The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as of and for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the accompanying notes, all included in the Accountants' Report set out in Appendix I to this prospectus. We have prepared our financial information in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

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 self-managed 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 through our branded self-managed retail network. 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 focus on Jiangsu and Zhejiang provinces.

We report our financial results in business segments as described below:

- ***Zhongsheng series products.*** As of June 30, 2013, we offered 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;
- ***Cobayer series products.*** As of June 30, 2013, we offered 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; and
- ***Others.*** This product category primarily consists of third-party branded Australian nutritional food and gifts.

We experienced significant growth in turnover and net profit during the Track Record Period. For the years ended December 31, 2010, 2011 and 2012, turnover derived from our sales of Zhongsheng series products was RMB48.4 million, RMB61.3 million and RMB95.7 million, respectively, representing a CAGR of 40.7% from 2010 to 2012, and turnover derived from our sales of Cobayer series products was RMB16.9 million, RMB40.8 million and RMB52.6 million, respectively, representing a CAGR of 76.4% from 2010 to 2012. For the six months ended June 30, 2012 and 2013, turnover derived from our sales of Zhongsheng series products was RMB38.5 million and RMB36.6 million, respectively, and turnover derived from our sales of Cobayer series products was RMB25.5 million and RMB45.5 million, respectively.

BASIS OF PRESENTATION

Our Company was established as a stock company in the PRC on May 24, 1999 and was converted into a limited liability company on May 13, 2005 and a joint stock limited liability company on October 26, 2012. The financial information in the Accountants' Report included in Appendix I to this prospectus has been prepared under the historical cost in accordance with all applicable HKFRS. The financial information of our Group is presented in RMB.

Nanjing Zhongsheng Pharmaceutical

In 2010, Nanjing Zhongsheng Pharmaceutical, which was then owned by our Controlling Shareholders, transferred CFDA health food approvals of seven Zhongsheng series products to our Company at nil cost and our Company has continued to run the business of Nanjing Zhongsheng Pharmaceutical thereafter. The aforementioned transfer is accounted for as a business combination under common control.

On December 24, 2012, our Group acquired the entire equity interest in Cobayer Health Food Company from Mr. Gui, one of our Controlling Shareholders. This transaction has been also accounted for as a business combination under common control.

Business combination under common control is accounted for using the principles of merger accounting in which their financial statements have been incorporated in the consolidated financial statements of our Group from the date when the combining entities or businesses first came under the control of the Controlling Shareholders. Other non-common control business combinations have been accounted for using acquisition method of accounting.

All inter-company transactions, cash flows and balances between the companies now comprising our Group are eliminated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

We recognize revenue on the following bases: (i) revenue from sales of goods is recognized on transfer of risks and rewards of ownership, which is at the time of delivery and when the title is passed to the customer; and (ii) interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Impairment of Property, Plant and Equipment

We test annually whether property, plant and equipment have suffered any impairment. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require our use of judgments and estimates.

The judgment of our management is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by our management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and further affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

Useful Lives of Property, Plant and Equipment

We determine the estimated useful lives, and related depreciation charges for our property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. We will increase the depreciation and amortization charges where useful lives are less than previously estimated lives, and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

Provision for Obsolete Inventories

We estimate the net realizable value of inventories based primarily on the latest market prices and market conditions. We carry out an inventory review at the end of each period and make allowance on obsolete and slow moving items to write off or write down inventories to their net realizable values. Where the expectation on the net realizable value is lower than the cost, impairment may arise.

Impairment of Trade Receivables

We review the recoverability of trade receivables based on the receivables' aging characteristics, and the current creditworthiness and past collection history of each customer. Our management's judgment is required in assessing the ultimate realization of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management's evaluation. If the financial conditions of a customer were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

Income Taxes and Deferred Tax

We are subject to income taxes in China and Australia. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of businesses. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when our management determines it is likely that future taxable profits will be available against the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows.

Market Demand for Our Products

We generate substantially all of our turnover in the PRC. Our financial results have been driven in part by the rapid growth of nutritional supplements market in China. According to SMERI, nutritional supplements sales in China experienced significant growth in recent years, increasing from RMB265 billion in 2008 to RMB580 billion in 2012, representing a CAGR of 21.6% over this period, and are estimated to reach RMB1,015 billion by 2015. With our over 14 years of industry experience, comprehensive product mix and strategically located retail network, we believe we are well positioned to take advantage of the rapid growth of China's nutritional supplements market in the future. Market demand for our nutritional supplements is and will be subject to a number of factors, including the growth of China's GDP, levels of disposable income and consumer spending, consumer perception and spending behavior of nutritional supplements, and changes in the regulatory environment in China.

Competition

Our results of operations and financial condition are affected by the competitive landscape of the nutritional supplements industry in the PRC. The nutritional supplements industry in the PRC is highly fragmented and competitive with an increasing number of local and international players. Industry players compete based on, among other things, brand recognition, product selection, customer services, customer loyalty, product quality and price. We expect that the competition will further intensify in light of the fast growing industry condition and favorable social and economic factors. As a result, we may be required to adjust the prices of our products and devote additional financial resources to operations to meet the rapidly changing market trends and requirements, and in this process our profitability could be negatively affected.

Product Mix

Our results of operations are significantly affected by the relative contribution of our two key business segments, namely sales of our Zhongsheng series products and sales of our Cobayer series products, which have different profit margins. We also record turnover from the sales of other products which include third-party branded Australian nutritional food and gifts. The sales of other products contributed to less than 5% of our total turnover during the Track Record Period.

The following table sets forth, for the periods indicated, selected data related to the relative turnover contribution of our business segments:

	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	48,410	72.4	61,332	59.4	95,744	63.7	38,547	59.5	36,635	42.6
Cobayer series products	16,922	25.3	40,837	39.6	52,613	35.0	25,505	39.3	45,537	53.0
Others	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

The following table set forth, for the periods indicated, the sales volume, average selling price and turnover of our major products.

	Year ended December 31,									Six months ended June 30,		
	2010			2011			2012			2013		
	Sales volume	**ASP**	**Turnover**	**Sales volume**	**ASP**	**Turnover**	**Sales volume**	**ASP**	**Turnover**	**Sales volume**	**ASP**	**Turnover**
	(units)	*(RMB)*	*(RMB'000)*	*(units)*	*(RMB)*	*(RMB'000)*	*(units)*	*(RMB)*	*(RMB'000)*	*(units)*	*(RMB)*	*(RMB'000)*
Zhongsheng series products												
Coenzyme Q_{10} Tablets/Capsules	77,874	232.5	18,107	104,142	331.3	34,504	108,444	388.9	42,179	48,969	305.7	14,969
Linolenic Acid Soft Capsules	–	–	–	7,909	167.8	1,327	85,112	285.3	24,280	6,208	324.4	2,014
Grapeseed Capsules	7,768	32.6	253	5,340	107.5	574	32,080	625.8	20,076	7,848	941.7	7,391
Weisi Capsules	3,115	155.2	483	25,953	183.1	4,751	19,937	176.9	3,526	30,362	311.0	9,443
Subtotal	–	–	18,843	–	–	41,156	–	–	90,061	–	–	33,817
% of total turnover	–	–	28.2%	–	–	39.9%	–	–	59.9%	–	–	39.3%
Cobayer series products												
Olive Leaf Extract	5,240	313.2	1,641	27,962	274.4	7,673	73,208	306.0	22,399	28,530	473.3	13,504
Emu Oil Capsules	–	–	–	19,340	205.8	3,980	28,611	360.4	10,311	22,819	451.9	10,312
Evening Primrose Oil Capsules	4,936	127.1	627	3,734	123.9	463	4,444	125.4	557	90	276.8	25
Liver Tonic (Milk Thistle) Capsules	6,898	308.4	2,127	21,938	308.5	6,767	14,282	369.4	5,276	6,963	766.8	5,339
Algal DHA Composite Oil	–	–	–	–	–	–	34	501.9	17	9,754	456.2	4,450
Squalene Capsules	20,538	172.0	3,533	37,365	189.4	7,076	9,139	182.0	1,662	2,473	288.1	712
Blueberry Capsules	18,807	195.7	3,680	25,816	223.3	5,766	6,849	193.1	1,323	1,750	491.4	860
Subtotal	–	–	11,608	–	–	31,725	–	–	41,545	–	–	35,202
% of total turnover	–	–	17.4%	–	–	30.7%	–	–	27.6%	–	–	40.9%
Total	–	–	30,451	–	–	72,881	–	–	131,606	–	–	69,019
% of total turnover	–	–	45.6%	–	–	70.6%	–	–	87.5%	–	–	80.2%

The average selling prices of our major products represent the average selling price per bottle. Such prices fluctuated during the Track Record Period, which was primarily attributable to the change in the proportion of sales of products with different servings per bottle, and the level of price discounts we offered to our customers driven principally by our sales efforts, customer feedback and market demand of individual products.

