
SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the “Risk Factors” section in this prospectus. You should read that section carefully in full before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

We are principally engaged in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. We develop, manufacture and sell (i) Chinese patent medicines; and (ii) decoction pieces including both traditional decoction pieces and modern decoction pieces. Our products are sold under our core brands of “Zeus (中智)”, “Liumian* (六棉牌)” and “Caojinghua* (草晶華)”. According to the Ipsos Report, our “Zeus (中智)” chain pharmacies are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. As at the Latest Practicable Date, we have 201 self-operated chain pharmacies selling both our own-branded products and over 5,000 types of other pharmaceutical products, healthcare products and medical devices sourced from independent suppliers. During the Track Record Period, all our revenue was generated in the PRC. For each of the three years ended 31 December 2014, our revenue derived from the Guangdong province represented approximately 72.8%, 71.9% and 65.8% of our total revenue, respectively.

During the Track Record Period, we maintained satisfactory growth in both revenue and gross profit. Our total revenue and gross profit grew at a CAGR of approximately 20.5% and 30.3% respectively. On the other hand, our gross profit margin also increased from approximately 46% to 49.6% and 53.8% for each of the three years ended 31 December 2014, respectively. Our Directors believe that our success was mainly attributed to the well established reputation of our own brands for quality products.

Our business segments

The table below sets forth our revenue by business segment and the percentage of total revenue for each business segment and their respective gross profit margin during the Track Record Period:

	For the year ended 31 December								
	2012			2013			2014		
	Revenue	% of total revenue	Gross profit margin	Revenue	% of total revenue	Gross profit margin	Revenue	% of total revenue	Gross profit margin
	RMB'000		%	RMB'000		%	RMB'000		%
Pharmaceutical manufacturing	172,240	42.0	50.3	207,262	42.9	52.6	294,840	49.5	58.6
Operation of chain pharmacies	237,812	58.0	42.9	275,543	57.1	47.3	300,725	50.5	49.0
Total	410,052	100.0	46.0	482,805	100.0	49.6	595,565	100.0	53.8

Note: Our own-branded products are sold under both of our business segments.

Our products

As at the Latest Practicable Date, we sold 35 types of own-branded Chinese patent medicines (of which 27 types are OTC medicines) and 158 types of own-branded decoction pieces in the PRC market. Seven of our own-branded Chinese patent medicines are protected by invention patents (發明專利). For the year ended 31 December 2014, the sales of own-branded products accounted for approximately 61.5% of our total revenue and had a gross profit margin of approximately 61.9%. Our major own-branded Chinese patent medicines include Cough Tablets* (克咳片), Cool Lozenges* (清涼喉片) and Yinhuang Granules* (銀黃顆粒). We attribute our satisfactory operating performance to our commitment to the research and development of new products. With an aim to enhance the functional effectiveness of traditional decoction pieces and for consumption

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convenience, we have developed our patented techniques for the production of modern decoction pieces, which was launched in the PRC market in 2011 and have received positive market response. Our modern decoction pieces are granules of ultra-fine pulverised decoction pieces, which can be readily used for oral consumption. For each of the three years ended 31 December 2014, revenue derived from the sales of our modern decoction pieces accounted for approximately 5.5%, 13.6% and 26.3% of our total revenue, respectively.

The following table sets forth our revenue from pharmaceutical manufacturing by product category and the percentage of revenue from this segment for each product category during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Chinese patent medicines	157,289	91.3	158,575	76.5	159,614	54.2
Decoction pieces						
— Traditional decoction pieces	2,463	1.4	2,326	1.1	3,325	1.1
— Modern decoction pieces	12,488	7.3	46,361	22.4	131,901	44.7
Total revenue from pharmaceutical manufacturing	<u>172,240</u>	<u>100.0</u>	<u>207,262</u>	<u>100.0</u>	<u>294,840</u>	<u>100.0</u>

In 2011, the GFDA gave consent to Zhongzhi Herb Pieces the status of modern decoction pieces pilot production enterprises* (中藥破壁飲片試點生產企業). During the pilot period, Zhongzhi Herb Pieces is required to conduct researches on the clinical safety assessment and production quality control on modern decoction pieces and submit the relevant research reports. Our pilot production status of modern decoction pieces may be terminated or subject to any prohibition, restrictions, limitation or suspension. Please refer to the paragraph headed “Risk Factors — Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC” in this prospectus.

