate an online store to sell our Cobayer series products. We currently also have one distributor for sales of our nutritional supplements in Shanghai. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our self-managed retail stores accounted for 93.6%, 95.8%, 97.1% and 96.2% of our total turnover, respectively. Our retail stores are either operated under our Zhongsheng brand name, in which our Zhongsheng series products and a selected portion of our Cobayer series products are sold, or operated under our Cobayer brand name, in which only our Cobayer series products are sold. Our Zhongsheng retail stores consist of specialty stores, regional sales offices and department store concession counters, and all of our Cobayer retail stores are located in premium shopping malls. Most of the customers of our retail stores are individual consumers and a small portion of our products are sold to corporate customers. For details of our customers, see “– Marketing and Customer Service – Our Customers” in this prospectus.

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The following table sets forth, for the periods indicated, a breakdown of our turnover by sales channel.

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--------------------------------------|-------------------------|-------------------|----------------|-------------------|----------------|-------------------|---------------------------|-------------------|----------------|-------------------|
| | 2010 | | 2011 | | 2012 | | 2012 | | 2013 | |
| | <i>RMB'000</i> | <i>% of total</i> | <i>RMB'000</i> | <i>% of total</i> | <i>RMB'000</i> | <i>% of total</i> | <i>RMB'000</i> | <i>% of total</i> | <i>RMB'000</i> | <i>% of total</i> |
| Retail stores | | | | | | | | | | |
| Zhongsheng retail stores . . . | 62,589 | 93.6 | 98,898 | 95.8 | 146,055 | 97.1 | 63,331 | 97.7 | 82,722 | 96.2 |
| Cobayer retail stores | — | — | — | — | 1,598 | 1.1 | 12 | — | 2,878 | 3.4 |
| Subtotal | 62,589 | 93.6 | 98,898 | 95.8 | 147,653 | 98.2 | 63,343 | 97.7 | 85,600 | 99.6 |
| Distributorship | 4,261 | 6.4 | 4,346 | 4.2 | 2,719 | 1.8 | 1,476 | 2.3 | 365 | 0.4 |
| Total⁽¹⁾ | <u>66,850</u> | <u>100.0</u> | <u>103,244</u> | <u>100.0</u> | <u>150,372</u> | <u>100.0</u> | <u>64,819</u> | <u>100.0</u> | <u>85,965</u> | <u>100.0</u> |

Note:

- (1) Our online store commenced sales in May 2013 and has not generated meaningful turnover for the six months ended June 30, 2013.

The following table sets forth, for the periods indicated, our average monthly turnover per retail store.

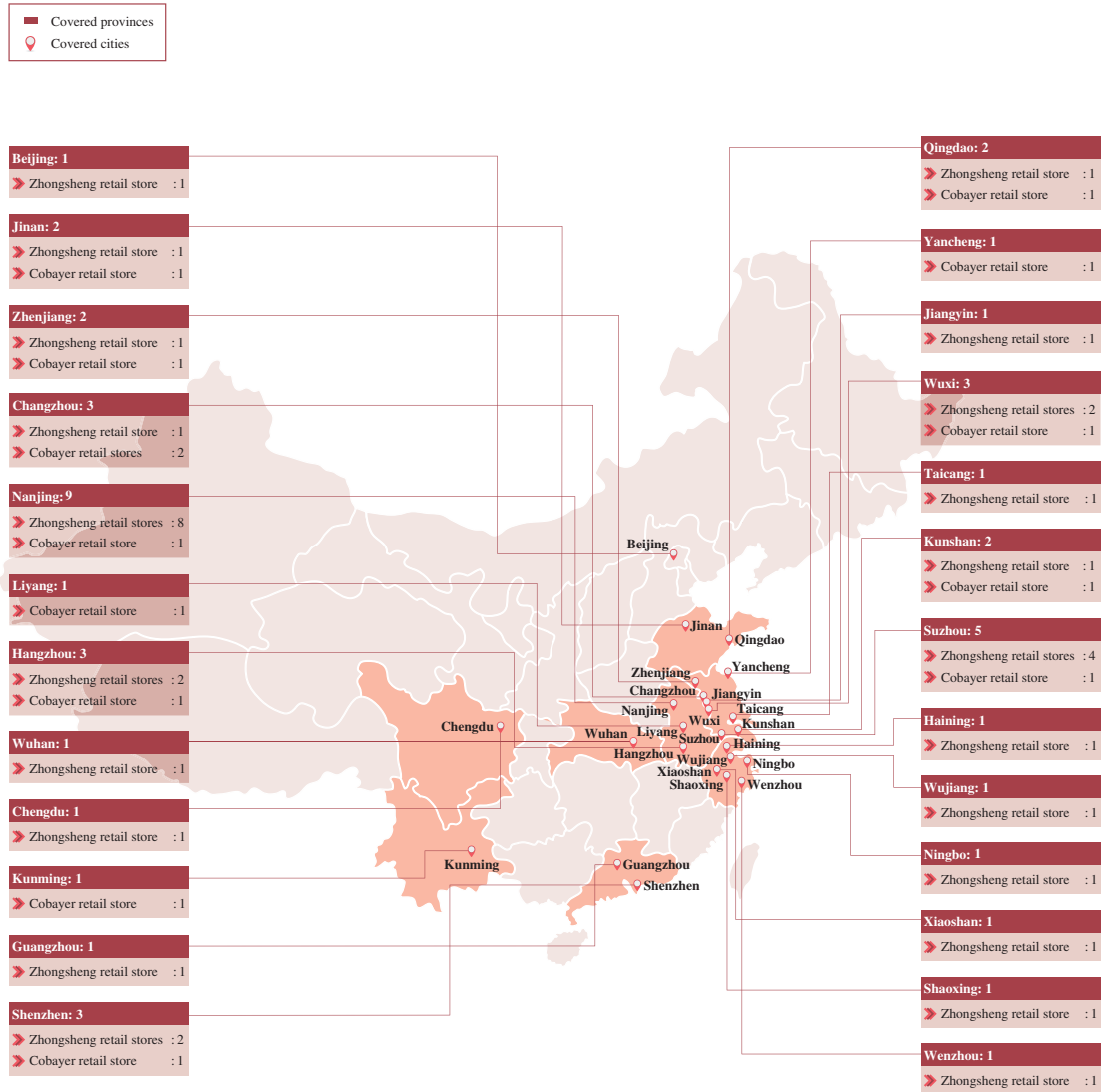
| | Year ended December 31, | | | Six months ended |
|---|-------------------------|----------------|----------------|----------------------|
| | 2010 | 2011 | 2012 | June 30, |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>2013</i> |
| Zhongsheng retail stores ⁽¹⁾ | 355.0 | 402.9 | 465.0 | 395.6 ⁽²⁾ |
| Cobayer retail stores ⁽¹⁾ | — | — | 133.1 | 60.0 ⁽³⁾ |

Notes:

- (1) Average monthly turnover per store represents the total turnover generated by a given sales channel over a given period divided by the aggregate months of all retail stores in operation during such given period. The aggregate months of all retail stores in operation during a given period represents the sum of the actual operating months of each retail stores in a given period.
- (2) The decrease in our average monthly turnover of Zhongsheng retail stores in the first half of 2013 was primarily due to the seasonality of our business as our sales in the fourth quarter are typically higher than any other quarter in a year.
- (3) The decrease in our average monthly turnover of Cobayer retail stores in the first half of 2013 was primarily due to our opening of nine new Cobayer retail stores in the first half of 2013, most of which were in the ramp-up phase of their business during the same period, and to a lesser extent, due to the seasonality of our business as our sales in the fourth quarter are typically higher than any other quarter in a year.

Retail Stores

As of June 30, 2013, we had 49 retail stores in 25 cities, covering eight provinces and centrally administered municipalities in China, consisting of 35 Zhongsheng retail stores and 14 Cobayer retail stores. All of these retail stores are managed by us. The following map shows our market footprint in China as of June 30, 2013.



Zhongsheng retail stores



As of June 30, 2013, we had 35 retail stores opened under our Zhongsheng brand in 22 cities, covering seven provinces and centrally administered municipalities. The following table sets forth the movement of the number of our Zhongsheng retail stores during the Track Record Period.

| Period | Number of retail stores as of the beginning of the year/period | Number of retail stores as of the end of the year/period |
|----------------------------------|---|---|
| 2010 | 13 | 15 |
| 2011 | 15 | 24 |
| 2012 | 24 | 34 |
| Six months ended June 30, 2013 . | 34 | 35 |

The following table sets forth the geographic coverage of our Zhongsheng retail stores in China by regions as of dates indicated.

| Region | As of December 31, | | | As of June 30, |
|-----------------|---------------------------|-------------|-------------|-----------------------|
| | 2010 | 2011 | 2012 | 2013 |
| Jiangsu | 9 | 15 | 19 | 20 |
| Zhejiang | 2 | 2 | 7 | 7 |
| Guangdong | 2 | 2 | 3 | 3 |
| Beijing | 1 | 1 | 1 | 1 |
| Hubei | 0 | 1 | 1 | 1 |
| Sichuan | 0 | 1 | 1 | 1 |
| Shandong | 1 | 2 | 2 | 2 |

BUSINESS

We select locations of our Zhongsheng retail stores based on analysis of the local market through market research conducted by our in-house marketing team and on-site visits. We consider a number of factors when evaluating potential locations, including without limitation, population, proximity to our existing markets, purchasing power and consumption level of the local residents, competitive landscape of local nutritional supplements markets and maturity of the regional transportation network. Since May 1999 when we established our first Zhongsheng retail store in Nanjing, Jiangsu province, we have successfully expanded our Zhongsheng retail stores to other major cities in Jiangsu and Zhejiang provinces, which we believe have a high concentration of medium-to high-income individuals with the ability and willingness to afford mid- to high-end nutritional supplements, then to first-tier cities including Shenzhen, Guangzhou and Beijing, and further to Shandong, Hubei and Sichuan provinces, which have large populations and significant growth potential in terms of consumer purchasing power. After we select a city, we generally prefer choosing central business districts, well-established residential areas or local transportation centers of the city to open new retail stores.

As of June 30, 2013, our Zhongsheng retail stores consisted of 20 specialty stores, 13 regional sales offices and two concession counters in department stores.

- *Specialty stores:* Our specialty stores are individual street-front stores ranging from 24 square meters to 123 square meters. They typically have greeting area, display area, office area and storage space, allowing us flexibility to carry out promotional activities and target potential new customers in the neighborhood. Sales from our specialty stores accounted for 62.0%, 58.2%, 40.2% and 37.0% of our total turnover for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. The percentage of sales from our specialty stores over our total turnover decreased over the Track Record Period, primarily because certain customers originally making purchases in our specialty stores, once they became our key customers, were shifted to and retained by our regional sales offices, which are primarily responsible for the management of our key customers. As such, the percentage of sales from our regional sales offices over our total turnover increased during the Track Record Period.
- *Regional sales offices:* Our regional sales offices are relatively larger, ranging from 80 square meters to 1,087 square meters. These regional sales offices are typically located in commercial buildings in or near central business districts with display areas, warehouse space and office space. Our regional sales offices serve not only as a platform for sales to our target customers, but also as an administrative center to manage the operations of retail stores in the respective regions, including customer services to key customers and inventory storage to support the needs of retail stores in such region. Sales from our regional sales offices accounted for 30.0%, 37.0%, 56.8% and 58.5% of our total turnover for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

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- *Department store concession counters:* As of June 30, 2013, we had two department store concession counters of 57 square meters and 15 square meters, respectively, in Nanjing and Suzhou, Jiangsu province, which were opened in September 2006 and December 2012, respectively. These department store concession counters are managed by our own employees. We collect payments directly from our customers without having any payment settlement arrangements with the respective department stores and pay fixed quarterly concession fees to the department stores. Sales from these department store concession counters accounted for 0.6% of our total turnover for the six months ended June 30, 2013. Our department store concession counter in Suzhou, Jiangsu province was closed in September 2013. For details, see “Summary – Recent Developments”.