Zhongsheng series products

- *Coenzyme Q_{10} Tablets/Capsules*: The average selling price of our Coenzyme Q_{10} Tablets/Capsules increased in 2011 as compared to 2010, which was primarily due to our launch of Coenzyme Q_{10} Tablets in 2011, a product with a higher retail price per bottle as compared to our Coenzyme Q_{10} Capsules due to the larger servings of coenzyme Q_{10} contained. The average selling price of our Coenzyme Q_{10} Tablets/Capsules further increased in 2012 as compared to 2011, primarily due to an increased proportion of Coenzyme Q_{10} Tablets we sold during the same period. The average selling price of our Coenzyme Q_{10} Tablets/Capsules, however, decreased in the first half of 2013 as compared to 2012, primarily due to our increased sales efforts to promote Coenzyme Q_{10} Capsules in the form of 30 pieces per bottle in order to attract new customers. Our Coenzyme Q_{10} Tablets/Capsules are normally packaged and offered with servings of 120 tablets and 90 capsules per bottle.

- *Linolenic Acid Soft Capsules*: The average selling price of our Linolenic Acid Soft Capsules increased in 2012 as compared to 2011, primarily due to higher price discounts we offered to customers when we first launched this product in 2011. Its average selling price further increased in the first half of 2013 as compared to 2012, primarily because we were focused on the promotion of other products in the first half of 2013 and offered less price discounts on this product.

- *Grapeseed Capsules*: The average selling price of our Grapeseed Capsules increased in 2011 as compared to 2010, primarily due to our intensive sales efforts in 2010 to promote this product with relatively high price discounts. We introduced this product with increased servings of 120 capsules per bottle in 2012, which had a higher retail price per bottle as compared to the same product previously offered with 90 capsules per bottle. Our introduction of Grapeseed Capsules with increased servings in 2012 and the increased proportion of sales contributed by it in the first half of 2013 led to the increased average selling prices of Grapeseed Capsules during the same periods.

- *Weisi Capsules*: The average selling price of our Weisi Capsules was relatively stable in 2011 and 2012, which was slightly higher as compared to 2010, primarily due to the higher price discounts we offered to customers in 2010. Its average selling price significantly increased in the first half of 2013, primarily because we introduced Weisi Capsules with increased servings of 90 capsules per bottle in the first half of 2013, which had a higher retail price as compared to the same product previously offered with 60 capsules per bottle.

Cobayer series products

- *Olive Leaf Extract*: The average selling price of our Olive Leaf Extract was lower in 2011 as compared to 2010 and 2012, primarily due to our intensive sales efforts during the major holidays of 2011 to promote this product with relatively high price discounts. We introduced this product with new packaging configurations in the first half of 2013 and priced it higher than the same product previously offered, which resulted in an increase in the average selling price of our Olive Leaf Extract during the same period.

- *Emu Oil Capsules*: The average selling price of our Emu Capsules increased in 2012 as compared to 2011, primarily due to higher price discounts we offered to customers when we first launched this product in 2011. Its average selling price further increased in the first half of 2013, primarily due to less price discounts we offered to customers during the same period.

- *Evening Primrose Oil Capsules*: The average selling price of our Evening Primrose Oil Capsules was relatively stable in 2010, 2011 and 2012. Its average selling price increased in the first half of 2013, primarily due to less price discounts offered by us when the inventory of this product became relatively small during the same period.

- *Liver Tonic (Milk Thistle) Capsules*: The average selling price of our Liver Tonic (Milk Thistle) Capsules increased in 2012 and the first half of 2013, as compared to 2010 and 2011, primarily because we offered relatively high price discounts in 2010 and 2011 in order to increase our market share of this product, and less price discounts to customers in 2012 and the first half of 2013 when we believe this product has been gradually recognized by our target customers.

- *Algal DHA Composite Oil*: The average selling price of our Algal DHA Composite Oil slightly decreased in the first half of 2013 as compared to 2012, primarily due to our increased sales efforts to offer higher price discounts on this product.

- *Squalene Capsules*: The average selling price of our Squalene Capsules was relatively stable in 2010, 2011 and 2012. Its average selling price increased in the first half of 2013, primarily due to less price discounts we offered to customers during the same period when we believe this product has been gradually recognized by our target customers.

- *Blueberry Capsules*: The average selling price of our Blueberry Capsules was relatively stable in 2010 and 2012, which was lower as compared to 2011, primarily due to less price discounts we offered in 2011 driven principally by a higher market demand of our Blueberry Capsules during the same year. The average selling price of this product significantly increased in the first half of 2013, primarily because we offered less price discounts on this product during the same period.

Due to changes in our marketing and promotional strategies according to the prevailing market conditions and the different costs basis of our product lines, revenue contribution by and gross margin of our product lines vary from one period to another. Our strategy is to continue to evaluate and adjust our product portfolio from time to time to focus our resources primarily on products with greater market demand and higher profit margins, while reducing or phasing out products with decreasing market demand or lower profit margins, so as to maintain or increase the overall profit and profitability of our business. While our Zhongsheng series products and Cobayer series products may continue to vary in their relative significance to our business from time to time, we intend to launch and develop new products for both product lines and enhance their respective sales according to the prevailing market conditions.

Coverage of Our Sales Network

Capitalizing on rising market demand and our successful marketing and branding efforts, we have experienced strong turnover growth through the rapid expansion of our sales network during the Track Record Period. We sell substantially all of our products through our self-managed 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. Subject to market conditions, we plan to increase the number of our Zhongsheng retail stores and Cobayer retail stores to 45 and 72 by the end of 2014, respectively. 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 benefit from the rapidly growing e-Commerce business in China.

We will continue to rely on our self-managed retail stores to promote our products to end consumers. As such, our turnover and profit growth will continue to depend to a significant extent on our ability to expand and manage our sales network.

Pricing of Products

We determine the price of our products based on a number of factors, including market positioning of our brands, the characteristics and added value of our products, the expected profit margin of 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.

We formulate and implement market positioning strategies aimed at enhancing our brand and product image in the nutritional supplements market. Over the past few years, we believe we have successfully established awareness and acceptance of our brands in markets in which we operate, and associated our Zhongsheng series products and Cobayer series products with images of high quality, safe nutritional supplements. We believe through the continuous strengthening of our brands, our comprehensive product selection and personalized health solutions offered to our customers, we have built and solidified the loyalty of our customers, which in turn reduces the level of their sensitivity to the prices of our products, thus enabling us to maintain and further increase our profitability.

Our Ability to Introduce New Products

Our ability to introduce new products to the market that meet consumer demands and preferences will have a significant influence on our future financial performance. During the Track Record Period, we achieved strong turnover and profit growth partly due to our successful launch of new products, including Coenzyme Q_{10} Tablets, Linolenic Acid Soft Capsules, Emu Oil Capsules, Salmon Oil Capsules, Australian Extra Virgin Olive Oil and Omega-3 Capsules in 2011, certain Cobayer milk and protein powder products in 2012, and certain Cobayer milk and protein powder products and Cod Fish Oil Capsules in the first half of 2013. Our turnover growth in the Track Record Period was also partly attributable to our introduction of various best-selling products with increased servings to meet the rapidly changing customer preferences. These products primarily include Grapeseed Capsules in 2012, and Olive Leaf Extract and Weisi Capsules during the first half of 2013. With larger servings or different packaging configurations, we were able to increase product prices to achieve higher turnover.

The success of our new products and variations of existing best-selling products depends on a number of factors, including our ability to accurately anticipate changes in market demand and consumer preferences, consumer's perception and acceptance of our products, our ability to differentiate our products from those of our competitors, our ability to obtain all required regulatory approvals on time and the effectiveness of our marketing and advertising campaigns for these products.

Cost of Products

Our profitability is significantly affected by our cost of sales, which primarily consists of cost of raw materials and packaging materials and other costs incurred in the production process for our Zhongsheng series products, and the purchase cost of goods for our Cobayer series products. The raw materials for our Zhongsheng series products consist primarily of nutraceuticals, herb extracts, vitamins and mineral products, and the packaging materials for our Zhongsheng series products primarily include capsules, bottles, cardboard, boxes and labels. The purchase cost of goods for our Cobayer series products includes the payment we make directly to third-party manufacturers in Australia and New Zealand for the finished good and all associated transportation costs.

The prices for our raw materials and packaging materials of our Zhongsheng series products are determined principally by market forces and our bargaining power vis-a-vis our suppliers. During the Track Record Period, the cost of our raw materials and packaging materials remained relatively stable with slight increases in general. We seek to reduce the impact of increases in raw material prices by centralizing our procurement of raw materials to leverage economies of scale and maximize our bargaining power with suppliers. We also closely monitor the market trends and are constantly in search of alternative suppliers and third-party manufacturers in Australia and New Zealand that may offer more favorable terms and purchase prices of products to us.

DESCRIPTION OF PRINCIPAL CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Turnover

Our turnover consists primarily of sales of our Zhongsheng series products and Cobayer series products. During the Track Record Period, we also offered a small portion of third-party branded Australian nutritional food and gifts. The table below sets forth, for the periods indicated, a breakdown of our 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*
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	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	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(1)	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

Note:

(1) Representing third-party branded Australian nutritional food and gifts.