Our pricing policy

We generally price both our own-branded products and non-own branded products on a cost plus basis with reference to the prevailing market conditions such as demands from customers, pricing and availability of comparable products in the market. During the Track Record Period, over 800 types of our non-own branded products and 18 types of our own-branded products were included in the National Medical Insurance Drugs Catalogue or Provincial Medical Insurance Drugs Catalogue, and/or National List of Essential Drugs and were subject to PRC government’s price control policies. For each of the three years ended 31 December 2014, we recorded revenue of approximately RMB152.8 million, RMB167.2 million and RMB171.5 million from the sale of these products, which accounted for approximately 37.3%, 34.6% and 28.8% of our total revenue, respectively. The PRC government’s price control policies did not have material adverse impact on our Group during the Track Record Period. Pursuant to the Drug Pricing Reform Notice, price controls on all pharmaceutical products except for anesthetics and some types of psychiatric drugs were lifted with effect from 1 June 2015. Accordingly, all our own-branded and non-own branded products are not subject to government price control.

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Our production plants and production capacity

We produce all our own-branded products in our two GMP certified production plants in Zhongshan with an aggregate gross floor of approximately 46,700 sq.m. The following table sets forth information on the designed capacity, actual production volume and utilisation rates of our production facilities for each of the three years ended 31 December 2014, respectively:

Unit	For the year ended 31 December									
	2012			2013			2014			
	Designed capacity (Note 1)	Production volume	Utilisation rate (Note 2)	Designed capacity (Note 1)	Production volume	Utilisation rate (Note 2)	Designed capacity (Note 1)	Production volume	Utilisation rate (Note 2)	
	(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)		
Chinese patent medicines										
Granule ^(Note 3)	bag	270,000,000	234,184,000	87%	270,000,000	214,228,000	79%	270,000,000	191,824,000	71%
Capsule	capsule	140,000,000	113,107,000	81%	140,000,000	134,928,000	96%	140,000,000	126,091,000	90%
Tablet	tablet	1,280,000,000	1,046,442,000	82%	1,280,000,000	1,074,688,000	84%	1,280,000,000	993,597,000	78%
Oral solution ^(Note 4)	bottle	15,000,000	9,642,000	64%	15,000,000	10,965,000	73%	15,000,000	16,026,000	107%
Tea bag ^(Note 3)	bag	5,300,000	4,800,000	91%	5,300,000	3,382,000	64%	5,300,000	3,501,000	66%
Decoction pieces										
Traditional decoction pieces	tonnes	2,561	2,264	88%	2,561	2,353	92%	2,561	2,540	99%
Modern decoction pieces ^(Note 5)	tonnes	53	30	57%	159	75	47%	212	165	78%

Notes:

- (1) Designed capacity is computed based on 252 effective production days per year and one shift of seven hours per day for each of the three years ended 31 December 2014.
- (2) Utilisation rate is calculated by dividing the production volume by the designed capacity.
- (3) The utilisation rates for granules and tea bags for the two years ended 31 December 2014 were relatively lower than that of 2012. This reflected the decrease in the production volume of less popular Chinese patent medicines which were in the form of granules and tea bags.
- (4) The actual production activities for oral solution in 2014 were conducted occasionally over seven hours per day to meet the demand for the relevant products, which resulted in the utilisation rate for oral solution in 2014 exceeded 100%.
- (5) The utilisation rate related to the production of modern decoction pieces decreased from 57% for the year ended 31 December 2012 to 47% for the year ended 31 December 2013, primarily due to the increase in the designed capacity resulting from the acquisition of one jet stream ultra-fine pulverisation machine and one granulating machine in 2013.