We sell the full line of our Zhongsheng series products as well as a selected number of Australian nutritional supplements in each of our Zhongsheng retail stores, so as to leverage the customer base of our Zhongsheng retail stores. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, turnover derived from our sales of Cobayer series products in Zhongsheng retail stores amounted to RMB16.9 million, RMB40.8 million, RMB51.0 million and RMB42.6 million, respectively, accounting for 25.3%, 39.6%, 33.9% and 49.6% of our total turnover for the same periods, respectively. With the rapid expansion of our Cobayer retail stores, we expect to gradually reduce the sales of Cobayer series products in our Zhongsheng retail stores and sell all such products in our Cobayer retail stores.

As of June 30, 2013, we leased 32 retail premises with a total gross floor area of 3,214.8 square meters, and owned three retail premises with a total of 1,551.0 square meters, respectively, for our Zhongsheng retail stores.

Cobayer retail stores



Since we opened our first Cobayer retail store in June 2012 in Nanjing, Jiangsu province, we had a total of 14 Cobayer retail stores with a total gross floor area of 528.2 square meters as of June 30, 2013 in 13 cities, covering Jiangsu, Zhejiang, Guangdong, Shandong and Yunnan provinces. The following table sets forth the geographic coverage of our Cobayer retail stores in China by region as of the dates indicated.

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| <u>Region</u> | <u>As of June 30, 2012</u> | <u>As of December 31, 2012</u> | <u>As of June 30, 2013</u> |
|---------------------|--------------------------------|------------------------------------|--------------------------------|
| Jiangsu | 1 | 5 | 9 |
| Zhejiang | 0 | 0 | 1 |
| Guangdong | 0 | 0 | 1 |
| Shandong | 0 | 0 | 2 |
| Yunnan | 0 | 0 | 1 |

Unlike our Zhongsheng retail stores, we choose to locate all of our Cobayer retail stores in large, premium shopping malls in the relevant cities in order to target relatively young and affluent shoppers and to match and strengthen the brand image of our Cobayer retail stores as a provider of high-end imported nutritional supplements. Our in-house marketing team typically conducts feasibility study in respect of the selection of shopping malls, considering a number of factors including the annual turnover of target shopping malls, their affiliated transportation infrastructure and brand awareness of existing tenants. The shopping malls we have selected usually generate a turnover of over RMB1.0 billion per year, have luxury international brands as tenants or represent the trendy local shopping center. For example, our first Cobayer retail store in Nanjing, Jiangsu province is situated in Deji Plaza (德基廣場), one of the most expensive and most popular shopping malls in Nanjing, Jiangsu province, carrying on a wide range of the most high-end luxury fashion brands in the world. Our Cobayer retail stores range from 16 square meters to 81 square meters in size with a unified decoration style for easy identification by our customers.

We enter into concessionaire agreements with shopping malls, which generally include the following principal terms:

- *Deposit:* In some cases, we are required to pay upfront deposits to the shopping malls. The amount ranges from RMB5,000 to RMB100,000. The deposit is refundable after a period of time upon termination of the agreement provided that there is no event resulting in deduction of such deposit pursuant to the relevant agreement.
- *Concession fee:* The concession fees are calculated in three ways on a case-by-case basis: (i) a fixed monthly fee ranging from RMB8,578 to RMB45,435; (ii) a percentage of our monthly turnover ranging from 18% to 25%; or (iii) the higher of a base monthly fee ranging from RMB8,000 to RMB54,000 and a percentage of our monthly turnover ranging from 16% to 27%. For the year ended December 31, 2012 and the six months ended June 30, 2013, we paid an aggregate of concession fees (excluding administrative fees and other miscellaneous fees) of RMB677,000 and RMB824,000, respectively.
- *Minimum turnover:* Some of the shopping malls require our Cobayer retail stores to meet certain pre-agreed minimum monthly turnover targets. Our failure to meet such requirements may result in re-negotiation of the location available to us under the concessionaire agreements or termination of the concessionaire agreements.
- *Renovation and maintenance:* We are typically required to obtain approval from the shopping malls for the design and layout of our retail stores before we commence the renovation. We are responsible for the renovation costs of our retail stores.

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- *Product quality:* We are typically required to ensure the quality of our products. We are also typically required to ensure that our products do not infringe the intellectual property rights of others. In certain instances, the shopping malls are entitled to examine the quality of our products.
- *Sharing of promotion costs:* The shopping malls are generally responsible for the promotional advertisement and decoration of the shopping malls. We are typically required to actively participate in promotional events that are initiated by the shopping malls. The sharing percentage of promotion costs is generally decided through negotiation between the parties. The promotion cost generally ranges from RMB3,000 to RMB10,000. We are generally required to obtain written approval from the shopping malls before we can conduct our own promotional events.
- *Arrangement of payment settlement:* The shopping malls are typically required to first collect the payment from and issue invoices to retail customers. The shopping malls will deduct our concession fees from the payments collected from our customers and arrange for the payment of the remaining balance to us within a pre-agreed payment period, which typically ranges from 15 to 60 days.

The following table sets forth certain details of our concessionaire agreements in respect of concession fee arrangements as of June 30, 2013.

| Details of concessionaire agreements | | | |
|--|---------------|---------------------------------|------------------------|
| | Number | Area (square meters) | Expiration year |
| Concession with fixed monthly fee | 3 | 126.6 | 2015 to 2016 |
| Concession with sharing of a certain percentage of monthly turnover | 4 | 121.2 | 2013 to 2014 |
| Concession based on the higher of basic monthly fee and a certain percentage of monthly turnover | 7 | 280.4 | 2013 to 2016 |

Distributors

During the Track Record Period, we sold a small portion of our products through distributors who then distribute our products to end consumers. Our distributors consisted of corporate entities that were Independent Third Parties, and individuals that were, and currently remain to be, our employees. During the Track Record Period, all of our business with distributors were conducted on an arm's length basis and none of our distributors terminated their distributorships with us due to financial disputes with us. Turnover generated from our sales to distributors was RMB4.3 million, RMB4.3 million, RMB2.7 million and RMB0.4 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, accounting for 6.4%, 4.2%, 1.8% and 0.4% of our total turnover for the same periods, respectively. As of June 30, 2013, we only had one distributor in Shanghai.

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Our number of distributors significantly decreased over the Track Record Period from 18 at the beginning of 2010 to one as of June 30, 2013, primarily because we terminated our arrangement with former individual distributors, accounting for 15 out of our 18 distributors at the beginning of 2010, and have been focused on establishing and expanding our self-managed retail store network. For details of our former individual distributors, see “– Former individual distributors”. The following table sets forth the movement in the total number of our distributors during the Track Record Period.

| Number of distributors | Year ended December 31, | | | Six months ended June 30, |
|-------------------------------|--------------------------------|-------------|-------------|--------------------------------------|
| | 2010 | 2011 | 2012 | 2013 |
| Beginning of period | 18 | 15 | 8 | 1 |
| Additions | 3 | 0 | 0 | 0 |
| Terminations | (6) | (7) | (7) | 0 |
| End of period | <u>15</u> | <u>8</u> | <u>1</u> | <u>1</u> |

Distributor in Shanghai

We currently have one distributor, Shanghai J&A’s Trading Co., Ltd. (上海健來行貿易有限公司) (“**J&A’s Trading**”), for the sales of our full-line Zhongsheng series products and Cobayer series products exclusively in Shanghai, with whom we have entered into distribution arrangements since 2003. During the Track Record Period, J&A’s Trading was authorized to sell our products in Shanghai only and was not allowed to sell products of any third parties. To avoid any potential competition and cannibalization, we have a uniform retail pricing policy which requires that the retail prices of our products be the same across all our sales channels. J&A’s Trading is required to comply with our pricing policy, and subject to its compliance with the minimum retail prices set by us, J&A Trading is allowed to conduct its own promotional activities with discounts offered to its customers. We also conduct regular on-site inspection to ensure our distributor’s adherence to such policy. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, sales to J&A’s Trading accounted for 3.1%, 2.0%, 1.3% and 0.4% of our total turnover, respectively.

Our relationship with J&A’s Trading is a seller and buyer relationship. The distribution agreement sets out the prices at which we sell our products to J&A’s Trading and requires J&A’s Trading to purchase a minimum amount of our products per month. According to the distribution agreement, sales return is generally not allowed except for defective products. During the Track Record Period, we had no sales returns from J&A’s Trading. Under the distribution agreement, J&A’s Trading is required to place a deposit of up to RMB5,000 with us which is refundable if it has not sold products outside Shanghai during the term of the distribution agreement. Under the distribution agreement, J&A’s Trading is also allowed to appoint qualified sub-distributors within Shanghai. During the Track Record Period, no sub-distributor was appointed by J&A’s Trading.

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Under the distribution agreement, our products are delivered to J&A's Trading on a delivery-upon-payment basis. In practice, given the sound relationship between J&A's Trading and us over the past years, we gave J&A's Trading a credit period of 30 days during the Track Record Period. As title to our products and legal risks of our products sold to J&A's Trading are passed onto it when the goods are delivered to, and accepted by, it, we recognize the sales as our turnover when the products have been delivered to and accepted by J&A's Trading. Pursuant to the terms of our distribution agreement, we deliver our products to J&A's Trading at our own cost.

Our distribution agreement with J&A's Trading is renewable subject to mutual agreement on an annual basis. Our distribution agreement is subject to termination upon certain circumstances, including (i) underperformance of the distributor below a certain pre-agreed sales target; or (ii) non-compliance by the distributor with the terms of the distribution agreement such as violation of our pricing policy and sales of products outside Shanghai.

Former individual distributors

As part of our efforts on rapidly growing our sales network and promoting our sales in certain new markets from April 2004 to May 2012, Mr. Gui, one of our Controlling Shareholders, provided financial assistances to five of our then employees to set up 18 individually-owned small entities ("**former individual distributors**") on behalf of Mr. Gui to carry out test sales of our Zhongsheng series products and Cobayer series products in certain target markets and gather information about the local markets. The financial assistance provided by Mr. Gui ranged from RMB20,000 to RMB50,000 for each former individual distributor. These employees did not terminate their employment with us when they were concurrently distributing our products under this distributorship model, and remained to be our employees as of the Latest Practicable Date. Some of them are currently members of our senior management holding interest in our Company. As envisioned by Mr. Gui, this model could help us assess the purchasing power and consumption level of a particular target market with minimum upfront capital expenditure and operational risk. With the help of the former individual distributors, we entered new markets in 12 cities and set up 15 retail stores in these new markets. Turnover generated from our sales to the former individual distributors was RMB2.0 million, RMB2.3 million and RMB0.7 million in 2010, 2011 and 2012, respectively. This distributorship model was adopted on a one-off basis and was terminated in October 2012. We did not intend to make any similar arrangement with our employees to expand our business in the future. As of the Latest Practicable Date, the Directors confirm that none of our employees had its own business to market or sell our products.

We typically entered into standardized one-year distribution agreements with the former individual distributors, the terms of which are substantially the same as those in our distribution agreement with our distributor in Shanghai. These distribution agreements designate exclusive sales area for each former individual distributor and provide that if the former individual distributors are not able to satisfy a minimum purchase amount on a quarterly basis, we are entitled to appoint one or more distributors in the same sales region or terminate the distribution relationship with such former individual distributors. We are also entitled to

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terminate the distribution agreements if the former individual distributors sell products directly or indirectly into non-designated sales area. In addition, pursuant to the distribution agreements, the former individual distributors shall place at least one order with us in a month and we deliver products to the former individual distributors on a delivery-upon-payment basis. In practice, we typically gave our former individual distributors a credit period of 30 days. The former individual distributors shall comply with our retail sales policy and may only sell products within a price range approved by us. Under the distribution agreements, the former individual distributors are also allowed to appoint qualified sub-distributors within their respective designated sales areas. During the Track Record Period, no sub-distributor was appointed by any former individual distributor.