Cost of sales

Our cost of sales consists primarily of purchase cost of goods, cost of raw materials, cost of packaging materials, labor costs, depreciation, utilities, other production costs and subcontracting charges. Our purchase cost of goods represents the purchase price we pay to third-party manufacturers in Australia and New Zealand for the finished products which are sold under our own brands and other third-party branded Australian nutritional food and gifts. Aside from purchase cost of goods and subcontracting charges, all other categories in cost of sales are related to the production of Zhongsheng series products by ourselves in China. Subcontracting charges primarily represent fees we pay to third-party manufacturers in China for the production of certain products in the forms of soft gelatin capsules and miniature bottled drinks during the Track Record Period.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

	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*
Purchase of goods	7,111	52.3	15,220	75.8	14,941	73.7	7,437	75.3	9,158	81.3
Raw materials	2,324	17.1	1,804	9.0	1,604	7.9	844	8.6	334	3.0
Packaging materials	1,613	11.9	947	4.7	783	3.9	320	3.2	227	2.0
Labor costs	890	6.6	965	4.8	1,516	7.4	625	6.3	1,005	8.9
Depreciation	620	4.6	466	2.3	396	2.0	198	2.0	214	1.9
Utilities	631	4.6	497	2.5	413	2.0	206	2.1	188	1.7
Other production costs	196	1.4	134	0.7	219	1.1	111	1.1	78	0.7
Subcontracting charges	203	1.5	47	0.2	404	2.0	140	1.4	60	0.5
Total	13,588	100.0	20,080	100.0	20,276	100.0	9,881	100.0	11,264	100.0

The table below sets forth, for the periods indicated, the cost of sales by business segment and the cost of sales as a percentage of total cost of sales.

	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*
Cost for Zhongsheng series products	7,011	51.6	6,184	30.8	6,901	34.0	2,745	27.8	3,072	27.3
Cost for Cobayer series products	5,352	39.4	12,989	64.7	11,831	58.4	6,596	66.8	6,826	60.6
Cost for other purchases	1,225	9.0	907	4.5	1,544	7.6	540	5.4	1,366	12.1
Total	13,588	100.0	20,080	100.0	20,276	100.0	9,881	100.0	11,264	100.0

Gross profit

Gross profit represents the excess of turnover over cost of sales. The following table sets forth, for the periods indicated, the gross profit from our business segments and the percentage of our total gross profit by business segment.

	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	41,399	77.7	55,147	66.3	88,843	68.3	35,802	65.2	33,563	45.0
Cobayer series products	11,570	21.7	27,849	33.5	40,782	31.3	18,909	34.4	38,711	51.8
Others	293	0.6	168	0.2	471	0.4	227	0.4	2,427	3.2
Total	53,262	100.0	83,164	100.0	130,096	100.0	54,938	100.0	74,701	100.0

The following table sets forth, for the periods indicated, the gross profit margin of our Zhongsheng series products and Cobayer series products, as well as the gross margin of our overall business.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Zhongsheng series products	85.5%	89.9%	92.8%	92.9%	91.6%
Cobayer series products	68.4%	68.2%	77.5%	74.1%	85.0%
Overall	79.7%	80.6%	86.5%	84.8%	86.9%

Other revenue and other gains and losses

Other revenue and other gains and losses mainly include bank interest income, short-term investment income, net exchange gain/loss, waiver of long outstanding trade and other payables, government grant, loss on disposal of property, plant and equipment, compensation income, written off of goodwill and sundry income. Our short-term investments as of December 31, 2011 and June 30, 2013 were RMB9.0 million and RMB22.0 million, respectively, which were wealth management products (銀行理財產品) issued by the Agricultural Bank of China and the Shanghai Pudong Development Bank, respectively. Such short-term investments were capital fund guaranteed by the respective issuers with a term of six months and fixed return rates of 4.35% to 5.4% per annum. These capital guaranteed funds were redeemable by the issuers upon repayment of the principal amount plus an aggregate return at any time prior to the maturity date. During the Track Record Period, we typically considered our cash position, return level and associated risks when we made investment decisions. Such investments were typically proposed by employees in our financial department with over five years of accounting-related experience and approved by our Board. We do not plan to make similar investments after Listing. Our waiver of long outstanding trade and other payables in 2010 and 2011 was primarily related to payables of Nanjing Zhongsheng to its suppliers of equipment and raw materials recorded prior to our acquisition of Nanjing Zhongsheng in 2007. Our waiver of long outstanding trade and other payables in 2012 was primarily related to our payables to certain suppliers prior to 2009. None of these outstanding payables was collected by the respective suppliers. We waived these outstanding payables after a three-year outstanding period, taking into account the remote and insignificant obligations associated therewith.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, other revenue and other gains and losses were RMB0.7 million, RMB0.3 million, RMB1.5 million, RMB0.4 million and RMB0.6 million, respectively. The increase in other revenue and other gains and losses for the year ended December 31, 2012 was primarily due to a higher amount of bank interest income and short-term investment income recorded.

Selling and distribution expenses

Selling and distribution expenses mainly represent marketing, sales and promotion expenses, salary and welfare expenses for employees involved in selling and distribution activities, and other operating expenses, including travel and office expenses, rental expenses, transportation expenses and other miscellaneous expenses.

The table below sets forth, for the periods indicated, a breakdown of our selling and distribution expenses.

	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*
Marketing, sales and promotion expenses	8,786	46.9	7,307	35.9	8,397	24.7	3,524	30.3	5,748	25.9
Employee benefit expenses	6,806	36.3	9,035	44.4	17,212	50.6	5,319	45.8	11,265	50.7
Rental expenses	892	4.8	847	4.2	1,895	5.6	1,055	9.1	1,658	7.5
Travel and office expenses	1,474	7.9	2,154	10.6	3,403	10.0	1,075	9.2	1,569	7.1
Transportation expenses	634	3.4	672	3.3	1,716	5.0	562	4.8	928	4.2
Others	140	0.7	324	1.6	1,424	4.1	91	0.8	1,048	4.6
Total	18,732	100.0	20,339	100.0	34,047	100.0	11,626	100.0	22,216	100.0

Administrative expenses

Administrative expenses mainly represent salary and welfare expenses for management and administrative personnel, general and administrative expenses, rental expenses, depreciation and amortization costs, travel and office expenses, research and development cost and expenses for our Listing on the Hong Kong Stock Exchange.

	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*
Employee benefit expenses	5,302	37.3	5,940	37.2	9,889	47.9	4,793	51.5	5,550	43.4
General and administrative expenses	3,131	22.0	3,925	24.6	4,039	19.6	1,710	18.3	1,766	13.8
Rental expenses	2,005	14.1	1,596	10.0	1,735	8.4	771	8.3	873	6.8
Depreciation and amortization	1,749	12.4	1,791	11.3	1,751	8.5	886	9.5	1,259	9.9
Travel and office expenses	1,673	11.7	2,479	15.5	2,988	14.5	1,066	11.4	919	7.2
Research and development cost	354	2.5	224	1.4	219	1.1	89	1.0	383	3.0
Listing expenses	–	–	–	–	–	–	–	–	2,038	15.9
Total	14,214	100.0	15,955	100.0	20,621	100.0	9,315	100.0	12,788	100.0

Income tax expense

Income tax expenses mainly represent the income tax charged on our PRC subsidiaries, profits tax charged on our Australian subsidiary and related deferred tax expenses. Our subsidiaries located in the PRC were subject to a statutory income tax rate of 25.0% during the Track Record Period. Our subsidiary in Australia, namely, Cobayer Health Food Company, was subject to a statutory income tax rate of 30% on all profits arising in or derived from Australia.

RESULTS OF OPERATIONS

The following table sets out our consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, which are derived from the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended December 31,			Six months ended June 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Turnover	66,850	103,244	150,372	64,819	85,965
Cost of sales	(13,588)	(20,080)	(20,276)	(9,881)	(11,264)
Gross profit	53,262	83,164	130,096	54,938	74,701
Other revenue and other gains and losses	679	337	1,484	436	581
Selling and distribution expenses	(18,732)	(20,339)	(34,047)	(11,626)	(22,216)
Administrative expenses	(14,214)	(15,955)	(20,621)	(9,315)	(12,788)
Profit before income tax	20,995	47,207	76,912	34,433	40,278
Income tax expense	(5,207)	(12,393)	(19,675)	(8,265)	(10,578)
Profit for the year/period	15,788	34,814	57,237	26,168	29,700
Other comprehensive income					
Exchange differences on translation of foreign operations	75	(108)	(11)	–	(412)
Total comprehensive income for the year/period	15,863	34,706	57,226	26,168	29,288
Earnings per share (RMB)					
– Basic and diluted	0.29	0.63	1.04	0.48	0.53

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2013 compared with six months ended June 30, 2012

Turnover

Our total turnover increased by RMB21.2 million, or 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. The increase was mainly attributable to an increase in the turnover derived from our sales of Cobayer series products, the effects of which were partially offset by a slight decrease in the turnover derived from our sales of Zhongsheng series products.

- **Cobayer series products.** Turnover derived from our sales of Cobayer series products increased by RMB20.0 million, or 78.4%, from RMB25.5 million for the six months ended June 30, 2012 to RMB45.5 million for the six months ended June 30, 2013. Such increase primarily reflected an increase in turnover derived from sales of a number of our key products and the expansion of our Cobayer retail stores.