Research and Development

As at the Latest Practicable Date, we had 29 invention patents (發明專利), one utility model patent (實用新型專利) and 15 design patents (外觀設計專利) registered in the PRC, 12 patents registered in Hong Kong and Macau, and 33, six and 20 patent applications submitted for and pending registration in the PRC, Taiwan and Hong Kong, respectively. We have developed and maintained a pool of 125 types of new pharmaceutical products, which have been approved for production by the relevant authorities but yet to be launched in the market. For each of the three years ended 31 December 2014, our research and development expenses amounted to approximately RMB10.8 million, RMB14 million and RMB11.2 million, respectively. Our pipeline products under research and development are mainly new types of Chinese patent medicines for various curative functions and modern decoction pieces to be made of different types of Chinese herbs for health maintenance. As at the Latest Practicable Date, 18 types of modern decoction pieces were awaiting approval from the GFDA and one type of Chinese patent medicine was undergoing phase IIa of clinical trial.

In recognition of our strong research and development capability, in April 2014, we were approved by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局) to set up a State-level laboratory for the development of the techniques and applications of modern decoction pieces. Each of our production plants in Zhongshan has been accredited as High and New Technology Enterprise* (高新技術企業) since 2003 and 2008 respectively.

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OUR SUPPLIERS

Our suppliers mainly include suppliers of Chinese herbs, packaging materials and ancillary materials for our pharmaceutical manufacturing as well as suppliers of non-own branded products for sale in our chain pharmacies. All our supplies are sourced in the PRC except a small amount of American ginseng from Canada. We entered into master agreements with some of our suppliers to ensure a reliable supply of goods which meet our quality standards. Purchases from our top five suppliers amounted to approximately RMB65.2 million, RMB89.3 million and RMB88.7 million, representing approximately 30%, 36.5% and 40% of our total costs of purchase for each of the three years ended 31 December 2014, respectively.

OUR DISTRIBUTION CHANNEL AND CUSTOMERS

We sell and distribute own-branded products through our self-operated chain pharmacies in Zhongshan and an extensive distribution network comprising distributors and independent chain pharmacies covering 30 provinces, autonomous regions and municipality cities in the PRC. As at 31 December 2014, we sold to 381 independent chain pharmacies and had a total of 1,111 distributors which were categorised as (i) contractual distributors; and (ii) non-contractual distributors. We entered into distribution agreements with our contractual distributors and master agreements with independent chain pharmacies to ensure that they adhere to our sales policy. The major terms of these agreements include our restriction on distribution territories and the minimum prices set by us for their resale of our products.

The following table sets forth a breakdown of our total revenue by different distribution channels, their respective percentage to total revenue and gross profit margin during the Track Record Period:

	For the year ended 31 December								
	2012			2013			2014		
	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)
Our self-operated chain pharmacies ^(Note 1)	237,812	58.0	42.9	275,543	57.1	47.3	300,725	50.5	49.0
Distributors ^(Note 2)									
— contractual ^(Note 3)	81,394	19.8	44.2	84,478	17.5	46.1	90,234	15.2	50.4
— non-contractual	61,038	14.9	56.5	69,478	14.4	55.6	57,156	9.6	54.7
Independent chain pharmacies ^(Note 2)	29,808	7.3	54.2	53,306	11.0	58.7	147,450	24.7	65.2
Total	410,052	100.0	46.0	482,805	100.0	49.6	595,565	100.0	53.8

Notes:

1. Revenue generated from our self-operated chain pharmacies represented sales of both our own-branded products and non-own branded products.
2. Revenue generated from distributors and independent chain pharmacies represented sales of our own-branded products.
3. Revenue generated from contractual distributors represented our sales to upper-level distributors as we do not sell directly to lower-level distributors.

With respect to our contractual distributors, we maintain a two-level distribution model which comprises upper-level and lower-level distributors. This enables us to reduce the inherent credit risk and save our delivery resources as our sales are made directly to upper-level distributors who are well established and reputable pharmaceutical distributors and wholesalers in the PRC. Our upper-level distributors in turn sell and deliver our products to lower-level distributors who had entered into distribution agreements with us. Our non-contractual distributors are responsible for the distribution of a pool of our own-branded products which are not distributed by our contractual distributors or independent chain pharmacies. Although we do not enter into any distribution agreements with our non-contractual distributors, our sales and marketing team will closely monitor the sales of our products and check the selling prices in the market in order to reduce the risk of potential competition against themselves and to ensure that they do not sell our products below our desired retail prices. We require that all our distributors and independent chain pharmacies are GSP certified.