Under this distributorship model, the relationship between the former individual distributors and us is a seller and buyer relationship. As title to our products and legal risks of our products are passed on to our former individual distributors when the goods are delivered to, and accepted by, the former individual distributors, we recognize the sales as turnover when our products have been delivered and sold to the former individual distributors. These former individual distributors were not allowed to return products to us under our distribution agreements and we did not have any products returned by these former individual distributors during the Track Record Period.

Online Store

We have cooperated with the e-commerce website <http://tmall.taobao.com> (天貓商城) to open our first online store in May 2013. We sell our Cobayer series products in this online store, so as to capture market share of online sales of the relevant products, which we believe represents one of the fastest growing channels of sales in China.

RETAIL MANAGEMENT AND OPERATIONS

Our Centralized Management System

We have a centralized three-tier management system consisting of our headquarters, our sales regions and our self-managed retail stores to oversee and manage our operations across all brands.

Headquarters

Our headquarters in Nanjing, Jiangsu province is primarily responsible for strategic business development, nationwide marketing and brand management, financial management, senior personnel recruitment and training, internal control, setting performance and budget targets and supervising our overall performance.

Our headquarters carefully monitors the performance of each sales region and self-managed retail stores, and sets an overall sales target for each region every year. Our regional sales managers report directly to our headquarters by means of phone calls on a weekly basis so that our headquarters is well updated on operations in each sales region and decisions can

be made in a timely manner. In addition, each of our regional sales managers is required to attend a monthly meeting at our headquarters in order to review the overall performance of last month, identify any management or operational issues within the sales region or any particular retail store, exchange information about market trend and customer preference and determine sales target for the next month.

Sales region

We divide our retail operations into seven sales regions in the PRC, namely Nanjing region, Zhejiang region, Suzhou region, Wuxi region, Shenzhen and Guangzhou region, northern China region and central China region. Each of our regional sales teams is responsible for coordinating and developing marketing and promotional activities tailored to their region. Each sales region has a regional sales manager and our regional sales managers are principally responsible for the management and supervision of sales performance, staff administration and product management of the retail stores, as well as the development of new retail stores, within their regions. They also continuously collaborate with our marketing and customer service teams by providing updated sales data and feedback on customer preferences.

Retail stores

Our retail stores are under the management and supervision of their respective regional sales teams, which focus primarily on product sales and customer service. The retail store managers are responsible for the sales targets, store image, financial performance, inventory management and staff management of their retail stores, and they report to the regional sales managers.

Design and Appearance of Our Retail Stores

We believe that each of our product lines has a unique and characteristic cultural and market position, and our retail stores are characterized by a distinctive store identity. We aim to create a comfortable shopping environment for our customers by adopting a set of visual standards of different styles and using design elements and facilities with a modern feel. The design, space planning and layout of our Zhongsheng retail stores and Cobayer retail stores follow respective visual system guidelines set by our headquarters. Under the guidelines, each Zhongsheng retail store and each Cobayer retail store must present a consistent visual image, particularly through the design and color of the shop fronts, merchandise display, price tags, cashier counters and staff uniforms. The number of employees per retail store depends on the size, location and type of the retail store.

Our Retail Stores Personnel

Our retail stores personnel are all employees of our Group. They are responsible for all facets of their retail stores' operation, including achieving the retail store's sales target, providing a high standard of customer service, maintaining the retail store's image, and transmitting customer feedback data and market information to our sales management and

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customer service teams. We place great emphasis on the training and development of our retail stores personnel. We provide internal and external training programs to our retail stores personnel in areas such as information on our products, health and nutrition knowledge, sales skills and customer service. All new employees are required to attend training courses and evaluations to ensure they are equipped with the necessary skills to perform their duties. Our retail stores personnel include a number of nutritionists and we continuously encourage our sales representatives to obtain national public health nutritionist certificates such that they are able to provide professional advice to existing and potential customers.

Pricing

We adopt a uniform pricing policy which is applicable to products in each of our retail stores. From time to time, we launch sales and promotional discounts in respect of certain product categories for short periods of time, mostly during major holidays in China. For details of our promotional activities, see “– Marketing and Customer Service – Marketing and Promotional Activities” in this prospectus. We determine the price of our products primarily based on marketing positioning of our brands, the characteristics and added value of our products, the expected profit margin of our individual product, the degree of saturation of the current market, anticipated market trends and expected changes of demand from customers, the costs of our products, as well as retail price of the products of our competitors.

The price range of our products is typically determined by our headquarters and our headquarters formulates a uniform pricing guide across all of our sales regions. All of our sales platforms are required to follow our nationwide retail pricing policy. We believe that the prices of our products, and in particular our Cobayer series products, are generally higher than those of some competitors as we generally position our products as high-end nutritional supplements associated with comprehensive health solutions and superb customer services which allow us to charge a price premium for our products.

Cash Management

We have established a system to maintain strict control over our cash inflow and outflow. Under this system, all cash inflow arising from the operations of each retail store (except our shopping mall stores in respect of Cobayer series products) is deposited into our bank account on a daily basis with a sales report furnished to our headquarters on the same date. Once our headquarters receives the sales report, our employees in the finance department will check our bank account to confirm our receipt of such sales proceeds. In addition, all cash outflow must be cleared by our headquarters, which is responsible for all cash management and budgeting decisions. Our headquarters requires each sales region and retail store to prepare an internal budget at the beginning of each month and each year for the approval of our headquarters.

In respect of our shopping mall stores for the sales of Cobayer series products, the relevant shopping malls are typically required to first collect the payment and settle payment with us within a pre-agreed period, ranging from 15 days to 60 days. For details of the payment settlement, see “– Retail Stores and Sales – Retail Stores – Cobayer retail stores” in this prospectus.

MARKETING AND CUSTOMER SERVICE

We believe that strong brand recognition and reputation are essential to our success. Our marketing team is responsible for formulating overall marketing and branding strategies, selecting locations of our retail stores, integrating marketing strategies with our retail network, making and controlling annual budget for marketing activities, selecting product candidates for development and conducting market research and promotional activities. Our marketing team works closely with our customer service team so as to understand the customer preferences and ensure consistent, high-quality services.

Customer Service

As the most important part of our marketing strategy, we place great emphasis on maintaining a high level of customer satisfaction to gain customer loyalty which we believe is crucial to the success of our business. We have devoted substantial resources on customer interactions through follow-up calls with our customers on a regular basis to measure customer satisfaction of their shopping experience with us, understand the health status of our customers and their specific needs, introduce the ingredients and benefits of our products, and provide personalized healthcare solutions and product selection advice. As advised by our PRC legal advisor, Yongheng Partners, such customer service does not require any license or permit, nor is it subject to any legal or regulatory governance, under the applicable PRC laws. In particular, the certificates of national public health nutritionist obtained by a number of our employees merely represent their professional qualification, and as advised by our PRC legal advisor, Yongheng Partners, currently there are no PRC laws regulating nutritionists or their services. As such, we believe neither we nor our employees are exposed to any potential legal liabilities for healthcare solutions and product selection advice provided by us to our customers. To ensure our interactions with customers are carried out in an appropriate way, we have set up procedures and offered regular trainings to our employees. For example, our employees are strictly prohibited from making untrue or misleading statements about the designed health benefits of our products. If the aggregate purchase of a customer is over RMB50,000, our key customer service team will be notified so as to monitor the sale through interactions with such customer to ensure that our products are not promoted in an inappropriate way. We have also established a special team to regularly visit or call the retail stores and to conduct test sales so as to gauge the service level of our employees as well as to assess whether there is any misleading representation in respect of our product ingredients and benefits. From time to time, we also invite customers to visit our production facilities and headquarters to form positive perception of our product quality. We believe all these efforts have reinforced customer loyalty among our existing customers, which creates significant opportunities for us to up-sell and cross-sell our products, and promoted our brand reputation among potential new customers.

In addition, we have strongly encouraged our sales representatives and customer service staff to obtain national public health nutritionist certificates such that they are able to provide professional advice to existing and potential customers. We believe this is instrumental to promote our products and differentiate us from many of our competitors. As of June 30, 2013, approximately 18% of our sales representatives and customer service staff obtained national

public health nutritionist certificates. A majority of these nutritionists are located in our headquarters and retail stores in Nanjing, Jiangsu province, and the remaining are with retail stores in other regions such as Wuhan, Wuxi, Hangzhou, Wenzhou and Beijing. Our nutritionists at headquarters are responsible for the support of all of our retail stores out of Nanjing, Jiangsu province, and at least one nutritionist is designated for each Zhongsheng retail store, providing on-site support and/or follow-up services.

Customer Loyalty Programs

To promote loyalty of our customers, we have launched nationwide two customer loyalty programs, one for customers of our Zhongsheng retail stores and the other for customers of our Cobayer retail stores. Typically, we invite customers with more than a certain aggregate purchase amount to become our members and offer them discounts for their future purchases. We have three membership categories for members of our Zhongsheng retail stores with different discount levels, ranging from the initial discount of 10% up to the highest discount level of 15%, depending on the members' aggregate purchase amounts. The discount for members of our Cobayer retail stores is fixed at 15% and members of one of our customer loyalty programs may not benefit from the other program automatically. In addition, members of our customer loyalty programs receive exclusive offers such as free body check-up, invitation to our health seminars and special offers on birthdays. We believe our customer loyalty programs are significantly instrumental in promoting the loyalty of our customers, motivating our customers to make repeat purchases and building and enhancing long-term relationships with our customers.

Marketing and Promotional Activities

We also rely on a variety of marketing and promotional activities to increase customer awareness of our products and to create strong brand recognition within our target markets. Our marketing and promotional activities include:

- *Seasonal promotions and discounts:* We offer discounts on selected products for a limited promotional period at our retail stores. We generally conducted these promotional sales on major holidays in China, such as the Labor Day Holidays in May, the Mid-Autumn Festival and the National Day Holidays in September and October and Christmas and the New Year at the year end. In respect of our Cobayer series products, we sometimes participate in shopping mall initiated promotions to take advantage of the increased number of customers visiting a shopping mall during promotional periods. In general, we implement a uniform promotion policy across our retail stores in respect of discount percentage, product categories being promoted and promotional period, except that Cobayer retail stores may make certain adjustments as a result of their participation in shopping mall initiated promotions, upon approval by our headquarters on a case-by-case basis.
- *Participation in trade fairs:* We participate in trade fairs such as Shenzhen High-Technology Fair (深圳高新技術博覽會) to promote the market awareness of our two best-selling brands, Zhongsheng and Cobayer.

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- *Media, print and internet advertising:* We advertise our brands on local television networks, radio station and newspapers.

Under the applicable PRC laws and regulations, we are required to obtain a CFDA advertising approval for advertising each of our CFDA-approved health food products. For a list of CFDA-approved health food products that require CFDA advertising approvals, see “– Approvals and Permits”.