  – Turnover derived from our sales of Olive Leaf Extract, our best-selling Cobayer series product, increased from RMB11.3 million to RMB13.5 million, turnover derived from our sales of Emu Oil Capsules increased from RMB6.6 million to RMB10.3 million, and turnover derived from our sales of Liver Tonic (Milk Thistle) Capsules increased from RMB0.9 million to RMB5.3 million, from the six months ended June 30, 2012 to the six months ended June 30, 2013. Such increases were primarily driven by our increased sales efforts to promote these products. We also launched a number of new Cobayer series products in the first half of 2013, including certain milk and protein powder products and Cod Fish Oil Capsules.

  – We expanded our retail network for our sales of Cobayer series products in the first half of 2013 by opening nine new self-managed retail stores in Jiangsu, Zhejiang, Guangdong, Yunnan and Shandong provinces.

- **Zhongsheng series products.** Turnover derived from our sales of Zhongsheng series products decreased by RMB1.9 million, or 4.9%, from RMB38.5 million for the six months ended June 30, 2012 to RMB36.6 million for the six months ended June 30, 2013. Such decrease was primarily due to decreases in turnover derived from certain key products.

  – Turnover derived from our sales of Linolenic Acid Soft Capsules decreased from RMB12.6 million for the six months ended June 30, 2012 to RMB2.0 million for the six months ended June 30, 2013, and turnover derived from our sales of Coenzyme Q_{10} Tablets/Capsules decreased from RMB16.5 million to RMB15.0 million during the same period. These decreases were primarily driven by more resources devoted by us in respect of the marketing and promotion of other products, such as Weisi Capsules, one of our Zhongsheng series products, and Cobayer series products in the first half of 2013. The foregoing effects, however, were partially offset by an increase in turnover derived from our sales of Weisi Capsules from RMB1.4 million for the six months ended June 30, 2012 to RMB9.4 million for the six months ended June 30, 2013, primarily driven by our increased sales efforts.

– Our expansion of Zhongsheng retail network slowed down in the first half of 2013, as we devoted more resources in the development and expansion of our Cobayer retail network. We opened one new Zhongsheng retail store in Nanjing, Jiangsu province in the first half of 2013.

- **Others.** Turnover derived from our sales of other products increased by RMB3.0 million, or 3.8 times, from RMB0.8 million for the six months ended June 30, 2012 to RMB3.8 million for the six months ended June 30, 2013, primarily due to increasing market demand on a number of third-party branded Australian nutritional food, including macadamia oil, avocado oil, fruit flavored balsamic vinegar, honey products and jams.

Cost of sales

Our total cost of sales increased by RMB1.4 million, or 14.1%, from RMB9.9 million for the six months ended June 30, 2012 to RMB11.3 million for the six months ended June 30, 2013. The increase was mainly attributable to increases in the cost of sales for our Zhongsheng series products, our Cobayer series products and other products.

- **Zhongsheng series products.** Cost of sales for our Zhongsheng series products increased by RMB0.4 million, or 14.8%, from RMB2.7 million for the six months ended June 30, 2012 to RMB3.1 million for the six months ended June 30, 2013, despite our decreased sales of Zhongsheng series products during the same period, primarily due to our increased labor cost as a result of bonus paid to our staff in the first half of 2013.

- **Cobayer series products.** Cost of sales for our Cobayer series products increased by RMB0.2 million, or 3.0%, from RMB6.6 million for the six months ended June 30, 2012 to RMB6.8 million for the six months ended June 30, 2013, primarily driven by our increased sales of Cobayer series products during the same period.

- **Others.** Cost of sales for our other products increased by RMB0.9 million, or by 1.8 times, from RMB0.5 million for the six months ended June 30, 2012 to RMB1.4 million for the six months ended June 30, 2013, primarily driven by our increased sales of third-party branded Australian nutritional food during the same period.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB19.8 million, or 36.1%, from RMB54.9 million for the six months ended June 30, 2012 to RMB74.7 million for the six months ended June 30, 2013, and our gross profit margin increased from 84.8% for the six months ended June 30, 2012 to 86.9% for the six months ended June 30, 2013.

Gross profit for our Zhongsheng series products decreased by RMB2.2 million, or 6.1%, from RMB35.8 million for the six months ended June 30, 2012 to RMB33.6 million for the six months ended June 30, 2013. Gross profit margin for our Zhongsheng series products slightly decreased from 92.9% for the six months ended June 30, 2012 to 91.6% for the six months ended June 30, 2013, primarily due to the increase in the cost of sales as a result of our increased labor cost driven by bonus paid to our staff in the first half of 2013. Gross profit for our Cobayer series products increased by RMB19.8 million, or 104.8%, from RMB18.9 million for the six months ended June 30, 2012 to RMB38.7 million for the six months ended June 30, 2013. Gross profit margin for our Cobayer series products increased from 74.1% for the six months ended June 30, 2012 to 85.0% for the six months ended June 30, 2013. The increase in the gross profit margin for our Cobayer series products was primarily due to our better management of cost of sales in 2013, as a result of more favorable purchase prices offered by our manufacturers in Australia in respect of other Cobayer series products due to our increased purchase volume, which was driven by increased market demand for our Cobayer series products.

Other revenue and other gains and losses

Our other revenue and other gains increased by RMB0.2 million, or 50.0%, from RMB0.4 million for the six months ended June 30, 2012 to RMB0.6 million for the six months ended June 30, 2013. The increase was mainly due to an increase in short-term investment income, primarily due to our increased purchase of short-term investment products.

Selling and distribution expenses

Selling and distribution expenses increased by RMB10.6 million, or 91.4%, from RMB11.6 million for the six months ended June 30, 2012 to RMB22.2 million for the six months ended June 30, 2013. The increase was mainly due to an increase in salary and benefit expenses for employees involved in selling and distribution activities, primarily as a result of our expansion of sales network of Cobayer series products, and our increased advertising costs to promote the awareness in the local markets of our newly opened Cobayer retail stores in the first half of 2013.

Administrative expenses

Administrative expenses increased by RMB3.5 million, or 37.6%, from RMB9.3 million for the six months ended June 30, 2012 to RMB12.8 million for the six months ended June 30, 2013. The increase in administrative expenses was mainly due to the expenses associated with our preparation for the Listing on the Hong Kong Stock Exchange, an increase in research and development expenses which were primarily related to our application for CFDA approvals as health food products in respect of a number of our products, and an increase in salary and benefit expenses for employees involved in administrative activities as a result of our expansion of sales network of Cobayer series products.

Profit before income tax

As a result of the aforesaid factors, our profit before income tax increased by RMB5.9 million, or 17.2%, from RMB34.4 million for the six months ended June 30, 2012 to RMB40.3 million for the six months ended June 30, 2013.

Income tax expense

Income tax expense increased by RMB2.3 million, or 27.7%, from RMB8.3 million for the six months ended June 30, 2012 to RMB10.6 million for the six months ended June 30, 2013. The increase was mainly due to the increase in our profit before income tax. Our effective tax rate increased from 24.0% for the six months ended June 30, 2012 to 26.3% in for the six months ended June 30, 2013, primarily due to the adjustment in our income tax return in the first half of 2013.

Profit for the period

As a result for the above factors, profit for the period increased by RMB3.5 million, or 13.4%, from RMB26.2 million for the six months ended June 30, 2012 to RMB29.7 million for the six months ended June 30, 2013.

Year ended December 31, 2012 compared with year ended December 31, 2011

Turnover

Our total turnover increased by RMB47.2 million, or 45.7%, from RMB103.2 million in 2011 to RMB150.4 million in 2012. The increase was mainly attributable to increases in turnover derived from our sales of Zhongsheng series products, and to a lesser extent, our sales of Cobayer series products.

- **Zhongsheng series products.** Turnover derived from our sales of Zhongsheng series products increased by RMB34.4 million, or 56.1%, from RMB61.3 million in 2011 to RMB95.7 million in 2012. Such increase primarily reflected increases in turnover derived from a number of our key products and the expansion of our sales network.

  – From 2011 to 2012, turnover derived from our sales of Coenzyme Q_{10} Tablets/Capsules increased from RMB34.5 million to RMB42.2 million, turnover derived from our sales of Linolenic Acid Soft Capsules increased from RMB1.3 million to RMB24.3 million, and turnover derived from our sales of Grapeseed Capsules increased from RMB0.6 million to RMB20.1 million. These increases were primarily driven by increases in sales volume of these key products as a result of our increased sales efforts to promote these products, and partly due to our launch of Linolenic Acid Soft Capsules since the fourth quarter of 2011, and introduction of the Grapeseed Capsules with increased servings and higher selling price in 2012.

  – We significantly expanded our retail network for our sales of Zhongsheng series products in 2012 by opening ten new retail stores in Jiangsu, Zhejiang and Guangdong provinces.

- **Cobayer series products.** Turnover derived from our sales of Cobayer series products increased by RMB11.8 million, or 28.9%, from RMB40.8 million in 2011 to RMB52.6 million in 2012. Such increase primarily reflected an increase in turnover derived from sales of a number of our key products, our launch of certain new products and the establishment and rapid expansion of our Cobayer retail stores.

