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Web Proof Information Pack of



Honworld Group Limited

老恒和釀造有限公司*

(Incorporated in the Cayman Islands with limited liability)

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SUMMARY

OUR BUSINESS

Overview

We are the largest manufacturer of cooking wine in China, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume in 2012, respectively, according to the Euromonitor Report. Cooking wine is an essential ingredient widely used in food preparation to deliver richer flavors and dissolve meat and fish odors. According to the Euromonitor Report, the PRC cooking wine market, in terms of retail sales value, grew at a CAGR of 23.4% from 2008 to 2012, and is expected to grow at a CAGR of 20.3% from 2012 to 2017 and reach approximately RMB10.6 billion by 2017. We also offer other condiment products, including soy sauce and vinegar. Our market leadership earned us the accolade of National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) in 2013.

Our products are branded under “Lao Heng He” (“老恒和”), which dates back to more than 130 years ago, and is recognized for its strong heritage in China’s condiment market. We were the only one among the top three cooking wine producers in China in terms of retail sales value in 2012 that manufactured cooking wine products using exclusively the naturally-brewing method, according to the Euromonitor Report.

Our Products

We offer naturally-brewed and high-quality condiment products, including cooking wine, soy sauce, vinegar and other products. The table below sets out the amount and percentage of our total sales revenue for each of our product categories for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total revenue from sales		% of total revenue from sales		% of total revenue from sales		% of total revenue from sales		% of total revenue from sales	
	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods
	(unaudited)									
Cooking wine products	15,121	46.5	60,153	54.9	292,273	86.6	156,217	82.8	233,134	72.3
Soy sauce products	9,735	29.9	20,538	18.8	12,780	3.8	8,696	4.6	70,219	21.7
Vinegar products	3,770	11.6	13,865	12.7	9,291	2.8	6,163	3.3	3,478	1.1
Other products	3,913	12.0	14,936	13.6	22,781	6.8	17,251	9.3	16,031	4.9
Total revenue from sales of goods	32,539	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0

Prior to December 2011, our cooking wine products were mainly produced using a mixture of primarily naturally-brewed yellow rice wine and relatively small quantity of alcohol. We officially introduced the concept of naturally-brewed cooking wine into our business in December 2011 and since then all of our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base without adding any alcohol. Our cooking wine products are broadly categorized into premium,

SUMMARY

high-end, medium-range and mass-market based on the weighted average Wine Years of the vintage base wine used, concentration level of base wine content, in particular, the concentration level of long-aged base wine, as well as ABV levels, taking into account other factors such as packaging materials. The table below sets out our total sales of cooking wine products by product line for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total sales of cooking wine		% of total sales of cooking wine		% of total sales of cooking wine		% of total sales of cooking wine		% of total sales of cooking wine	
	RMB'000	products	RMB'000	products	RMB'000	products	RMB'000	products	RMB'000	products
	(unaudited)									
Premium	—	—	6,596	11.0	81,481	27.9	27,528	17.6	65,157	27.9
High-end	—	—	—	—	24,781	8.5	6,214	4.0	60,873	26.1
Medium-range	6,338	41.9	38,953	64.7	115,423	39.4	61,189	39.2	92,355	39.6
Mass-market	8,783	58.1	14,604	24.3	70,588	24.2	61,286	39.2	14,749	6.4
Total	15,121	100.0	60,153	100.0	292,273	100.0	156,217	100.0	233,134	100.0

The following table sets forth the gross profit and gross profit margin of our principal products by product line for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Cooking wine products										
Premium	—	—	5,580	84.6	61,597	75.6	20,771	75.5	48,110	73.8
High-end	—	—	—	—	17,063	68.9	4,176	67.2	39,429	64.8
Medium-range	1,491	23.5	15,298	39.3	59,891	51.9	31,365	51.3	40,487	43.8
Mass-market	4,747	54.0	7,298	50.0	39,200	55.5	38,195	62.3	8,924	60.5
Subtotal	6,238	41.3	28,176	46.8	177,751	60.8	94,507	60.5	136,950	58.7
Soy sauce products	884	9.1	6,641	32.3	4,732	37.0	2,803	32.2	48,833	69.5
Vinegar products	1,226	32.5	5,240	37.8	5,153	55.5	4,737	76.9	2,041	58.7
Other products										
Paste and pickled vegetables	643	77.4	4,934	49.4	4,417	23.1	3,683	25.3	4,329	28.7
Others	638	20.7	1,251	25.3	846	23.2	1,827	67.6	459	47.2
Subtotal	1,281	32.7	6,185	41.4	5,263	23.1	5,510	31.9	4,788	29.9
Total	9,629	36.9 ⁽¹⁾	46,242	42.2	192,899	57.2	107,557	57.1	192,612	59.7

(1) Excluding the RMB3.8 million in net processing income for rendering of processing services, our gross margin in 2010 would have been 29.6%. See “Financial Information — Description of Certain Income Statement Items — Revenue”.