The following table sets forth, for the periods indicated, the CFDA advertising approvals we obtained and maintained.

| <u>Period</u> | <u>Name of product</u> | <u>Advertising approval being effective until</u> |
|--|---|---|
| 2010 | • Keda Propolis Yangshengbao Capsules | August 17, 2010 |
| | • Coenzyme Q ₁₀ Capsules | November 5, 2010 |
| 2011 | • Keda Green Capsules | May 5, 2011 |
| 2012 | • Grapeseed Capsules | September 2, 2013 |
| | • Keda Green Capsules | September 2, 2013 |
| | • Keda Propolis Yangshengbao Capsules | September 2, 2013 |
| | • Linolenic Acid Soft Capsules | September 2, 2013 |
| | • Weisi Capsules | September 2, 2013 |
| | • Zhongsheng Colostrum Milk Chewable Tablets | September 2, 2013 |
| | • Zhongsheng Goat Milk Calcium Tablets | September 2, 2013 |
| | • Coenzyme Q ₁₀ Capsules | September 25, 2013 |
| January 1, 2013 to the Latest Practicable Date | • Coenzyme Q ₁₀ Tablets | September 25, 2013 |
| | • Zhongsheng Calcium and Magnesium Tablets ⁽¹⁾ | November 18, 2013 |
| | • Coenzyme Q ₁₀ Capsules | October 16, 2014 |
| | • Coenzyme Q ₁₀ Tablets | October 16, 2014 |
| | • Linolenic Acid Soft Capsules | November 11, 2014 |
| | • Keda Green Capsules | November 11, 2014 |
| • Weisi Capsules | November 13, 2014 | |

Note:

- (1) The name of this product is now changed to Zhongsheng Calcium and Magnesium/Vitamin D Tablets according to the health food product approval issued by CFDA.

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Each advertising approval issued by CFDA or its agencies is effective for a one-year period, subject to renewal. As of the Latest Practicable Date, among our 27 CFDA-approved health food products, we only maintained effective CFDA advertising approvals for five major health food products, namely Coenzyme Q₁₀ Capsules, Coenzyme Q₁₀ Tablets, Linolenic Acid Soft Capsules, Keda Green Capsules and Weisi Capsules. As of the Latest Practicable Date, we did not maintain effective CFDA advertising approvals nor were we in the renewal process for the remaining 22 CFDA-approved health food products, primarily because (i) based on our past experience, it typically takes less than one month to obtain a new CFDA advertising approval or renew an expired CFDA advertising approval; (ii) we form our advertising strategy for each product based on the most recent market demand and customer feedback of such specific product, and it is commercially viable for us to apply for CFDA advertising approval for selected products when there comes an actual advertising need, in light of the short duration of the renewal process; and (iii) we often rely upon advertising of our brand and corporate image, and promotional activities of our products to increase our market exposure, all of which do not require CFDA advertising approvals.

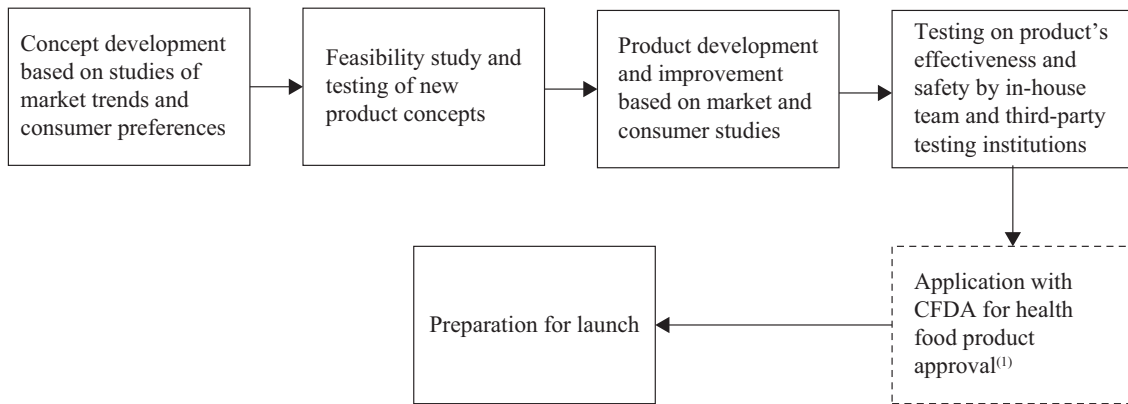
During the Track Record Period, our key marketing strategy included the general advertising of our brands and corporate image which, as advised by our PRC legal advisor, Yongheng Partners, required no CFDA advertising approval, promotional events in our retail stores, face-to-face communications with our potential customers through our effective sales platform and leverage of referrals of our existing customers to identify potential customers. We only made advertisements of our particular health food products as a supplement to our key marketing efforts. We expect to continue implementing our key marketing strategies in the future. After Listing, we expect to devote more resources on the advertising of our Zhongsheng and Cobayer brands and our corporate image, and intend to use a portion of the net proceeds from the Global Offering to finance marketing and promotional activities. These marketing and promotional activities include TV, print, radio and online advertising, engagement of celebrity spokespersons, promotion and enhancement of our corporate and brand image and promotional events across China during major holidays. For details, see “Future Plans and Use of Proceeds” in this prospectus.

Our Customers

Most of our customers are individuals. To the best of our knowledge, corporate entities have purchased our products as benefits for their own employees and none of the purchases by these corporate customers was for re-sale or distribution purposes. For the year ended December 31, 2010, our top five customers accounted for 7.1% of our total turnover and our largest customer accounted for 3.1% of our total turnover during the same year. For the years ended December 31, 2011 and 2012 and the six months ended June 30, 2013, our top five customers accounted for less than 5% of our total turnover during the same periods.

RESEARCH AND PRODUCT DEVELOPMENT

We adopt a market-oriented research and product development process, focusing on evolving consumer demands and needs. The following diagram illustrates our typical product development process.



Note:

(1) Only applicable to products for which we intend to obtain CFDA approvals as health food products.

The timing of the process depends on multiple factors, including the underlying market conditions, time needed for marketing research and survey, level of research and testing required, CFDA approval sought, and allocation of our resources. For most of our Zhongsheng series products that we apply to CFDA for approvals as health food products, the entire process starting from concept development to product launch will typically take 24 months to 48 months on a case-by-case basis. For our Cobayer series products, the entire process starting from concept development to mass production generally takes six months, which is shorter due to the absence of the CFDA approval process.

As of June 30, 2013, our research and development team comprised nine staff. A majority of our research and development staff have obtained bachelor degree or higher in biotechnology, food science or pharmacy engineering. We plan to expand our research and development team further to approximately 30 employees within the next three years, and intend to hire professionals with bachelor degree or higher in food science, traditional Chinese medicines, nutrition and biotechnology science. We incurred research and product development costs of RMB0.4 million, RMB0.2 million, RMB0.2 million and RMB0.4 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

Zhongsheng Series Products

The research and development of our Zhongsheng series products is typically conducted by our in-house research team, while we engage Independent Third Parties to conduct clinical and other tests on our products in order to satisfy the testing requirements for application of CFDA approvals. We have also consulted certain research institutions in China for the development of our Zhongsheng series products on a product-by-product basis.

Cobayer Series Products

Our focus of the research and development of our Cobayer series products is to identify the consumer preference and market trend of imported nutritional supplements in China and form the product concept. We typically prefer developing products with concept native to or popular in Australia. For example, liquid extract made from fresh olive leaves, the basic concept of one of our best selling products Olive Leaf Extract, is currently popular among consumers in Australia. Once we form the product concept, we typically provide our third-party manufacturers in Australia with such concept for further product development.

PRODUCTION, QUALITY CONTROL AND SUPPLIES**Production of Zhongsheng Series Products***Production facilities*

We have one production base in Nanjing, Jiangsu province with a total site area of 28,337 square meters, of which approximately 50% has been used for our existing production facilities. All of our Zhongsheng series products are manufactured in this production base, except the production of certain products in the forms of soft gelatin capsules and miniature bottled drinks has been outsourced to certain Independent Third Parties. We have the health food manufacturing permit and food circulation permit as required under CFDA regulations to manufacture and sell health food products, and our production facilities have complied with all applicable requirements for health food production in China, including GMP requirements.

We are currently undergoing expansion of our production facilities in Nanjing, Jiangsu province, including (i) construction of a new production line; (ii) establishment of a research and development and testing center; and (iii) establishment of an information and logistics control center, which is expected to complete by the end of 2015. Through these efforts, we expect to significantly expand our in-house manufacturing capabilities of nutritional supplements in various forms, enhance our storage ability and improve our existing technologies and research and development capabilities. With the new production line, we expect to be able to manufacture products in the forms of soft gelatin capsules, canned powder and miniature bottled drinks with a designed annual capacity of 800,000 units, 650,000 units and 2.0 million units, respectively. Despite the low utilization rates of our existing production facilities, we are currently not able to manufacture these forms of products in our own production facilities and such product forms are commonly used for nutritional supplements in China as well as other countries. We believe the addition of the new manufacturing capability will help us further expand our product portfolio. In addition, our new production line is also expected to afford us (i) greater flexibilities in forming production plans of products in these forms; (ii) enhanced in-house quality control of such types of products; (iii) capabilities to launch additional products in these forms from time to time in the future to grasp market shares rapidly without incurring management and financial resources to engage third-party manufacturers; and (iv) support of the increasing product demand arising from our nationwide expansion of retail stores in the next few years. Upon completion of our expansion plan, the

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total gross floor area of our production facilities in Nanjing, Jiangsu province is expected to increase from 3,237.4 square meters as of June 30, 2013 to 26,592.8 square meters. We expect to incur a minimum of RMB100.0 million for our expansion plan, which will be funded by the proceeds from the Global Offering and cash generated from our operations. The expected cost for our expansion plan will be primarily used to construct facilities and buildings in our existing production base and purchase equipment for the new production line. We do not expect to incur any expenses for the acquisition of land as we intend to build our new facilities and buildings adjacent to our current facilities on the unoccupied area of our existing parcel of land of 28,337 square meters.

The follow table sets forth details of our planned production facilities expansion.

| <u>Expansion plan</u> | <u>Estimated minimum cost⁽¹⁾</u> | <u>Estimated construction completion date</u> |
|---|---|---|
| New production line for the manufacturing of products in the forms of soft gelatin capsules, canned powder and miniature bottled drinks . . . | RMB72.0 million | December 2015 |
| Establishment of a research and development and testing center | RMB14.0 million | December 2015 |
| Establishment of an information and logistics control center | RMB14.0 million | December 2015 |

Note:

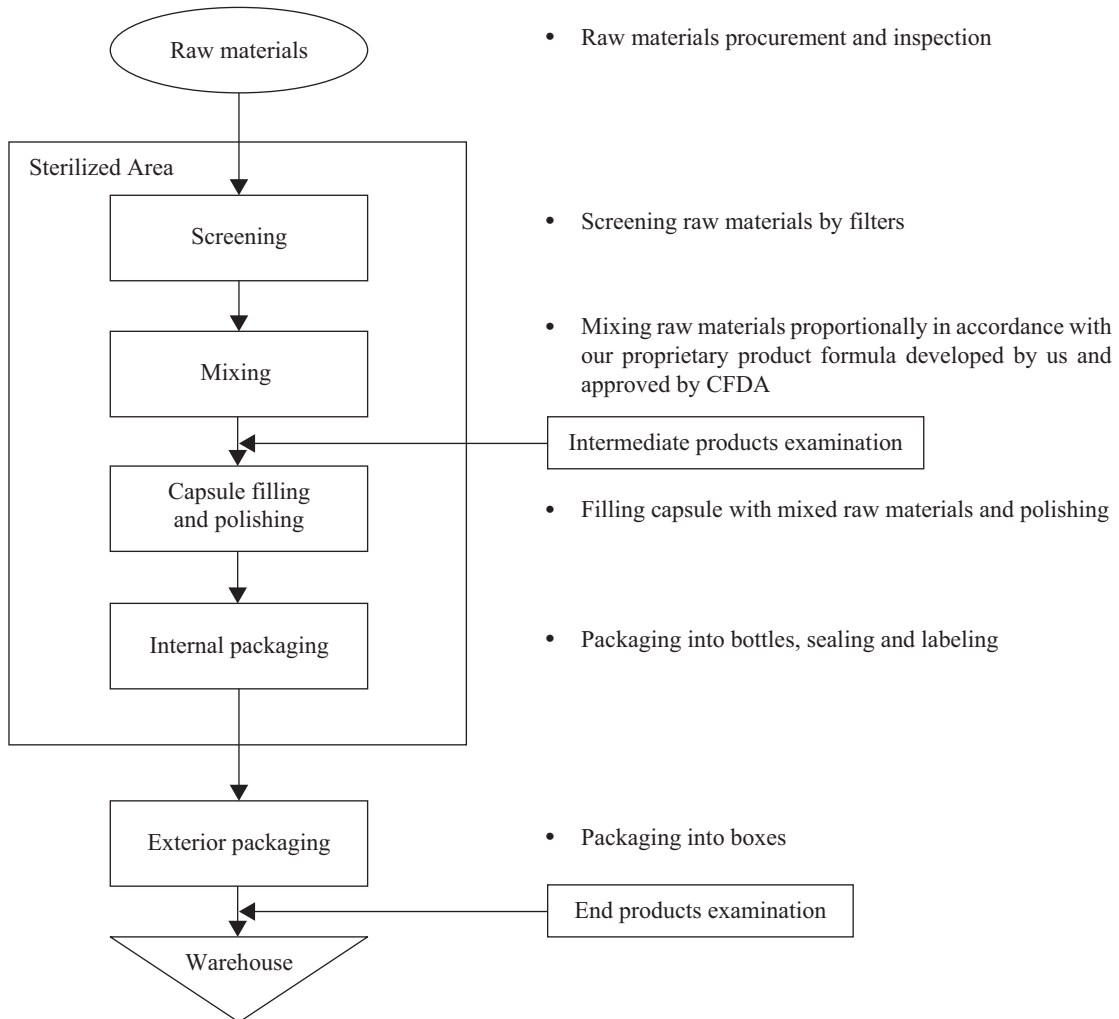
- (1) The estimated minimum cost represents the minimum cost required for construction of the relevant facilities. The actual cost required may be higher than our current expectation, subject to a number of factors such as the fluctuations in market prices of production line, equipment and construction materials in 2014 and 2015, the technical specifications and complexity of the production line or equipment to be purchased by us, and our bargaining power against suppliers and third-party constructors.

Upon completion of our new production facilities, we expect our cost structure will have the following changes: (i) we will not have subcontracting charges as a component of our cost of sales as we will be able to manufacture all of our Zhongsheng series products in our own production facilities; and (ii) our total costs of raw materials and packaging materials, depreciation costs, labor costs, utilities and other production costs will increase and may account for a higher percentage of our total cost of sales for a given period, subject to the sales performance of our Zhongsheng series products as compared with Cobayer series products during the same period. We intend to maintain our current gross profit margin after our new production facilities commence operation.

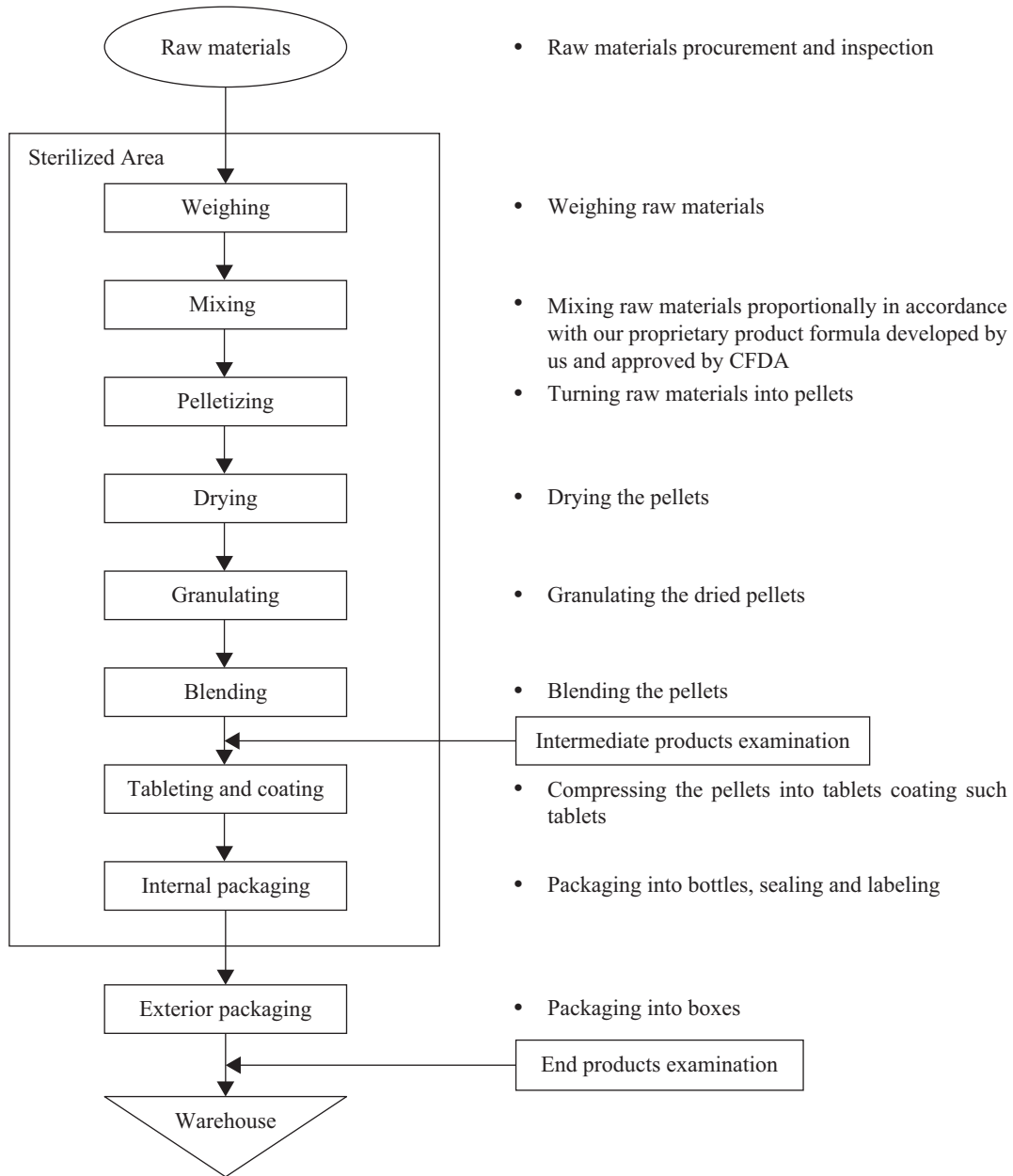
Production process

The following chart sets forth the respective production processes for our two major forms of products developed and manufactured in China, namely hard-shell capsule and tablet products.

Nutritional supplements in the form of hard-shell capsules:



Nutritional supplements in the form of tablets:



As indicated by our production process, one of our key production steps is the mixture of raw materials according to our proprietary production formula, which formula has been extensively tested prior to the issuance of health food product approvals by CFDA. We use multiple categories of raw materials in our production process with carefully tested volume for each of such raw materials. For our protection of formulae, see “– Intellectual Property”. Our production process utilizes automated machinery and equipment, which significantly reduces the number of workers required and error rates during the production process. Our production line is designed to ensure low-cost production of a variety of products of different servings, sizes and packaging configurations while maintaining strict quality control. The production lead time for our Zhongsheng series products is approximately 30 days.

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We perform regular equipment inspections to ensure our production facilities perform at optimal levels. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material or prolonged disruption of our production due to equipment failure.

Production capacities and utilization rates

The following table sets forth, for the periods indicated, the production capacities and utilization rates for our major product categories.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|-------|-------|------------------------------|-------|
| | 2010 | 2011 | 2012 | 2012 | 2013 |
| | <i>(units in million, except percentages)</i> | | | | |
| <i>Tablets</i> | | | | | |
| Designed annual production capacity | 13.3 | 13.3 | 13.3 | 6.7 | 6.7 |
| Actual production volume | 1.6 | 6.5 | 5.0 | 1.1 | 0.6 |
| Utilization rate ⁽¹⁾ | 12.0% | 48.9% | 37.6% | 16.4% | 9.0% |
| <i>Hard-shell capsules</i> | | | | | |
| Designed annual production capacity | 134.4 | 134.4 | 134.4 | 67.2 | 67.2 |
| Actual production volume | 58.1 | 23.2 | 18.1 | 8.2 | 7.5 |
| Utilization rate ⁽¹⁾ | 43.2% | 17.3% | 13.5% | 12.2% | 11.2% |

Note:

- (1) Utilization rate is calculated by dividing the actual production volume for the relevant period with the designed production capacity for the same period. The designed annual production capacity is based on a production schedule of 250 days per year and one four-hour production shift per day. Such four-hour shift per day is used for the calculation of our designed annual production capacity, primarily because we deduct four hours for sanitization of the plant area, equipment and facilities, which process is required on a daily basis to meet GMP standards, despite the fact that all of our relevant employees are still paid on an eight-hour shift per day basis. The calculation basis of 250 days per year is primarily due to temporary suspension of production in July and August of each year to avoid unfavorable working environment as a result of high temperature and to ensure product quality.

We execute a sales-oriented production plan. Our utilization rates for products in the form of tablets increased in 2011 as compared to 2010, primarily due to our launch of Coenzyme Q₁₀ Tablets, one of our best selling products. Our utilization rates for products in the form of tablets experienced a decrease in 2012 and the first half of 2013, and our utilization rates for products in the form of hard-shell capsules decreased during the Track Record Period, primarily due to the change in our product portfolio and adjustments to our production plans, driven primarily by our launch of new products and introduction of existing products with increased servings

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during the same periods. We do not expect to recognize any write-off in respect of our existing production facilities as the turnover generated historically and expect to be generated in the future from the products manufactured in our existing facilities significantly exceed the relevant cost of such facilities.

Production outsourcing

As we currently do not have a production line to manufacture soft gelatin capsules and miniature bottled drinks, we have outsourced the production of our three soft gelatin capsule products, and two miniature bottled drinks, during the Track Record Period to certain Independent Third Parties in China.

The following table sets forth, for the periods indicated, the product volume manufactured and provided by third-party manufacturers in China and the respective contribution of such products to our turnover.

| | Year ended December 31, | | | | | | | | | Six months ended June 30, | | | | | |
|---|-------------------------|------------|----------------|--------------|------------|---------------|---------------|-------------|----------------|---------------------------|-------------|---------------|--------------|------------|---------------|
| | 2010 | | | 2011 | | | 2012 | | | 2012 | | | 2013 | | |
| | RMB'000 | % of total | Volume (unit) | RMB'000 | % of total | Volume (unit) | RMB'000 | % of total | Volume (unit) | RMB'000 | % of total | Volume (unit) | RMB'000 | % of total | Volume (unit) |
| Soft gelatin capsule products | | | | | | | | | | | | | | | |
| Linolenic Acid Soft Capsules . . . | - | - | - | 1,327 | 1.3 | 8,729 | 24,280 | 16.1 | 88,921 | 12,623 | 19.5 | 39,361 | 2,014 | 2.3 | 4,786 |
| Zhongsheng Propolis Soft Capsules | 2,952 | 4.4 | 30,218 | 157 | 0.2 | 2,937 | 95 | 0.1 | 758 | 18 | - | - | 218 | 0.3 | 2,871 |
| Keda Propolis Soft Capsules . . . | 246 | 0.4 | 1,000 | 247 | 0.2 | - | 14 | 0.0 | 122 | 2 | - | - | 9 | - | - |
| Subtotal | 3,198 | 4.8 | 31,218 | 1,731 | 1.7 | 11,666 | 24,389 | 16.2 | 89,801 | 12,643 | 19.5 | 39,361 | 2,241 | 2.6 | 7,657 |
| Miniature bottled drinks | | | | | | | | | | | | | | | |
| Blueberry Fruit Drink | 965 | 1.4 | 191,930 | 44 | - | - | - | - | - | - | - | - | - | - | - |
| Pomegranate Fruit Drink | - | - | - | - | - | - | 227 | 0.2 | 28,950 | - | - | - | 283 | 0.3 | - |
| Subtotal | 965 | 1.4 | 191,930 | 44 | - | - | 227 | 0.2 | 28,950 | - | - | - | 283 | 0.3 | - |
| Total⁽¹⁾ | 4,163 | 6.2 | 223,148 | 1,775 | 1.7 | 11,666 | 24,616 | 16.4 | 118,751 | 12,643 | 19.5 | 39,361 | 2,524 | 2.9 | 7,657 |

Note:

- (1) The significant increase in our aggregate turnover derived from these products in 2012 was primarily driven by our increased sales of Linolenic Acid Soft Capsules during the same year.