  – From 2011 to 2012, turnover derived from our sales of Olive Leaf Extract, our best-selling Cobayer series product, increased from RMB7.7 million to RMB22.4 million, and turnover derived from our sales of Emu Oil Capsules increased from RMB4.0 million to RMB10.3 million. The foregoing effects, however, were partially offset by a decrease in turnover derived from our sales of Squalene Capsules from RMB7.1 million in 2011 to RMB1.7 million in 2012. The changes in the turnover derived from various products were primarily driven by sales efforts we devoted to promote these products. We also launched a number of milk and protein powder products in 2012, including Soy Protein Powder, Goat Milk Powder and Whey Protein Powder, which further enhanced our sales in 2012.

  – In 2011, all of our Cobayer series products were sold in our Zhongsheng retail stores. To expand our sales network of Cobayer series products, we established our first Cobayer retail store in June 2012 and increased our total number of Cobayer retail stores to five as of December 31, 2012.

- **Others.** Turnover derived from our sales of other products increased by RMB0.9 million, or 81.8%, from RMB1.1 million in 2011 to RMB2.0 million in 2012, primarily due to our sales of certain third-party branded products which were not offered in 2011. These third-party branded products primarily included macadamia oil, avocado oil, fruit flavored balsamic vinegar, honey products and jams.

Cost of sales

Our total cost of sales increased by RMB0.2 million, or 1.0%, from RMB20.1 million in 2011 to RMB20.3 million in 2012. The increase was mainly attributable to increases in the cost of sales for our Zhongsheng series products and cost of sales for other products, the effects of which were partially offset by a decrease in the cost of sales for our Cobayer series products.

- **Zhongsheng series products.** Cost of sales for our Zhongsheng series products increased by RMB0.7 million, or 11.3% from RMB6.2 million in 2011 to RMB6.9 million in 2012, whereas turnover derived from our sales of Zhongsheng series products increased by 56.1% during the same periods. This was primarily because of our optimization of product mix by launching new products and introduction of existing products with increased servings which had higher selling prices without significantly increasing our cost, while at the same time reducing production and sales of certain products such as Keda Green Capsules and certain propolis products which had lower or decreasing market demand.

- **Cobayer series products.** Cost of sales for our Cobayer series products decreased by RMB1.2 million, or 9.2%, from RMB13.0 million in 2011 to RMB11.8 million in 2012, primarily attributable to (i) the decrease in cost of sales for our key product Olive Leaf Extract due to our change of third-party manufacturer for this product in the fourth quarter of 2011 which offered lower sales price to us; and (ii) more favorable purchase prices offered by our manufacturers in Australia in respect of other Cobayer series products due to our increased purchase volume, which was driven by increased market demand for our Cobayer series products.
- **Others.** Cost of sales for our other products increased by RMB0.6 million, or 66.7%, from RMB0.9 million in 2011 to RMB1.5 million in 2012, primarily driven by the introduction of third-party branded Australian nutritional food.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB46.9 million, or 56.4%, from RMB83.2 million in 2011 to RMB130.1 million in 2012, and our gross profit margin increased from 80.6% in 2011 to 86.5% in 2012.

Gross profit for our Zhongsheng series products increased by RMB33.7 million, or 61.2%, from RMB55.1 million in 2011 to RMB88.8 million in 2012. Gross profit margin for our Zhongsheng series products increased from 89.9% in 2011 to 92.8% in 2012, primarily due to the increase in proportion of sales of products with higher gross profit margins through a number of efforts, including our launch of Linolenic Acid Soft Capsules, introduction of Grapeseed Capsules with increased servings and higher serving price, and reduction of sales of products with lower or decreasing market demand or profit margins.

Gross profit for our Cobayer series products increased by RMB13.0 million, or 46.8%, from RMB27.8 million in 2011 to RMB40.8 million in 2012. Gross profit margin for our Cobayer series products increased from 68.2% in 2011 to 77.5% in 2012, primarily due to our better management of cost of sales as a result of (i) our change of the third-party manufacturer for our key product Olive Leaf Extract in the fourth quarter of 2011 which offered lower sales price to us; and (ii) more favorable purchase prices offered by our manufacturers in Australia in respect of other Cobayer series products due to our increased purchase volume, which was driven by increased market demand for our Cobayer series products.

Other revenue and other gains and losses

Our other revenue and other gains increased by RMB1.2 million, or 4.0 times, from RMB0.3 million in 2011 to RMB1.5 million in 2012. The increase was mainly due to an increase in bank interest income, as a result of an increase in bank balances primarily driven by our increased sales, and our better financial management by placing excess cash in time deposits and short-term investment products. The effects of the foregoing, however, were partially offset by a decrease in compensation income, which was only recorded in 2011 on a one-off basis reflecting compensation we received from the local water utilities company in Guangzhou due to its service failure.

Selling and distribution expenses

Selling and distribution expenses increased by RMB13.7 million, or 67.5%, from RMB20.3 million in 2011 to RMB34.0 million in 2012. The increase was mainly due to an increase in salary and benefit expenses for employees involved in selling and distribution activities and an increase in transportation expenses for delivery of our products to customers and retail stores, as a result of our expansion of sales network of Zhongsheng series products and Cobayer series products.

Administrative expenses

Administrative expenses increased by RMB4.6 million, or 28.8%, from RMB16.0 million in 2011 to RMB20.6 million in 2012. The increase in administrative expenses was mainly due to an increase in salary and benefit expenses for employees involved in administrative activities as a result of our expansion of sales network of Zhongsheng series products and Cobayer series products.

Profit before income tax

As a result of the aforesaid factors, our profit before income tax increased by RMB29.7 million, or 62.9%, from RMB47.2 million in 2011 to RMB76.9 million in 2012.

Income tax expense

Income tax expense increased by RMB7.3 million, or 58.9%, from RMB12.4 million in 2011 to RMB19.7 million in 2012. The increase was mainly due to the increase in our profit before income tax. Our effective tax rate slightly decreased from 26.3% in 2011 to 25.6% in 2012.

Profit for the year

As a result for the above factors, profit for the year increased by RMB22.4 million, or 64.4%, from RMB34.8 million in 2011 to RMB57.2 million in 2012.

Year ended December 31, 2011 compared with year ended December 31, 2010

Turnover

Our total turnover increased by RMB36.3 million, or 54.3%, from RMB66.9 million in 2010 to RMB103.2 million in 2011. The increase was mainly attributable to increases in turnover derived from our sales of Cobayer series products, and to a lesser extent, our sales of Zhongsheng series products.

- **Zhongsheng series products.** Turnover derived from our sales of Zhongsheng series products increased by RMB12.9 million, or 26.7%, from RMB48.4 million in 2010 to RMB61.3 million in 2011. Such increase primarily reflected increases in turnover derived from a number of our key products and the expansion of our sales network.

  – From 2010 to 2011, turnover derived from our sales of Coenzyme Q_{10} Tablets/Capsules increased from RMB18.1 million to RMB34.5 million, turnover derived from our sales of Linolenic Acid Soft Capsules increased from nil to RMB1.3 million, and turnover derived from our sales of Grapeseed Capsules increased from RMB0.3 million to RMB0.6 million. These increases were primarily driven by increases in sales volume as a result of our increased sales efforts to promote these products, and partly due to our launch of coenzyme Q_{10} products in the form of tablets in 2011 and launch of Linolenic Acid Soft Capsules in the fourth quarter of 2011.

  – We expanded our retail network for the sales of Zhongsheng series products significantly in 2011 by opening nine new self-managed retails stores in Jiangsu, Shandong and Hubei provinces.

- **Cobayer series products.** Turnover derived from our sales of Cobayer series products increased by RMB23.9 million, or 141.4%, from RMB16.9 million in 2010 to RMB40.8 million in 2011. Such increase primarily reflected an increase in turnover derived from sales of Olive Leaf Extract, our best-selling Cobayer series product, from RMB1.6 million in 2010 to RMB7.7 million in 2011, primarily driven by increased market demand, and our launch of a number of new products in 2011, including Emu Oil Capsules, Salmon Oil Capsules, Australian Extra Virgin Olive Oil and Omega-3 Capsules.

- **Others.** Turnover derived from our sales of other products decreased by RMB0.4 million, or 26.7%, from RMB1.5 million in 2010 to RMB1.1 million in 2011, primarily driven by our decreased sales of gifts.

Cost of sales

Our total cost of sales increased by RMB6.5 million, or 47.8%, from RMB13.6 million in 2010 to RMB20.1 million in 2011. The increase was mainly attributable to an increase in the cost of sales for our Cobayer series products, the effects of which, however, were partially offset by a decrease in our cost of sales for Zhongsheng series products and for other products.

- **Zhongsheng series products.** Cost of sales for our Zhongsheng series products decreased by RMB0.8 million, or 11.4%, from RMB7.0 million in 2010 to RMB6.2 million in 2011. Such decrease primarily reflected our optimization of product mix by launching new products and introducing existing products with new servings which had higher selling prices and lower cost, while at the same time reducing production and sales of certain products such as Keda Green Capsules and certain propolis products which had lower or decreasing market demand.
- **Cobayer series products.** Cost of sales for our Cobayer series products increased by RMB7.6 million, or 140.7%, from RMB5.4 million in 2010 to RMB13.0 million in 2011, primarily driven by the increased sales of our Cobayer series products in 2011.
- **Others.** Cost of sales for our other products decreased by RMB0.3 million, or 25.0%, from RMB1.2 million in 2010 to RMB0.9 million in 2011, primarily driven by our decreased sales of gifts.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB29.9 million, or 56.1%, from RMB53.3 million in 2010 to RMB83.2 million in 2011 and our gross profit margin increased from 79.7% in 2010 to 80.6% in 2011.