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The following table sets forth the number of our contractual and non-contractual distributors and their relevant movements during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
Contractual distributors			
Upper-level			
At the beginning of the period	62	59	70
Added during the period	13	22	7
Termination during the period <i>(Note)</i>	16	11	9
At the end of the period	59	70	68
Lower-level			
At the beginning of the period	355	270	502
Added during the period	154	316	209
Termination during the period <i>(Note)</i>	239	84	256
At the end of the period	270	502	455
Non-contractual distributors			
At the beginning of the period	220	690	633
Added during the period	567	276	279
Termination during the period <i>(Note)</i>	97	333	324
At the end of the period	690	633	588
Total at the end of the period	1,019	1,205	1,111

Note: Termination of contractual and non-contractual distributors during the Track Record Period was primarily due to their failure to meet our sales target; suspension or termination of their GSP certifications; or mergers and consolidation of the distributors.

Our major customers during the Track Record Period included major pharmaceutical companies such as Guangdong Dongguan Guoyao Group Co., Ltd.* (廣東省東莞國藥集團有限公司), Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司), and major independent chain pharmacies such as Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd.* (雲南鴻翔一心堂藥業(集團)股份有限公司). Sales to our top five customers amounted to approximately RMB35.3 million, RMB42 million and RMB81.1 million, representing approximately 8.5%, 8.7% and 13.7% of our total revenue for each of the three years ended 31 December 2014, respectively.

COMPETITIVE STRENGTHS

We believe that the following are our key competitive strengths that have contributed to our success and distinguish us from our competitors:

- “Zeus (中智)” is a well established brand in the pharmaceutical industry
- We have strong marketing capabilities and an extensive distribution network
- We are able to generate high profit margin from our own-branded modern decoction pieces
- We maintain a stringent quality control system
- We have strong research and development capabilities
- We have an experienced and committed management team

BUSINESS STRATEGIES

We aim to become a leading pharmaceutical company in the PRC. We intend to achieve our goal by pursuing the following principal strategies:

- Expand our chain pharmacies in the Guangdong province
- Expand the breadth and depth of our distribution network
- Expand our production capacity
- Further strengthen our research and development capacities and product range
- Further strengthen our brand recognition and awareness by enhancing our marketing and promotional activities

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OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik. Immediately after completion of the Capitalisation Issue and the Global Offering, our Controlling Shareholders will own approximately 65.67% of the total issued share capital of our Company (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme). We operate independently of our Controlling Shareholders. Please refer to the “Relationship with Our Controlling Shareholders” section in this prospectus for details.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our financial information for the Track Record Period and should be read in conjunction with our financial information included in the Accountants’ Report, including the notes thereto:

Selected information from combined statements of profit or loss

	For the year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Revenue	410,052	482,805	595,565
Cost of sales	(221,365)	(243,430)	(275,290)
Gross profit	188,687	239,375	320,275
Other income and gains	7,370	5,383	6,528
Selling and distribution expenses	(121,904)	(142,326)	(148,747)
Administrative expenses	(35,258)	(38,881)	(50,196)
Other expenses	(11,152)	(15,364)	(12,048)
Finance costs	(4,294)	(1,384)	(1,002)
Profit before tax	23,449	46,803	114,810
Profit for the year	17,254	37,638	86,688

For each of the three years ended 31 December 2014, our total revenue was approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively and the profit attributable to our Company’s equity holders was approximately RMB17.3 million, RMB37.6 million and RMB86.7 million, respectively. The increasing trend of our total revenue and profit attributable to our Company’s equity holders was primarily driven by the rising demand on pharmaceutical products.

Our gross profit margin increased from 46% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, and further to 53.8% for the year ended 31 December 2014, due to the increased sales of our own-branded products, which have higher gross profit margin than non-own branded products.

For each of the three years ended 31 December 2014, we recognised government grants of approximately RMB6 million, RMB3 million and RMB4.1 million respectively as other income in connection with the government support to our research and development projects as well as our business expansion. These government grants represented approximately 34.7%, 8% and 4.7% of our net profit for the respective year. As at 31 December 2014, government grants of approximately RMB15.1 million were recorded as deferred income, of which approximately RMB6 million will be recognised as other income for the year ending 31 December 2015 and the remaining balance will be recognised in financial years from 2016 to 2018.