During the Track Record Period, the volume manufactured and provided by third-party manufacturers for a particular product did not fully match the contribution of such product to our turnover, primarily due to our sales of inventories held at the end of the previous period from time to time. In addition, the fluctuation of subcontracting charges we paid to third-party manufacturers during a particular period did not fully match the fluctuation of turnover generated from the products manufactured by third-parties in China over the same period,

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primarily because (i) sales of certain products were not made during the same period when we incurred the subcontracting charges; (ii) for our Linolenic Acid Soft Capsules, we provided certain key raw materials at our cost to the third-party manufacturer in 2012, as a result of which the increase in our subcontracting charges for this product was significantly lower than the increase in the turnover generated from the same product; and (iii) our increased proportion of sales of Linolenic Acid Soft Capsules in 2012, which had a higher average selling price as compared with other products manufactured by third parties in China, has significantly increased the total turnover generated from our products manufactured by third parties in China in 2012.

We have adopted strict procedures to ensure that the production qualifications, production facilities and production process of our third-party manufacturers in China comply with the relevant safety and quality requirements for health food and general food production in the PRC, as the case may be. We selected our third-party manufacturers in China carefully by taking into account a number of factors, including their qualifications, experience, production capacity, proximity to our headquarters and terms offered by such third-party manufacturers. Before we enter into any contract with our third-party manufacturers, we interview with potential candidates to understand their qualifications, production capacity and industry experience. We also conduct on-site inspection to visit their production facilities so as to assess whether our potential candidates have strong operating capabilities and resources to meet our internal standards. Our third-party manufacturers are required to provide copies of their business licenses, permits and approvals in respect of health food and general food production for our examination during our selection process, and copies of renewed business licenses, permits and approvals from time to time, when they manufacture our Zhongsheng series products.

The third-party manufacturer of our soft gelatin capsules has obtained business license, ISO9001:2008 Quality Management System Certificate and health food manufacturing permit for manufacturing of health food products in China, which as advised by our PRC legal advisor, Yongheng Partners, also demonstrates such third-party manufacturer's satisfaction of GMP requirements. This third-party manufacturer has also registered with local CFDA for its manufacturing of our CFDA approved health food products under the production outsourcing arrangements as required by Jiangsu provincial agency of CFDA. The third-party manufacturer of our miniature bottled drinks has obtained business license and industrial product manufacturing permit for the production of drinks. Our Directors confirm that each of our third-party manufacturers in China has obtained the business license, permits, registrations and approvals necessary for the manufacturing of our relevant Zhongsheng series products.

We provide our third-party manufacturers with the formulae and specifications of our products and, in some cases, raw materials procured by us, for their production, and require the third-party manufacturers to keep confidential any of our commercial secrets and know-how known to them or used during our cooperation period. We also arrange our quality control staff to conduct on-site inspections at the production facilities of our third-party manufacturers on a regular basis. It typically takes two to three months for our third-party manufacturers to complete our production order and we are responsible for collecting the finished products from

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our third-party manufacturers. Our Directors confirm that, during the Track Record period, our third-party manufacturers in China did not produce substandard Zhongsheng series products that were rejected by our Group. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we paid RMB0.9 million, RMB0.2 million, RMB0.5 million and RMB0.1 million to such third-party manufacturers for the production outsourcing in China, respectively.

Production of Cobayer Series Products

We outsourced the production of all of our Cobayer series products to various Independent Third Party manufacturers in Australia (except one product which was manufactured in New Zealand). Our third-party manufacturers in Australia are engaged to perform the entire production process and are responsible for procurement of the relevant raw materials. The purchase value of Cobayer series products from our third-party manufacturers in Australia and New Zealand was RMB4.0 million, RMB12.8 million, RMB9.4 million and RMB2.5 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. As of the Latest Practicable Date, we had a total of nine third-party manufacturers in Australia and New Zealand, with which our relationship ranged from less than one year to approximately four years. None of these third-party manufacturers produced our Cobayer series products on an exclusive basis.

Production process

We generally form our product concept based on customer preferences and market demand and provide our third-party manufacturers with such product concept for further product development. Based on the product concept provided by us, our third-party manufacturers are responsible for the development of product formulae and manufacturing of the products. The product formulae for all of our Cobayer series products are either owned by our third-party manufacturers or are publicly available. For existing products, it typically takes three to six months for us to receive finished products in China from our third-party manufacturers, calculating from the time when we place deposits for orders. For the first order of new products, it typically takes up to six months for us to receive finished products in China as our third-party manufacturers need to run trial productions and provide sample products for our inspection.

Control of product safety and quality

In 2010, one particular batch of our Essence of Kangaroo Capsules we attempted to import into China did not pass the quality test of CIQ because its lead content exceeded the permitted amount in the PRC, and was subsequently returned to the third-party manufacturer in Australia. The total purchase amount of this batch of products was AUD34,950. Our Directors confirm that the failure of this batch of Essence of Kangaroo Capsules to pass the quality test of CIQ was merely a one-off incident and did not have any material adverse impact on our business operations and financial condition. As advised by the Company's PRC legal advisor, Yongheng Partners, there was not and will not be any penalty or any legal consequences on us as a result of such incident.

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Essence of Kangaroo Capsules was one of the first Cobayer series products launched by us. When we initially imported goods into China, we did not carry out product testing by ourselves and relied solely on the importing agent for quality control, primarily due to the fact that we had not developed a strict quality control system at that time. After the aforementioned incident, we adopted a comprehensive quality control system to monitor the selection of third-party manufacturers in Australia and New Zealand, the raw materials procured by third-party manufacturers, the testing of new products in the product development process and the testing of each batch of existing products imported by us.

- *Selection of third-party manufacturers:* To ensure the safety and quality of our Cobayer series products, we carefully select third-party manufacturers based on their overall track record, experience, reputation, size of operations, ability to manufacture high-quality products and quality control effectiveness. Most of our third-party manufacturers in Australia and New Zealand are large and medium-size enterprises specialized in production of nutritional supplements. In particular, our largest third-party manufacturer, GMP Pharmaceuticals Pty Ltd., is one of the largest manufacturers of nutritional supplements in Australia and New Zealand. All of our third-party manufacturers in Australia and New Zealand have complied with the highest requirements of TGA when they manufacture our Cobayer series products.
- *Procurement of raw materials:* We require third-party manufacturers to provide us with information of raw materials they intend to procure for the manufacturing of our products, such as names of suppliers and data of the key ingredients in the raw materials, for our review and approval. Our third-party manufacturers also provide us with raw material testing reports prior to production.
- *Testing of new products:* For each new Cobayer series product, we require the relevant third-party manufacturer to provide samples, along with their testing reports, for our inspection. Once we receive samples of new products, we also submit such samples to independent testing institutions in China for testing so as to ensure the safety and quality of new products. In addition, these sample products are delivered to CIQ for quality testing. Mass production by third-party manufacturers may only commence upon our satisfaction of the trial productions and upon the passing of testing at CIQ.
- *Testing of existing products:* Each batch of Cobayer series products imported by us is required to pass testing at CIQ under the applicable PRC laws and regulations before entering China. We also require the relevant third-party manufacturers to conduct quality testing for each batch of products before shipping the products to China and provide us with the relevant testing reports. The testing reports provided by our third-party manufacturers include information of key ingredients included in the finished products. We review such testing reports and conduct independent testing to the extent necessary to ensure the purported ingredients as stated on the packaging of the imported finished products are correct and consistent with the ingredients used in the manufacturing process.

Terms of purchase orders

We place orders with our third-party manufacturers from time to time based on our sales plan, without entering into annual agreements. We are not bound to purchase any minimum quantity of products from our third-party manufacturers in Australia. Set out below are the material terms of the purchase orders we generally agree with our third-party manufacturers in Australia.

- *Quality:* Our third-party manufacturers are required to manufacture and pack our products in accordance with our quality and packaging requirements. In the event that there is any discrepancy between the finished products and the description stated in the quality inspection report relating to the quality of the products, our third-party manufacturers are generally liable and responsible for all our losses caused by such discrepancy.
- *Delivery:* Our third-party manufacturers are generally required to deliver the finished products to the ports and at the times agreed with us, failing which these third-party manufacturers will be liable for penalty. The quantity of the finished products delivered to us may vary from our prescribed total orders within a 5% range.
- *Payment:* We are required to pay deposits to most of our third-party manufacturers for our purchases when we place orders with them. We are generally required by our third-party Australian manufacturers to pay the full contract value before the shipping of our products to China.
- *Product defects:* Our third-party manufacturers are generally liable and responsible for the damages and losses which arise out of or in connection with the supply of products to us.

Quality Control

We have a strict quality control system to monitor and control each stage of our production process, from raw material procurement to production and delivery, to ensure the consistency and high quality of our products. We inspect the raw materials visually and the accompanying quality reports provided by our suppliers upon receiving them. These quality reports usually contain various quantitative analysis, such as dust and moisture level of the raw materials, depending on the nature of the respective raw materials. We also perform our own inspection of raw materials in accordance with quality requirements promulgated by the relevant government authorities for different raw materials. In accordance with the GMP requirements, our quality control personnel check the key steps of our production process, such as weighing, pulverization and mixture, to ensure these steps are carried out correctly and accurately. We have measures in place to ensure that our production line and equipment are properly sanitized, such as daily sterilization of the plant area, equipment and facilities, inspection of the plant infrastructure and ventilation system, and the prohibition of unauthorized personnel. We monitor the sanitization process in our production facilities carefully to minimize the risk of contamination from external sources. At different stages of our production process, we also perform various quality inspection and testing procedures, including the test of impurity, moisture, dust and microbes, to remove defective intermediate products. We also conduct sample testing of our final products before and after packaging them for delivery to our retail stores.

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In respect of production outsourced to third-party manufacturers in China, Australia and New Zealand, we start the quality control process early from the selection of third-party manufacturers and monitor each key step in the production process. For details, see “– Production of Zhongsheng Series Products – Production outsourcing” and “– Production of Cobayer Series Products”.

In addition, all of the products imported by us from Australia and New Zealand are subject to the inspection of products by CIQ in Jiangsu province upon the products’ arrival in China.

We obtained ISO9001:2008 certification for quality control on our product development and production process in October 2012, which demonstrates that our quality control system meets the recognized international standards of quality assurance. We also have ISO22000:2005 certification, an ISO International Standard for Food Safety Management Systems which includes the principles of Hazard Analysis and the Critical Control Point (HACCP) system. This certification requires demonstration of an ability to control food safety hazards in order to ensure that food is safe at the time of human consumption.

We carry out quality control procedures in compliance with GMP standards and CFDA regulations. In accordance with GMP requirements, we have implemented a system whereby details of the entire production process for each batch of products, from raw materials to production, inventory, transportation, and finally to retail stores, are recorded. This system allows us to ensure that any defective products can be traced on a timely basis.