Gross profit for our Zhongsheng series products increased by RMB13.7 million, or 33.1%, from RMB41.4 million in 2010 to RMB55.1 million in 2011. Gross profit margin for our Zhongsheng series products increased from 85.5% in 2010 to 89.9% in 2011, primarily due to the increase in proportion of sales of products with higher gross profit margins through a number of efforts, including our launch of new product Coenzyme Q_{10} Tablets, introduction of Linolenic Acid Soft Capsules with increased servings, which represented higher gross profit margins, and reduction of sales of products with lower or decreasing market demand or profit margins.

Gross profit for our Cobayer series products increased by RMB16.2 million, or 139.7%, from RMB11.6 million in 2010 to RMB27.8 million in 2011. Gross profit margin for our Cobayer series products was relatively stable, with a slight decrease from 68.4% in 2010 to 68.2% in 2011.

Other revenue and other gains and losses

Our other revenue and other gains decreased by RMB0.4 million, or 57.1%, from RMB0.7 million in 2010 to RMB0.3 million in 2011. The decrease was mainly due to our receiving of a one-time government grant of RMB0.5 million in 2010 in connection with our research and development activities and historical contribution to the local economy as a major taxpayer whereas we did not receive similar government grant in 2011. The effects of the foregoing, however, were partially offset by a compensation income we received from the local water utilities company in Guangzhou in 2011 for its service failure whereas we did not receive similar income in 2010.

Selling and distribution expenses

Selling and distribution expenses increased by RMB1.6 million, or 8.6%, from RMB18.7 million in 2010 to RMB20.3 million in 2011. The increase was mainly due to an increase in salary and benefit expenses for employees involved in selling and distribution activities as a result of our expansion of sales networks of Zhongsheng series products.

Administrative expenses

Administrative expenses increased by RMB1.8 million, or 12.7%, from RMB14.2 million in 2010 to RMB16.0 million in 2011. The increase in administrative expenses was mainly due to increases in salary and benefit expenses for employees involved in administrative activities and our general and administrative expenses as a result of our expansion of sales networks of Zhongsheng series products.

Profit before income tax

As a result of the aforesaid factors, our profit before income tax increased by RMB26.2 million, or 124.8%, from RMB21.0 million in 2010 to RMB47.2 million in 2011.

Income tax expense

Income tax expense increased by RMB7.2 million, or 138.5%, from RMB5.2 million in 2010 to RMB12.4 million in 2011. The increase was mainly due to the increase in our profit before income tax. Our effective tax rate increased from 24.8% in 2010 to 26.3% in 2011, primarily due to an increased deferred tax charged on our unrealized profit resulting from increased intra-group transactions.

Profit for the year

As a result for the above factors, profit for the year increased by RMB19.0 million, or 120.3%, from RMB15.8 million in 2010 to RMB34.8 million in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth, for the periods indicated, a summary of our consolidated statements of cash flows.

	Year ended December 31,			Six months ended June 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net cash generated from operating activities.	17,347	35,181	57,923	31,058	35,396
Net cash (used in)/ generated from investing activities	(124)	(8,835)	4,670	8,092	(23,937)
Net cash (used in)/ generated from financing activities	(12,836)	340	(32,307)	(2,252)	24,486
Net increase in cash and bank balances .	4,387	26,686	30,286	36,898	35,945
Cash and bank balances at the beginning of the year/period.	31,638	36,306	62,775	62,775	93,220
Effect of exchange rate changes on cash and bank balances .	281	(217)	159	43	(782)
Cash and bank balances at the end of the year/period	36,306	62,775	93,220	99,716	128,383

Net cash generated from operating activities

Our net cash generated from operating activities during the Track Record Period is principally from the receipt of payments from our sales. Our cash used in operating activities during the Track Record Period is principally for the purchases of raw materials and packaging materials in respect of the production of our Zhongsheng series products, purchases of finished goods from third-party manufacturers in Australia and New Zealand for our Cobayer series products, selling and distribution expenses, administrative expenses and taxes.

We had a net cash generated from operating activities of RMB35.4 million for the six months ended June 30, 2013, primarily resulting from operating profit before changes in working capital of RMB41.3 million, and a decrease in inventory of RMB3.7 million, partially offset primarily by income tax paid of RMB9.2 million, and an increase in trade and other receivables of RMB0.6 million.

We had a net cash generated from operating activities of RMB57.9 million in 2012, primarily resulting from operating profit before changes in working capital of RMB77.7 million, a decrease in trade and other receivables of RMB2.9 million, and an increase in trade and other payables of RMB1.4 million, partially offset primarily by income tax paid of RMB20.5 million, and an increase in inventory of RMB2.7 million.

We had a net cash generated from operating activities of RMB35.2 million in 2011, primarily resulting from operating profit before changes in working capital of RMB49.1 million, and an increase in trade and other payables of RMB4.4 million, partially offset primarily by income tax paid of RMB10.3 million, an increase in inventory of RMB5.5 million, and an increase in trade and other receivables of RMB2.8 million.

We had a net cash generated from operating activities of RMB17.3 million in 2010, primarily resulting from operating profit before changes in working capital of RMB23.0 million, partially offset primarily by income tax paid of RMB3.9 million, and a decrease in trade and other payables of RMB0.8 million.

Net cash (used in)/generated from investing activities

Our cash generated from investing activities during the Track Record Period mainly consisted of interest income and redemption of short-term investments. Our net cash used in investing activities during the Track Record Period mainly consisted of purchases of property, plant and equipment.

We had a net cash used in investing activities of RMB23.9 million for the six months ended June 30, 2013, primarily resulting from purchase of short-term investments of RMB22.0 million, and payment of RMB2.4 million for the purchase of property, plant and equipment, the effects of which were partially offset by short term investment income and interest received of RMB0.4 million.

We had a net cash generated from investing activities of RMB4.7 million in 2012, primarily resulting from redemption of short-term investments of RMB9.0 million, short term investment income and interest received of RMB1.3 million, and net cash of RMB0.6 million generated from our acquisition of the equity interest in Nanjing Deao which became our wholly-owned subsidiary upon completion of such acquisition, the effects of which were partially offset by deposits of RMB3.8 million to acquire property, plant and equipment, and payment of RMB2.4 million for the purchase of property, plant and equipment.

We had a net cash used in investing activities of RMB8.8 million in 2011, primarily resulting from purchase of RMB9.0 million short-term investments, the effects of which were partially offset by interest received of RMB0.4 million.

We had a net cash used in investing activities of RMB0.1 million in 2010, primarily resulting from payment of RMB0.6 million for the purchase of property, plant and equipment, the effects of which were partially offset by interest received of RMB0.4 million.

Net cash (used in)/generated from financing activities

Our net cash generated from financing activities during the Track Record Period mainly consisted of proceeds from our issue of new Shares. Our net cash used in financing activities during the Track Record Period mainly consisted of dividends paid to owners of our Company.

We had a net cash generated from financing activities of RMB24.5 million for the six months ended June 30, 2013, primarily resulting from proceeds of RMB50.0 million from our issue of Shares, and advances of RMB0.5 million from Mr. Gui, one of our Directors and Controlling Shareholders, the effects of which were partially offset by dividend paid to owners of our Company of RMB26.0 million.

We had a net cash used in financing activities of RMB32.3 million in 2012, primarily resulting from dividend paid to owners of our Company of RMB35.0 million, and deemed distribution of RMB4.1 million to our Controlling Shareholders following our acquisition of equity interest in Cobayer Health Food Company from our Controlling Shareholders, which became our wholly-owned subsidiary upon completion of such acquisition, the effects of which were partially offset by proceeds of RMB6.2 million from our issue of Shares and advances of RMB0.6 million from Mr. Gui, one of our Directors and Controlling Shareholders.

We had a net cash generated from financing activities of RMB0.3 million in 2011, primarily resulting from advances of RMB0.3 million from Mr. Gui, one of our Directors and Controlling Shareholders.

We had a net cash used in financing activities of RMB12.8 million in 2010, primarily resulting from dividend paid to owners of our Company of RMB6.0 million, repayment of RMB5.1 million to Mr. Gui, one of our Directors and Controlling Shareholders, and deemed distribution of RMB1.8 million to our Controlling Shareholders during the process of the deregistration of Nanjing Zhongsheng Pharmaceutical.

Capital Expenditures

Our capital expenditures mainly relate to purchases of fixed assets and intangible assets. The following table sets forth, for the periods indicated, our capital expenditures.

	Year ended December 31,			Six months ended June 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Payments to acquire property, plant and equipment	550	246	2,390	1,271	2,364
Deposits to acquire property, plant and equipment	–	–	3,795	–	–
Purchase of a subsidiary net of cash and bank balances acquired	–	–	552	–	–
Total	550	246	6,737	1,271	2,364

We plan to fund our capital expenditures for the year ending December 31, 2014 with our existing cash and bank balances, cash flow generated from operating activities and proceeds from the Global Offering.