Please refer to the paragraph headed “Financial Information — Management discussion and analysis” in this prospectus for further details.

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Selected information from combined statements of financial position

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Non-current assets	91,440	98,835	107,547
Current assets	148,181	200,039	190,377
Current liabilities	139,537	157,766	163,631
Net current assets	8,644	42,273	26,746
Total assets less current liabilities	100,084	141,108	134,293
Net assets	92,571	130,210	120,897

Key Financial Ratios

	As at or for the year ended 31 December		
	2012	2013	2014
Gross profit margin	46.0%	49.6%	53.8%
Net profit margin	4.2%	7.8%	14.6%
Current ratio	1.1	1.3	1.2
Quick ratio	0.5	0.6	0.6
Gearing ratio	27.0%	12.3%	12.4%
Debt to equity ratio ^(Note)	—	—	—
Interest coverage	6.5 times	34.8 times	115.6 times
Return on equity	18.6%	28.9%	71.7%
Inventory turnover days	65.0	71.9	60.5
Trade and notes receivables turnover days	50.6	49.0	39.8
Trade payables turnover days	43.0	39.2	32.8

Note: We had a net cash position as at each of the three years ended 31 December 2014.

Please refer to the paragraphs headed “Financial Information — Major financial ratios” and “Financial Information — Description of certain items from our combined statements of financial position” in this prospectus for further discussion on the above ratios and turnover days.

RECENT DEVELOPMENT

Based on our unaudited management accounts, the unaudited revenue and gross profit for the four months ended 30 April 2015 was higher than those for the four months ended 30 April 2014.

As at the date of this prospectus, we had obtained the business licence for the production and distribution of food products and relevant food production licences for the manufacturing of three kinds of food products, namely the granulated siraitia grosvenorii (羅漢果), granulated rose petals and granulated Chinese hawthorn (山楂). We had also completed the set up of a new production line for the manufacturing of food products in our Zhongshan production base. The capital expenditure for the acquisition of the machineries for such food products was approximately RMB8.9 million. We had commenced to manufacture small quantities of food products, which had been launched in our self-operated chain pharmacies in June 2015 to test the market response. Based on the market response, we will formulate our sales and marketing strategy and gradually roll out our food products. We intend to sell these products in our self-operated chain pharmacies and supermarkets in the PRC.

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HISTORICAL NON-COMPLIANCE

During the Track Record Period, our Group was subject to administrative penalties by the Zhongshan Food and Drug Administration for the production and sale of sub-standard products namely “Ganoderma” (靈芝) and “Agarwood” (沉香). We were fined for a total amount of approximately RMB4,300 and confiscated the amount and products for a total sum of approximately RMB3,000. After these incidents, we have strengthened our quality control to ensure compliance with the prevailing standards set out in the prevailing Chinese Pharmacopoeia before we commence production and perform a second quality check on the products before we launched them in the market. Our Directors confirm that apart from the above incidents, no penalties had been imposed on us by the relevant food and drug administration authorities in the PRC during the Track Record Period and up to the Latest Practicable Date.

Our PRC subsidiaries (being Zhongzhi Pharmaceutical, Zhongzhi Chain Pharmacies, Zhongzhi Herb Pieces and Honeson Pharmaceutical) did not make adequate contributions to the social insurance fund and housing provident fund for our employees during the Track Record Period. From 1 July 2014 onwards, our PRC subsidiaries have been paying adequate contributions to the social insurance fund and housing provident fund for our employees. Furthermore, we have made provisions for the underpaid social insurance fund contributions and housing provident fund contributions of approximately RMB1.9 million, RMB1.9 million and RMB0.5 million for each of the three years ended 31 December 2014, respectively. As at the Latest Practicable Date, we did not receive any notifications from the relevant government authorities requiring us to make the outstanding social insurance fund and housing provident fund contributions. Our PRC Legal Advisors are of the view that (i) the non-compliance relating to such underpaid contributions is not material to our Group; and (ii) the risks of being penalised for such historical non-compliances are low in practice. For details, please refer to the paragraph headed “Business — Legal proceedings and non-compliance” in this prospectus.