During the Track Record Period and up to the Latest Practicable Date, there was no product recall for any of our products sold in our self-managed retail stores or by our distributors.

Raw Materials, Packaging Materials and Suppliers

We purchase raw materials and packaging materials for the manufacturing of our Zhongsheng series products in China. Our raw materials consist primarily of nutraceuticals, herb extracts, vitamins and mineral products, and our packaging materials include capsules, bottles, cardboard, boxes and labels.

We select our suppliers carefully to ensure the quality of our raw materials and packaging materials. We request each supplier candidate to submit sample products for our inspection. We also inspect their facilities and premises and investigate their reputation and track record before we select them as suppliers. We also have special requirements for the packaging materials, including use of certain packaging materials up to GMP standards and a bacteria killing process to ensure that there is no bacteria or other harmful substance which may contaminate the content inside and that packaging standards to satisfy the storage and transportation requirements are met.

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To increase our bargaining power, we usually make bulk purchases of each specific raw material and packaging material from one or two suppliers. We usually enter into supply agreements with our suppliers on an annual basis and have no long-term contracts with them. As all of our raw materials and packaging materials are readily available from multiple suppliers, we have not encountered any shortage in respect of raw materials and packaging materials supply during the Track Record Period and do not believe we are subject to any significant supply shortage risks. The raw materials and packaging materials we use have not experienced significant price fluctuations during the Track Record Period and we do not expect them to experience significant price fluctuations in the foreseeable future. By leveraging our brand recognition among customers, we believe we are able to pass the increase in our cost on to our customers.

Our suppliers primarily consist of suppliers of raw materials and packaging materials for our Zhongsheng series products and suppliers of finished goods for our Cobayer series products. Our suppliers of raw materials typically do not offer credit period to us and our suppliers of packaging materials usually give us a credit period ranging from 30 days to 60 days in practice. In addition, our third-party manufacturers for our Cobayer series products do not offer credit period to us. For the year ended December 31, 2012, we had an aggregate of 62 suppliers, among which five were third-party Australian manufacturers. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our purchases from our five largest suppliers amounted to RMB5.7 million, RMB11.6 million, RMB11.0 million and RMB2.9 million, respectively, accounting for 57.8%, 70.9%, 74.0% and 71.9% of our total purchases, respectively. For the six months ended June 30, 2013, three of our top five suppliers were third-party Australian manufacturers and the remaining two were suppliers of raw materials and packaging materials. Our relationship with these top five suppliers ranged from two to seven years. During the Track Record Period, our largest supplier in respect of aggregate purchase amount was GMP Pharmaceuticals Pty Ltd., one of our third-party Australian manufacturers. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our purchases from our largest supplier accounted for 25.0%, 28.9%, 41.7% and 51.1% of our total purchases, respectively. None of our Directors, their associates or any Shareholder (which to the knowledge of our Directors owns more than 5% of our share capital) has any interest in any of our five largest suppliers during the Track Record Period.

Inventory

Our inventories consist primarily of products imported from Australia and New Zealand for our Cobayer series products and finished products for our Zhongsheng series products. We store inventories in our central warehouse in Nanjing, Jiangsu province, which is designed to meet the specified temperature and humidity requirements.

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We closely supervise our production and have implemented inventory policies to (i) typically maintain a three-month supply of raw materials for our best-selling products and a six-month supply of Cobayer series products as import of such products normally takes a longer period; (ii) maintain inventory level of raw materials of other products to satisfy the actual production needs, taking into consideration anticipated stock turnover and market demand and supply of the relevant raw materials; and (iii) maintain inventory level of finished products to satisfy at least one-month market demand and further increase such inventory level before major holidays in China in anticipation of higher demand of our products during such periods. In addition, as we suspend our production in July and August in each year due to the unfavorable working environment as a result of high temperature, we typically increase the inventory of finished goods at the end of the second quarter of each year to meet customer demand during summer. We require our self-managed retail stores to keep an optimal inventory level, based on their own sales turnover and anticipated sales trend, and to place orders with our finance department at the headquarters for the replenishing of inventory. Inventory at our self-managed retail stores is generally replenished once or twice a week. Our centralized IT system that is updated with sales information on a real-time basis and accessible by our management also enables our management to proactively monitor the turnover and inventory at each retail store.

INFORMATION TECHNOLOGY

We believe that information platforms are important in improving our efficiency in customer service, supply chain management, quality and inventory control and logistics and sales. We maintain a computerized information system that integrates the functions of stock replenishment, inventory distribution and sales. We also have a centralized customer service database with the information of members of our two customer loyalty programs, information of our customers who have not joined our customer loyalty programs, as well as information of potential customers who visit our stores and provide information to us. This centralized customer service database is accessible by authorized employees only, which are divided into multiple tiers with different levels of authorization on a need-to-know basis to avoid information leakage. We believe our information platforms enable us to administer and operate our fast-growing, nationwide retail network, and allow us to gather information on customer purchases, monitor customer preferences, make timely assessments regarding market trends and quickly make changes in response to market conditions. We believe that further enhancement of our information platforms will be essential to meet our further expansion and needs.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had 49 registered trademarks and 20 applications for trademark registration, in Hong Kong, China and Australia.

We rely on confidentiality procedures and contractual provisions to protect our know-how, especially the proprietary formulae of our products, where we believe patent protection is not appropriate because patent application in China involves publication of the details of the formula. Only members of our research and development team have access to our

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formulae. We ask all of our key research and development personnel to enter into confidentiality agreements with us at the time of employment. These agreements address intellectual property protection issues, setting forth their obligations to keep our know-how in confidence and not compete with us during a specified period after the employment relationship is terminated. We also require some of our third-party manufacturers to comply with confidentiality obligations in respect of our commercial secrets and know-how.

As none of our proprietary product formulae is protected by patents, we believe our products are generic by nature and we are not able to restrict or prevent other manufacturers from manufacturing similar products, unless there are any contractual restrictions.

COMPETITION

We face competition primarily from domestic and international providers of nutritional supplements. In China, our competitors primarily include Guangdong By-Health Biotechnology Co., Ltd. (湯臣倍健股份有限公司) and other local nutritional supplements retailers. We compete with these competitors largely on price, brand recognition, product quality and sales network coverage.

The significant increase of Chinese consumers' spending on nutritional supplements in the past years may attract more enterprises to enter the nutritional supplements market in China. The barriers to entry, however, exist as it usually takes two years to apply for CFDA approval for health food products and the upfront costs and time required for establishing strong brand awareness and a national distribution network are significant. In addition, we believe that we have gained significant competitive advantages over many of our competitors as a result of our effective marketing strategy, fast-growing retail network and diversified sales platform, provision of comprehensive health solutions to a broad, age-balanced and loyal customer base, broad, diversified product mix, and experienced management team.

PROPERTIES

Owned Properties

Our production facilities are located in Qixia District at Nanjing, Jiangsu province, where we hold land use rights for a land parcel with an aggregate site area of 28,337 square meters. Our existing production facilities, warehouse and affiliated offices, occupying 3,237.4 square meters of floor area, are located at this site. In addition, we also purchased a number of properties in Nanjing, Suzhou and Changzhou, Jiangsu province, with an aggregate of 1,747.2 square meters of floor area, to locate our headquarters, administrative offices and some regional sales offices. As of the Latest Practicable Date, we have obtained land use rights and building ownership certificates for all these properties.

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Leased Properties

As of the Latest Practicable Date, we rented 44 properties in the PRC and one property in Australia, with an aggregate floor area of approximately 3,986.4 square meters, for our retail stores, offices and warehouses. With respect to these leased properties, lessors for ten out of our 44 leases in the PRC did not provide building ownership certificates or other documents as of the Latest Practicable Date evidencing that the relevant lessors have requisite titles or rights to lease the properties to us. As of the Latest Practicable Date, the floor area of such properties was approximately 859.6 square meters, representing approximately 21.6% of the aggregate floor area of the properties leased by our Group. For the risk relating to our lessors' failure to provide building ownership certificates in respect of our leased properties, see "Risk Factor – Risks Relating to Our Business and Industry – Our legal right to lease certain properties could be challenged by property owners or other third parties" in this prospectus.

In addition, nine of our lease agreements for the leased properties have not been registered with the relevant local governmental authority. We have been advised by our PRC legal advisor, Yongheng Partners, that, as a general principle, the lack of registration of a lease agreement does not affect the validity of rights existing under such lease agreement between the tenant and the lessor.

Pursuant to Rules 5.01A and 5.01B of the Listing Rules, the Directors confirm that as of June 30, 2013, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets.

PRODUCTION SAFETY

We are subject to various production safety rules and regulations in the PRC. For further details, see "Regulatory Overview" and "Appendix V – Summary of Principal Laws and Regulations" in this prospectus. We regard production safety as one of our important social responsibilities and have implemented safety measures at our production facilities to ensure compliance with regulatory requirements. We conduct regular and thorough worksite inspections to eliminate potential hazardous work environment. In addition, we also, from time to time, provide our employees with occupational safety education and trainings to enhance their awareness of safety issues. During the Track Record Period and up to the Latest Practicable Date, we did not experience any accident at our production facilities that results in any personal injury to our employees or material production interruption.

ENVIRONMENTAL MATTERS

Given the nature of our business, our manufacturing process produces a small amount of waste water and solid wastes. Such waste does not cause any material damage to the environment.

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We are required to submit environmental impact study reports setting forth the impact caused by the construction projects on the environment and the measures to prevent or mitigate the impact for approval by the government authority, prior to commencement of construction of the relevant projects. The relevant local environmental authorities will then perform inspections on our facilities, and decide whether to approve our environmental impact study report and accept our construction projects. To minimize impact of emissions on the environment, we have installed advanced environmental protection equipment to treat waste materials and dust and, where possible, recycle waste materials. We have procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations.

To ensure compliance with applicable regulations, we have one dedicated staff responsible for supervising and monitoring compliance with statutory regulations and our internal standards relating to environmental protection. Due to the nature of our business, our total expenditures for maintaining compliance with environmental laws are not material and we do not expect to incur any significant fluctuation in our environment compliance costs in the near future.

During the Track Record Period and up to the Latest Practicable Date, we have been in compliance with all applicable PRC environmental regulations, have not been subject to any material claims or penalties in relation to environmental protection and have not been involved in any environmental accidents.

INSURANCE

As of the Latest Practicable Date, we maintained a vehicle insurance coverage on commercial vehicles we own and product liability insurance in respect of our Coenzyme Q₁₀ Tablets/Capsules. We consider our current insurance coverage to be adequate. For the risks associated with the coverage of our insurance policies, see “Risk Factors – Risks Relating to Our Business and Industry – Any unexpected or undesirable side effects or injury caused by our products to consumers could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits” and “Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage may not completely cover the risks related to our business and operations” in this prospectus.

LEGAL AND COMPLIANCE

Save as disclosed below and in “– Properties” above, our Company and all of our subsidiaries have obtained and currently maintain all necessary permits and licenses required for their production and sales activities actually being conducted and we are in compliance with the applicable PRC laws and regulations relating to our business operations in all material respects. As advised by our Australian legal advisor, Longton Legal, we confirm we have complied with all the applicable Australian laws and regulations and obtained all necessary certificates and documents as required in respect of our imports of Cobayer series products from Australia. According to our New Zealand legal advisor, Bell Gully, there are no New

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Zealand laws, regulations, permits, licences or approvals that our Group is required to comply with in connection with the manufacturing of Cobayer series products in New Zealand which our Group imports. For details of the relevant Australian and New Zealand laws and regulations, see “Regulatory Overview – Australian Law” and “Regulatory Overview – New Zealand Law”, respectively. For the risk factors associated with our non-compliance issues, see “Risk Factor – Risks Relating to Our Business and Industry – Our legal right to lease certain properties could be challenged by property owners or other third parties” and “Risk Factor – Risks Relating to Our Business and Industry – Historically some of our product advertisements have been declared not being in full compliance with applicable regulations” in this prospectus.