Working Capital

We finance our working capital needs primarily through cash generated from operating activities. Taking into account of the net proceeds available to us from the Global Offering, our cash and future operating cash flows, our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS

The table below sets forth, as of the balance sheet dates indicated, our current assets, current liabilities and net current assets.

	As of December 31,			As of June 30,	As of October 31,
	2010	2011	2012	2013	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	5,438	10,944	13,684	9,962	8,093
Prepaid land lease payments	101	101	101	101	101
Trade and other receivables	3,446	5,989	3,731	4,188	7,397
Amounts due from directors	256	271	691	–	–
Amounts due from related parties	423	478	–	–	–
Short term investments	–	9,000	–	22,000	–
Cash and bank balances	36,306	62,775	93,220	128,383	140,641
Total current assets	45,970	89,558	111,427	164,634	156,232
Current liabilities					
Trade and other payables	4,410	8,614	10,037	10,021	10,311
Amount due to a director	2,741	2,957	3,983	3,303	–
Amounts due to related parties	–	266	–	–	–
Income tax payables	3,369	6,866	6,098	7,003	3,293
Total current liabilities	10,520	18,703	20,118	20,327	13,604
Net current assets	35,450	70,855	91,309	144,307	142,628

Inventory

Our inventory primarily consists of raw materials and package materials, work in progress and finished goods which primarily represent those for Zhongsheng series products, and goods merchandised which primarily represent Cobayer series products and other third-party branded products we purchased during the Track Record Period.

The following table sets forth, as of the balance sheet dates indicated, our balance of inventory.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	1,016	564	639	579
Work in progress	13	9	172	189
Finished goods	722	964	887	631
Goods merchandise	3,687	9,407	11,986	8,563
Total	5,438	10,944	13,684	9,962

Our inventory increased from RMB5.4 million as of December 31, 2010 to RMB10.9 million as of December 31, 2011, and further to RMB13.7 million as of December 31, 2012, primarily reflecting our increased purchase of Cobayer series products from third-party manufacturers in Australia in line with our expansion of operations during the same periods. Our inventory decreased from RMB13.7 million as of December 31, 2012 to RMB10.0 million as of June 30, 2013, primarily due to our increased sales of Cobayer series products in the first half of 2013, driven by the increased market demand.

The following table sets forth, for the periods indicated, the average inventory turnover days.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average inventory turnover days[(1)]	146.6	148.9	221.7	191.6

Note:

(1) Average inventory turnover days are based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average inventory days remained relatively stable in 2010 and 2011. Our average inventory turnover days increased from 148.9 days in 2011 to 221.7 days in 2012, primarily reflecting our increased purchase of Cobayer series products for our inventory in anticipation of our expansion of Cobayer retail stores in 2012 while at the same time we lowered our purchasing cost due to change of the third-party manufacturer for our Olive Leaf Extract since the fourth quarter of 2011. Our average inventory turnover days decreased to 191.6 days for the six months ended June 30, 2013, primarily reflecting our increased sales of Cobayer series products during the same period.

Trade and other receivables

Our trade and other receivables primarily consist of (i) trade receivables for the goods sold and rendered to our distributors after deducting impairment losses; (ii) other receivables from employees for cash advances to them by our Company; (iii) deposits for purchase of properties to open our retail stores; and (iv) prepaid sales tax.

The following table sets forth, as of the balance sheet dates indicated, our trade and other receivables.

	As of December 31,			As of June 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	545	303	474	339
Less: Impairment losses	(179)	–	–	–
Subtotal	366	303	474	339
Other receivables	314	223	283	317
Deposits and prepayments	2,766	5,463	2,974	3,532
Total	3,446	5,989	3,731	4,188

Our trade and other receivables increased from RMB3.4 million as of December 31, 2010 to RMB6.0 million as of December 31, 2011, but decreased to RMB3.7 million as of December 31, 2012. This fluctuation primarily reflected a higher amount of deposits we paid in 2011 for the purchase of certain properties to open self-managed retail stores. Our trade and other receivables increased from RMB3.7 million as of December 31, 2012 to RMB4.2 million as of June 30, 2013, primarily due to our increased rental deposits in line with our expansion of sales network.

The following table sets forth, as of the balance sheet dates indicated, an aging analysis of our trade and other receivables (net of impairment losses).

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month past due	42	120	165	207
1 to 3 months past due	3	–	296	127
More than 3 months but within 1 year past due	164	40	9	5
More than 1 year past due	157	143	4	–
Total	366	303	474	339

Receivables that were past due but not impaired relate to a number of distributors that have a good track record with our Group. Based on past experience, our management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Our management monitors the recoverability of overdue trade and other receivables, and, when there is objective evidence that we may not be able to collect, provides for impairment of these trade receivables. The impairment provision for these accounts amounted to RMB0.2 million as of December 31, 2010. Further details in relation to our trade and other receivables are set out in Note 21 to the Accountants' Report.

The following table sets forth, for the periods indicated, the average trade receivables turnover days.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average trade receivables turnover days[(1)]	2	1	1	1

Note:

(1) Average trade receivables turnover days are based on the average balance of trade receivables divided by turnover for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average trade receivables turnover days decreased from 2 days in 2010 to 1 day in 2011 and 2012 and for the six months ended June 30, 2013, primarily reflecting the decrease in our sales to distributors during the same periods as a result of a decreased number of distributors. We typically granted a credit period of 30 days to our distributors and did not give any credit period to our other customers, who generally purchased our products by cash or credit cards. Starting June 2012, we had only one distributor whereas we had 15 and eight distributors as of December 31, 2010 and 2011, respectively.

Trade and Other Payables

Trade payables primarily relate to the purchases of raw materials from our suppliers and purchases of our Cobayer series products from third-party manufacturers. Other payables and accruals primarily consisted of salary and staff welfare expenses payables, tax payables and advances from customers.

The following table sets forth, as of the balance sheet dates indicated, our trade and other payables.

	As of December 31,			As of June 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,209	580	885	1,197
Other payables and accruals	3,201	8,034	9,152	8,824
Total	4,410	8,614	10,037	10,021

Our trade and other payables remained relatively stable as of June 30, 2013 as compared to December 31, 2012. Our trade and other payables increased from RMB8.6 million as of December 31, 2011 to RMB10.0 million as of December 31, 2012, primarily reflecting our increased purchases of Cobayer series products and increased salary and staff welfare expenses payables in line with our expansion of operations. Our trade and other payables increased from RMB4.4 million as of December 31, 2010 to RMB8.6 million as of December 31, 2011, primarily reflecting the increase in advances from customers as we started in 2011 to accept deposits from customers for product ordering, the effects of which were partially offset by a decrease in our trade payables, primarily attributable to our increased settlement of trade payables with our suppliers at the end of 2011.

The following table sets forth, as of the balance sheet dates indicated, an aging analysis of trade payables.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due within 1 month	715	15	230	107
Due after 1 month but within 3 months	6	89	443	874
Due after 3 months but within 12 months	459	93	86	3
Due after 12 months	29	383	126	213
Total	1,209	580	885	1,197

The following table sets forth, for the periods indicated, the average trade payables turnover days.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average trade payables turnover days(1)	39	16	13	17

Note:

(1) Average trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average trade payables turnover days decreased in general during the Track Record Period, primarily due to our increased purchases from third-party Australian manufacturers which typically did not offer credit periods to us.

Subsequent Utilization of Inventory and Subsequent Settlement of Trade and Other Receivables

The following table sets forth information regarding our subsequent utilization of inventory and subsequent settlement of trade and other receivables after June 30, 2013.

	As of June 30, 2013	Subsequent utilization/ settlement by October 31, 2013
	RMB'000	*RMB'000*
Inventory	9,962	4,248
Trade and other receivables		
Trade receivables	339	330
Other receivables[1]	3,849	2,308
Total	4,188	2,638

Note:

(1) Our unsettled other receivables primarily included prepaid rental expenses and deposits for our self-managed retail stores, and prepaid taxes for our purchase of Cobayer series products.

Amounts Due from/to Directors

As of December 31, 2010, 2011 and 2012, the amounts due from Directors were RMB0.3 million, RMB0.3 million and RMB0.7 million, respectively, representing mainly advances made by our Company to certain Directors for their attending of post-graduate education programs. The amounts due from Directors were fully settled as of June 30, 2013.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the amount due to Directors were RMB2.7 million, RMB3.0 million, RMB4.0 million and RMB3.3 million, respectively, representing advances from Mr. Gui, one of our Directors and Controlling Shareholders, to our Group. All these amounts due to Directors were fully settled by September 2013.

INDEBTEDNESS

Borrowings

Our outstanding bank borrowings as of December 31, 2010, 2011 and 2012, June 30, 2013 and October 31, 2013 were nil. Our Directors confirm that there is no material change in our indebtedness position since October 31, 2013.

COMMITMENTS

Capital Commitments

As of December 31, 2010, 2011 and 2012 and June 30, 2013, our outstanding capital commitments was nil.