LISTING EXPENSES

The total estimated listing expenses in connection with the Global Offering (including underwriting commission) was approximately RMB32.8 million, assuming the Over-allotment Option is not exercised and based on the mid-point of the indicative Offer Price range. For the year ended 31 December 2014, our Group incurred listing expenses of approximately RMB5.6 million, of which RMB4.3 million was charged to profit and loss and the remaining RMB1.3 million was recognised as prepayment. For the year ending 31 December 2015, we estimate that the listing expenses to be incurred will amount to RMB27.2 million, of which RMB10.7 million will be charged to profit and loss in the year and the remaining RMB16.5 million will be charged against equity upon successful Listing under relevant accounting standards.

NO MATERIAL ADVERSE CHANGE

The total indebtedness of our Group, as at 30 April 2015, being the latest practicable date for determining the amount of our indebtedness in this prospectus, was approximately RMB15 million. Our Directors confirm that since 31 December 2014 and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group and there is no event which would materially affect the information shown in our combined financial statements included in the Accountant’s Report.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$513 million (assuming the Over-allotment Option is not exercised and an Offer Price of HK\$2.77, being the mid-point of the indicative Offer Price range of HK\$2.46 to HK\$3.08 per Offer Share), after deducting the underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering.

We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

Approximate percentage or amount of net proceeds	Intended application
30% or HK\$154 million	Expansion of our pharmaceutical chain in the Guangdong province
20% or HK\$103 million	Expansion of our distribution network
20% or HK\$103 million	Provide funding for our research and development activities
20% or HK\$103 million	Expansion of our production capacity
10% or HK\$50 million	Working capital and other general corporate purposes

In the event that the Over-allotment Option is exercised in full and the Offer Price is set at the low-end or high-end of the indicative Offer Price range, the net proceeds from the Global Offering will decrease or increase by approximately HK\$69.2 million. Under such circumstances, we will adjust our allocation of the net proceeds in the same proportion as set out above.

Please refer to the “Future Plans and Use of Proceeds” section in this prospectus for further details.

DIVIDEND POLICY

Dividends may be paid by way of cash or by other means we consider appropriate. For each of the three years ended 31 December 2014, our Group declared dividends of nil, nil and RMB96 million, respectively. The dividends declared during the year ended 31 December 2014 had been fully paid by the end of September 2014. Our Group further declared and paid out a dividend of approximately RMB30 million in April 2015. Payment of any future dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant.

OFFER STATISTICS

	Based on an Offer Price of HK\$2.46 per Offer Share	Based on an Offer Price of HK\$3.08 per Offer Share
Market capitalisation <i>(Note 1)</i>	HK\$1,968 million	HK\$2,464 million
Unaudited pro forma adjusted combined net tangible assets per Offer Share <i>(Note 2 and Note 3)</i>	HK\$0.75	HK\$0.90

Notes:

1. The calculation of market capitalisation of the Shares is based on the indicative Offer Price range of HK\$2.46 to HK\$3.08 per Offer Share and a total of 800,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Global Offering but without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme.
2. The unaudited pro forma adjusted combined net tangible assets value per Offer Share is arrived at after the adjustment referred to in Appendix II headed “Unaudited pro forma financial information” to this prospectus and on the basis of 800,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering but without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme.
3. The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of RMB30 million declared and paid by Zhongzhi Pharmaceutical in April 2015. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Offer Share would be HK\$0.70 (assuming an Offer Price of HK\$2.46 per Offer Share) and HK\$0.85 (assuming an Offer Price of HK\$3.08 per Offer Share), respectively.

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RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business, industry, region in which we operate, and the Listing. We believe a few of the more significant risks we face include:

- Our success is dependent on our core brand of “Zeus (中智)” and any negative publicity of “Zeus (中智)” would adversely affect our operating results and financial condition.
- Our revenue was mainly generated from the Guangdong province, the PRC. Any adverse change in the economic, political or social conditions in the region may materially and adversely affect our business, financial condition and results of operations.
- Our gross profit margin in the future may be adversely affected if the proportion of the sales of our own-branded products in the PRC market decreases.
- We may not be able to maintain our historical growth rates and our results of operations may fluctuate significantly.
- If we are unable to develop and introduce new products or gain market acceptance of our new products, our business, financial condition and results of operations may be adversely affected.
- Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC.
- We rely heavily on our distribution network comprising distributors and independent chain pharmacies for the sales of our own-branded products.
- We have limited control over our distributors.
- The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- Uncertainties of the interpretation under the Draft Foreign Investment Law and the Explanatory Notes, which had been released for consultation purpose, may result in our Contractual Arrangements becoming invalid and illegal.
- Our Group relies on the Contractual Arrangements for the production of decoction pieces in China, which may not be as effective in providing operational control as direct ownership.