During the Track Record Period, we have not been, and are not, involved in any litigation or arbitration proceedings that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. In addition, we have not been and are not involved in any litigation or arbitration proceedings pending or threatened against us or any of our Directors that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations.

Set forth below is a summary of our non-compliance instances from 2006 to the Latest Practicable Date:

| Number and period of public notices issued by Jiangsu provincial agency of CFDA | Affected products | Violations | Facts relevant to our advertisements of the affected products |
|--|-------------------------------------|--|--|
| 13 public notices from March 2009 to January 2011 | Coenzyme Q ₁₀ Capsules | <p>(i) Improperly claiming, overstating or guaranteeing the effect which may mislead consumers; and</p> <p>(ii) failure to disclose the advertisement approval</p> | We ceased the advertisements of Coenzyme Q ₁₀ Capsules in January 2011. |
| 11 public notices from September 2006 to October 2009 | Keda Propolis Yangshengbao Capsules | <p>(i) Posting of advertisements without obtaining prior CFDA advertisement approval;</p> <p>(ii) improperly claiming, overstating or guaranteeing the effect which may mislead consumers; and</p> <p>(iii) amending the approved advertisements without obtaining prior CFDA approval</p> | We obtained the CFDA advertisement approval of Keda Propolis Yangshengbao Capsules in August 2009. |

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Historically Jiangsu provincial agency of CFDA issued public notices with respect to advertisements of two other products sold by us. However, our Directors believe that we did not publish any non-compliant advertisements of these two products based on the facts set forth in the table below.

| Number and period of public notices issued by Jiangsu provincial agency of CFDA | Affected products | Alleged violations | Facts relevant to our advertisements of the affected products |
|--|--|---|---|
| 2 public notices from August 2010 to September 2010 | Coenzyme Q ₁₀ Tablets | Posting of advertisements without obtaining prior CFDA advertisement approval | We only commenced sales of Coenzyme Q ₁₀ Tablets in May 2011 and obtained CFDA advertisement approval for Coenzyme Q ₁₀ Tablets in September 2012. The Directors further confirm (i) that the alleged non-compliant advertisements did not specify our Coenzyme Q ₁₀ Tablets as the product being advertised; (ii) that the relevant advertisements were actually intended to market our Coenzyme Q ₁₀ Capsules, a product which we have obtained advertisement approval since 2009; and (iii) we historically did not make any advertisements of Coenzyme Q ₁₀ Tablets. |
| 2 public notices from January and March 2009 | Zhongke Ganoderma Spore Capsules (中科牌靈芝孢子膠囊), a third-party product sold by us before early 2006 | (i) Improperly claiming, overstating or guaranteeing the effect; and (ii) using the name or image of government authorities, research institutions, experts, doctors or patients in the advertisements | The Directors confirm that we did not post any advertisement regarding Zhongke Ganoderma Spore Capsules on the relevant newspaper during the period as stated in the public notices issued by Jiangsu provincial agency of CFDA. We ceased the advertisements of Zhongke Ganoderma Spore Capsules in the fourth quarter of 2005 and have not sold this product since early 2006. |

We did not, and does not intend to, clarify the alleged violations with the relevant authorities, primarily because (i) up to the Latest Practicable Date, there was no enforcement action taken by the competent authorities in connection with the public notices posted by Jiangsu provincial agency of CFDA; (ii) our PRC legal advisor, Yongheng Partners, is of the view that we or any of our Directors would not be subject to penalties for these historical non-compliance instances; and (iii) the above public notices concerned were issued more than three years ago. Going forward, we believe we should be able to identify public notices issued by the relevant authorities on a timely basis through our enhanced internal control measures, and intend to clarify with the relevant authorities promptly if we believe we are not in violation of applicable advertising laws and regulations.

The relevant public notices were posted as part of the routine functions of Jiangsu provincial agency of CFDA which is responsible for monitoring the health food product advertisements in Jiangsu province. According to our PRC legal advisor, Yongheng Partners, the competent authorities to impose penalties in connection with the public notices are SAIC and its local agencies. Our PRC legal advisor, Yongheng Partners, conducted an interview on

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October 18, 2013 with the official at Jiangsu provincial agency of SAIC who is in charge of the administration of advertisements of health food products and competent to make the confirmation regarding any potential penalty on our Company for non-compliant health food product advertisements. During such interview, the relevant official confirmed that we would not be subject to penalties for our historical non-compliance instances on the basis that (i) Jiangsu provincial agency of SAIC did not file cases against us or impose any penalties on us historically for these non-compliance instances; and (ii) the most recent public notice regarding our non-compliant health food advertisements was issued more than two years ago whereas the Law on the Administrative Penalties of the PRC (中華人民共和國行政處罰法) provides a two-year statute of limitations for government authorities to impose administrative penalties. Based on (i) such interview with the official at Jiangsu provincial agency of SAIC; and (ii) certificates issued by the relevant local agencies of SAIC, certifying that no penalties were imposed on our Company or subsidiaries historically, our PRC legal advisor, Yongheng Partners, is of the view that the confirmation made by the official at Jiangsu provincial agency of SAIC is unlikely to be overruled and we or any of our Directors would not be subject to penalties for these historical non-compliance instances.

We have engaged BDO Financial Services Limited as our internal control advisor to perform a review over our management of health food product advertisements. During the review period from May 1, 2013 to November 30, 2013, our internal control advisor reviewed our procedures regarding posting of proposed health food product advertisements. Having considered the recommendations of our internal control advisor and PRC legal advisor, we have adopted a number of enhanced internal control measures to ensure there will not be any re-occurrence of non-compliant health food product advertisements in the future. Based on the aforementioned review, our internal control advisor has concluded that our enhanced internal control measures are effective to prevent the re-occurrence of non-compliance instances in the future.

The Sole Sponsor believes our enhanced internal control measures are effective and adequate to prevent the re-occurrence of non-compliant health food product advertisements in the future, taking into account the following bases: (i) the view of our internal control advisor, BDO Financial Services Limited, that our internal control measures are effective, upon our adoption of all remedies and enhanced internal control measures as disclosed in this prospectus; (ii) opinion and confirmation from our Directors that our internal control measures are effective and adequate, covering every step for publishing health food product advertisements, and our Directors will monitor the implementation of such measures closely to ensure that all of our health food advertisements are in compliance with applicable PRC laws and regulations in the future; (iii) the extent and scope of remedies and enhanced internal control measures adopted by our Company; and (iv) view of our PRC legal advisor, Yongheng Partners, that our enhanced internal control measures have covered all the material aspects of applicable PRC laws and regulations in relation to the health food product advertisements and are effective to prevent similar non-compliance instances in the operation of our Company.

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Set forth below are further details of our non-compliance instances during the Track Record Period and up to the Latest Practicable Date, including major reasons of occurrence, the view of our PRC legal advisor, indemnity provided by our Controlling Shareholders, views of our Directors and the Sole Sponsor, and enhanced internal control measures we have adopted to prevent the re-occurrence of similar non-compliance instances in the future.

| Historical Advertisements | Non-Compliant | Views of the Directors and the Sole Sponsor | Remedies and enhanced internal control measures |
|---|----------------------|---|--|
| <i>Major reason</i> | | | |
| Lack of a comprehensive system to review, monitor and manage the advertising activities of our subsidiaries under applicable PRC laws and regulations. | | The Directors and the Sole Sponsor are of the view that the non-compliance instances relating to our historical advertisements are not material, and such instances do not raise concern on our Directors' competence, integrity and character, based on the following factors: | We established a designated team, comprising Ms. Zhang Yuan, one of our executive Directors and our general manager, Mr. Song Jiming, our compliance officer and Ms. Chen Xiu, one of our Supervisors, to review the content of, and maintain the related approvals for, our advertisements and regularly monitor and review our advertisements. We have implemented stringent internal control measures designed to ensure there will not be any future non-compliance on health food product advertisements. Specifically, these measures include the following: |
| <i>View of our PRC legal advisor, Yongheng Partners</i> | | (i) our senior management was not aware of the public notices due to the lack of a comprehensive system enabling us to track such public notices on a timely basis, and the Directors confirm that following the release of the public notices on these non-compliance instances by Jiangsu provincial agency of CFDA, we did not receive any notice from any local agencies of CFDA or SAIC, requiring us to cease our advertisements of our relevant products or imposing any penalties on us; | (i) all of our Directors, members of our senior management and employees responsible for review and posting of advertisements of health food products have attended and will continue to attend trainings on the relevant PRC laws and regulations provided by our PRC legal advisor, Yongheng Partners; |
| Our PRC legal advisor, Yongheng Partners, is of the view that we or any of our Directors would not be subject to penalties for these historical non-compliance instances, and if we are, the maximum penalties we may be subject to are fines of up to approximately RMB1.9 million. | | (ii) with respect to the advertisements of our Coenzyme Q ₁₀ Capsules and Keda Propolis Yangshengbao Capsules, as confirmed by the Directors, the relevant violations of the applicable laws were not conducted intentionally, and the non-compliance instances were not due to fraud or dishonesty on part of any of our Directors. Such breach was caused by the previous lack of comprehensive internal control measures to require the responsible subsidiary to keep our management informed of the content of any advertisements posted by such subsidiary's staff on the local media; | (ii) all the advertisements for health food products shall be published only after obtaining the advertisement approval from the local agency of CFDA; |
| <i>Indemnity by the Controlling Shareholders</i> | | (iii) the Directors confirm that, save as disclosed herein, we were not engaged in any advertising practice during the Track Record Period and up to the Latest Practicable Date that has subjected, or may subject, us to public notices or penalties imposed by competent authorities in China; and | (iii) the content of the advertisements proposed by any subsidiary shall be reviewed and approved by our designated team at the headquarters; |
| Our Controlling Shareholders have jointly and severally provided an indemnity in favor of our Group from and against, among other things, all actions, claims, losses, liabilities, charges, costs, fines, damages or expenses which we may incur or suffer as a result of or in connection with the non-compliance instances stated in the public notices issued by Jiangsu provincial agency of CFDA. | | (iv) according to our PRC legal advisor, Yongheng Partners, the competent authority in China which has the authority to impose penalties on us following the public notice by Jiangsu provincial agency of CFDA are SAIC and its local agencies. We received certificates issued by the relevant local agencies of SAIC, certifying that no penalties were imposed on our Company or subsidiaries historically. Our PRC legal advisor, Yongheng Partners, is of the view that we or any of our Directors would not be subject to penalties for these historical non-compliance instances. | (iv) we will seek legal advice from our PRC compliance counsel before we publish future advertisements of our products in China; |
| <i>Potential operational and financial impact</i> | | | (v) we will apply for extension of each CFDA advertisement approval 60 days before its expiration date to make sure we maintain effective approvals at all times; |
| Taking into consideration the view of our PRC legal advisor and the indemnity provided by the Controlling Shareholders, our Directors believe our results of operation and financial condition will not be materially adversely affected by these non-compliance instances. | | | (vi) we will provide relevant CFDA health food approvals to the media operators where the advertisements are published, and require the content of the advertisements published, to the extent related to the benefits of our health food products, shall be strictly the same as that approved by CFDA; and |
| | | | (vii) we will visit the website of the local agencies of CFDA in markets where we operate on a monthly basis to keep track of public notices issued by the local agencies of CFDA on a timely basis. |
| | | | Our PRC legal advisor, Yongheng Partners, is of the view that these enhancement measures have covered all the material aspects of applicable PRC laws and regulations in relation to the health food product advertisements and are effective to prevent similar non-compliance instances in the future. |