Operating Lease Commitments

We lease certain properties for the operations of our self-managed retail stores and offices, with leases negotiated for typically one to five years. We had total future minimum lease payments under non-cancellable operating leases that are payable as follows.

	As of December 31,			As of June 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	593	437	494	1,497
After 1 year but within 5 years	–	–	495	993
Total	593	437	989	2,490

CONTINGENT LIABILITIES

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we did not have any contingent liabilities and we confirm as of the Latest Practicable Date that there have been no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not enter into any off-balance sheet transactions or arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to various types of financial risks in the ordinary course of our business, including market risk (consisting of interest rates and foreign exchange rates), credit risk and liquidity risk.

Credit Risk

Our credit risk is primarily attributable to our trade and other receivables. In order to minimize the credit risk, we continuously monitor the level of exposure to ensure that follow-up action is taken to recover overdue debts. We have no significant concentration of credit risk in respect of trade receivables due to our large customer base which spread across diverse industries. In this regard, we consider that our credit risk is significantly reduced. In addition, we review the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. We believe that the provisions for impairment of trade and other receivables as of respective balance sheet dates adequately cover our related credit risk exposures.

For deposits with banks and financial institutions (including restricted cash and cash and bank balances), we have limited our credit exposure by restricting the selection of banks and financial institutions to local joint-stock commercial banks or state-owned banks.

Liquidity Risk

Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from our operations to meet our debt obligations as they become due, and our ability to obtain external financing to meet our committed future capital expenditures.

As of October 31, 2013, we had no bank loans. We regularly monitor our current and expected liquidity requirements and our compliance with payment covenants, so as to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term. However, although we believe we will be able to fund our outstanding commitments, we are subject to various risks and uncertainties in our ability to do so. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay our outstanding debt obligations when they fall due.

Foreign Exchange Rate Risk

Foreign currency risk refers to the risk of loss due to adverse movements in exchange rates relating to investments and transactions denominated in foreign currencies. We use Australian dollars and New Zealand dollars to pay for nutritional supplements imported from Australia and New Zealand, respectively, and, as a result, we are exposed to foreign exchange rate fluctuation risks. We use Renminbi as the reporting and functional currency for our financial statements. All transactions in currencies other than Renminbi during a given period are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement.

Considering the level of our current exposure to foreign exchange risk, we have not used any derivative contracts to hedge against our exposure to foreign currency risk. Such risk, however, may continue to increase in the future, taking into consideration our retail network expansion plan to open additional Cobayer retail stores from 2014 to 2016, which is expected to be supported by increased purchases from third-party manufacturers in Australia and New Zealand. We will continue to monitor closely the foreign currency risk exposure and will consider hedging foreign currency exposure if the depreciation of Renminbi against Australian dollars or New Zealand dollars is over 5% during a six-month period. Our hedging measures may include entering into contracts with financial institutions to fix exchange rates for our purchases in foreign currencies. In the event that we take any hedging measures in the future, we intend to designate our chief financial officer to oversee such hedging measures, and engage staff with necessary qualifications and experience to conduct hedging activities. Our Board of Directors plans to review our hedging policies, activities and results on an annual basis and adjust our hedging policies and activities to meet our actual needs arising from business operations.

In addition, as the proceeds of the Global Offering will be in Hong Kong dollars, any appreciation of the Renminbi against the Hong Kong dollar will adversely affect the amount of proceeds we receive in terms of Renminbi. On the other hand, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our Shareholders subsequent to the Global Offering.

The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control rules and regulations promulgated by the PRC government.

Interest Rate Risk

Our interest rate risk relates primarily to our bank deposits and bank borrowings that we may incur in the future. As we currently have no significant interest-bearing assets and liabilities, our income and operating cash flows are substantially independent of changes in market interest rate. To the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of debts.

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to our Shareholders' general meeting for approval. Our dividend distribution was based on our profit available for appropriation. Under the PRC Company Law and our Articles of Association, all of our Shareholders have equal rights to dividends and other distributions in proportion to their shareholdings. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we declared and paid dividends in the amount of RMB6.0 million, nil, RMB35.0 million and RMB26.0 million, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future. We currently intend to pay dividends to our Shareholders of approximately 30% of our profit available for distribution after the Global Offering, subject to, in each case, our Board's decision after a comprehensive review of our Company's financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders' approval.

DISTRIBUTABLE RESERVES

The calculation of distributable profits for a company under PRC GAAP differs in a few respects from the calculation under HKFRS. As a result, we may not be able to pay any dividends in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under HKFRS, or vice versa.

Pursuant to our Articles of Association, following the Listing of our H Shares on the Hong Kong Stock Exchange, the amount of retained profits available for distribution to our Shareholders shall be the lower of the amount determined in accordance with PRC GAAP and that determined in accordance with HKFRS. As of June 30, 2013, our distributable reserves determined on this basis were the retained earnings of our Group under HKFRS, which were RMB66.7 million.

LISTING EXPENSES

As of June 30, 2013, we incurred expenses in connection with the Global Offering in an amount of RMB2.0 million, which were accounted for as part of our administrative expenses for the six months ended June 30, 2013. Between June 30, 2013 and completion of the Global Offering, we expect to incur additional listing expenses of RMB31.7 million, among which an estimated amount of RMB13.8 million will be recognized as our administrative expenses and an estimated amount of RMB17.9 million will be recognized directly in equity.

KEY FINANCIAL RATIOS

	Notes	Year ended December 31/ As of December 31, 2010	2011	2012	Six months ended June 30/ As of June 30, 2013
Current ratio	*(1)*	4.4	4.8	5.5	8.1
Quick ratio	*(2)*	3.9	4.2	4.9	7.6
Debt to assets ratio	*(3)*	n.a.	n.a.	n.a.	n.a.
Gearing ratio	*(4)*	n.a.	n.a.	n.a.	n.a.
Interest coverage	*(5)*	n.a.	n.a.	n.a.	n.a.

Notes:

(1) Current ratio = Current assets/Current liabilities.

(2) Quick ratio = (Current assets - Inventory)/Current liabilities.

(3) Debt to assets ratio = Total liabilities/Total assets. We had no interest bearing debt during the periods indicated.

(4) Gearing ratio = Total interest-bearing debts/Total equity. We had no interest bearing debt during the periods indicated.

(5) Interest coverage = Earnings before interest and tax/Interest expense. We had no interest bearing debt during the periods indicated.

Current Ratio

Our current ratio was 4.4, 4.8, 5.5 and 8.1 for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. The increases in our current ratio were mainly due to increases in our cash and cash equivalents.

Quick Ratio

Our quick ratio was 3.9, 4.2, 4.9 and 7.6 for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. The increases in our quick ratio were mainly due to increases in our cash and bank balances.

POTENTIAL ADVERSE CHANGE IN NET PROFIT FOR THE YEAR ENDING DECEMBER 31, 2013

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of our Group since June 30, 2013 (being the date to which our latest financial information was prepared as set out in the "Accountants' Report" in Appendix I to this prospectus). Based on our current estimates, we will recognize RMB13.8 million as our administrative expenses between June 30, 2013 and the completion of the Global Offering, which is likely to have a material adverse impact on our net profit for the year ending December 31, 2013.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our Group's owned property interests are set out in Appendix III to this prospectus. BMI Appraisals Limited has valued the property interests owned by our Group as of September 30, 2013. A summary of values and valuation certificates issued by BMI Appraisals Limited are included in Appendix III to this prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our Group's property interests from our audited financial information as of June 30, 2013 to the unaudited net book value of our Group's property interests as of September 30, 2013:

	RMB'000
Net book value of property interests[1] of our Group as of June 30, 2013	22,693
Less: Depreciation	(331)
Net book value as of September 30, 2013	22,362
Add: Valuation surplus	23,738
Valuation as of September 30, 2013 per "Appendix III – Property Valuation Report"	46,100

Note:

(1) Property interests include buildings and land use rights.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the consolidated net assets derived from the financial information of the Group as of June 30, 2013, as set out in Appendix I to this prospectus and adjusted as follows:

	Audited consolidated net tangible assets attributable to the owners of the Company as of June 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$1.50 per Offer Share . . .	172,736	224,879	397,615	0.49	0.62
Based on an Offer Price of HK$2.00 per Offer Share . . .	172,736	301,595	474,331	0.58	0.74

Notes:

1. The audited consolidated net tangible assets attributable to the owners of our Company as of June 30, 2013 is derived from the consolidated net assets attributable to the owners of the Company as of June 30, 2013 of RMB172,801,000 as reported in the Accountants' Report set out in Appendix I to this Prospectus, after deducting intangible assets of RMB65,000.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.50 and HK$2.00 per Offer Share after deduction of underwriting fees and other related expenses payable by the Company in connection with the Global Offering and do not take into account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.7884 to HK$1.00.

3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 814,911,000 Shares are expected to be in issue following the Global Offering (including 203,800,000 Offer Shares newly issued upon the Global Offering) and the respective Offer Prices of HK$1.50 and HK$2.00 per Offer Share.

4. The unaudited pro forma adjusted net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.7884 to HK$1.00, the PBOC rate prevailing on December 16, 2013. No representation is made that the RMB amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

5. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2013.