CONTRACTUAL ARRANGEMENTS

Zhongzhi Herb Pieces is a major PRC operating subsidiary of our Group. It is engaged in the production of traditional and modern decoction pieces in the PRC, of which the production techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the Foreign Investment Catalogue. As such, we are not allowed to hold any equity interest in Zhongzhi Herb Pieces under the applicable PRC laws and regulations.

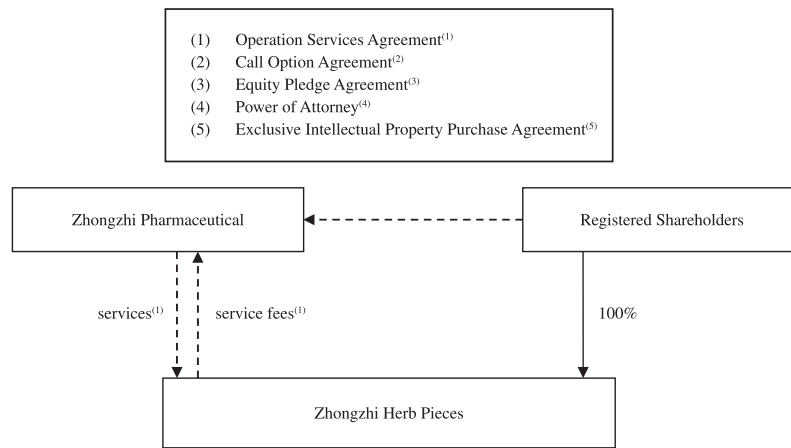
In order to achieve our business purposes, the Contractual Arrangements were entered into in order for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces transferred to Zhongzhi Pharmaceutical by means of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. Our PRC Legal Advisors are of the opinion that the Contractual Arrangements are, valid, legal and binding on the parties to the agreements under the Contractual Arrangements, save for dispute resolution clauses of the Contractual Arrangements in connection with injunctive relief as disclosed in the “Contractual Arrangements” section in this prospectus.

On 19 January 2015, MOFCOM released the Draft Foreign Investment Law and the Explanatory Notes for public consultation. The Draft Foreign Investment Law introduced the concept of “control” and “actual control” of an enterprise.

SUMMARY

If the concept of “actual control” is applied in assessing whether the Contractual Arrangements will be regarded as a domestic investment, our PRC Legal Advisors are of the view that our Company is likely to be deemed as controlled by Chinese investors based on our Company’s shareholding structure, where Mr. Lai, being a Chinese investor, indirectly held approximately 80.52% shareholding interest through Crystal Talent as at the Latest Practicable Date and approximately 60.39% shareholding interest after completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme). As such, the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue. For details of the Draft Foreign Investment Law and its potential impact on our Company, please refer to the paragraph headed “Contractual Arrangements — Legality of the Contractual Arrangements — The Draft Foreign Investment Law and the Explanatory Notes” in this prospectus.

The following diagram illustrates the operation of the Contractual Arrangements which results in the flow of all economic benefits from Zhongzhi Herb Pieces to our Group stipulated under the Contractual Arrangements:



Please refer to the “Contractual Arrangements” section in this prospectus for details.

Notes:

- (1) Pursuant to the Operation Services Agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, *inter alia*, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical.
- (2) Pursuant to the Call Option Agreement, the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.
- (3) Pursuant to the Equity Pledge Agreement, the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the Call Option Agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.
- (4) Pursuant to the Power of Attorney, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders’ rights in Zhongzhi Herb Pieces.
- (5) Pursuant to the Exclusive Intellectual Property Purchase Agreement, Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has according to the terms contained therein.
- (6) “—” denotes direct legal and beneficial ownership in the equity interest and “- - -” denotes contractual relationship.