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Our Stock of Base Wine

Our cooking wine products are manufactured by blending vintage base wine of different ages with mixer base wine, salt, spices and water. Our production department normally formulates an annual production schedule for base wine before we commence our production process each year. The following table sets forth the changes in our stock of base wine in earthen jars, production and sales volume of cooking wine products during the Track Record Period:

	For the year ended December 31,			For the eight months ended August 31, 2013
	2010	2011	2012	
	Liters '000	Liters '000	Liters '000	Liters '000
Volume at the beginning of period				
Less than 2 Wine Years	—	761	10,781	13,009
2 to 5 Wine Years	540	540	1,270	8,977
5 to 10 Wine Years	2,351	2,351	2,116	1,693
10 to 20 Wine Years ⁽¹⁾	3,217	3,217	2,783	2,226
Over 20 Wine Years ⁽¹⁾	4,889	4,889	4,333	3,466
Total	10,997	11,758	21,283	29,371
Newly produced during the period⁽²⁾	761	13,906	32,906	47,986
Newly procured from third party suppliers				
Less than 2 Wine Years	—	—	—	—
2 to 5 Wine Years	1,635	1,262	—	—
5 to 10 Wine Years	558	—	—	—
10 to 20 Wine Years	—	—	—	—
Over 20 Wine Years	—	—	—	—
Total	2,193	1,262	—	—
Used during the period				
Less than 2 Wine Years	—	3,886	20,678	20,716
2 to 5 Wine Years	1,635	532	2,293	735
5 to 10 Wine Years	558	235	423	120
10 to 20 Wine Years	—	434	557	155
Over 20 Wine Years	—	556	867	230
Total	2,193	5,643	24,818	21,956
Movement among different age groups⁽³⁾				
Less than 2 Wine Years	—	—	(10,000)	(1,000)
2 to 5 Wine Years	—	—	10,000	1,000
5 to 10 Wine Years	—	—	—	—
10 to 20 Wine Years	—	—	—	—
Over 20 Wine Years	—	—	—	—
Volume at the end of the period				
Less than 2 Wine Years	761	10,781	13,009	40,279
2 to 5 Wine Years	540	1,270	8,977	8,241
5 to 10 Wine Years	2,351	2,116	1,693	1,573
10 to 20 Wine Years	3,217	2,783	2,226	2,072
Over 20 Wine Years	4,889	4,333	3,466	3,236
Total	11,758	21,283	29,371	55,401

SUMMARY

	For the year ended December 31,			For the eight months ended August 31, 2013
	2010	2011	2012	
	Liters '000	Liters '000	Liters '000	Liters '000
Production volume of cooking wine products and usage of base wine⁽⁴⁾				
Premium				
Production volume of cooking wine	—	447	4,944	4,146
Volume of base wine used to produce a thousand liters of cooking wine	—	0.91	0.92	0.93
Volume of vintage base wine used to produce a thousand liters of cooking wine	—	0.91	0.21	0.06
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	—	0.71	0.87
High-end				
Production volume of cooking wine	—	—	2,284	5,654
Volume of base wine used to produce a thousand liters of cooking wine	—	—	0.62	0.87
Volume of vintage base wine used to produce a thousand liters of cooking wine	—	—	0.15	0.06
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	—	0.47	0.81
Medium-range				
Production volume of cooking wine	1,535	8,378	19,462	13,425
Volume of base wine used to produce a thousand liters of cooking wine	0.36	0.37	0.41	0.85
Volume of vintage base wine used to produce a thousand liters of cooking wine	0.36	0.07	0.09	0.04
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	0.30	0.32	0.81
Mass-market				
Production volume of cooking wine	4,708	7,520	28,985	2,529
Volume of base wine used to produce a thousand liters of cooking wine	0.35	0.29	0.37	0.68
Volume of vintage base wine used to produce a thousand liters of cooking wine	0.35	0.10	0.03	0.04
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	0.19	0.34	0.64
Sales volume of cooking wine products				
Premium	—	446	4,880	3,896
High-end	—	—	2,271	5,542
Medium-range	1,488	7,354	18,960	14,812
Mass-market	4,686	7,365	28,114	3,420
Total	6,174	15,165	54,225	27,671

SUMMARY

- (1) Including the remaining portion of the base wine contributed by Mr. Chen. Mr. Chen contributed approximately 5.3 million liters of base wine with 10 to 20 Wine Years and approximately 6.0 million liters of base wine of over 20 Wine Years in December 2008. A portion of such contributed base wine was used in 2009. The foregoing contribution constituted all of Mr. Chen’s home stock, and was contributed to help Huzhou Lao Heng He’s production of cooking wine. Mr. Chen obtained the aforementioned base wine through decades of accumulation in his base wine home stock and such contributed base wine was of our requisite aging and quality requirements. Mr. Chen started accumulating naturally-brewed base wine as early as 1990, when he started his career in the condiment business. Mr. Chen made such contribution for nil consideration when he made his decision to expand Lao Heng He’s cooking wine business. The fair value of Mr. Chen’s donation has been accounted for in the audited financial statements of the Company as the fair value of the donated base wine of RMB7.0 million was reflected in the opening capital reserves as of January 1, 2010, and the same amount was reflected in the opening cost of inventories.

As the result of the foregoing contribution, Mr. Chen did not retain any home stock of base wine and therefore no base wine was contributed to our Company by Mr. Chen during the Track Record Period. Mr. Chen does not plan to further contribute any base wine to our Company after the [●], as we have established stable base wine production capabilities.

- (2) Newly produced base wine is aged less than two Wine Years.
- (3) Representing movement of certain amount of base wine of two Wine Years into the category of “2 to 5 Wine Years” in 2012 and the eight months ended August 31, 2013 due to the aging process.
- (4) The generally increased amount of base wine usage across different cooking wine product lines during the Track Record Period mainly reflects our official introduction of the concept of naturally-brewed cooking wine to our business in December 2011, which led to our manufacturing of cooking wine products using 100% naturally-brewed yellow rice wine as base without adding any alcohol since then.

The overall decreased proportion of usage of vintage base wine during the Track Record Period was due to the increased proportion of usage of mixer base wine. Like vintage base wine, mixer base wine also contributes to the overall aroma and scent of the cooking wine products and were more readily available since our production facilities were expanded in 2011. As confirmed by the China Wine Association, Yellow Rice Wine Branch, (i) there are no applicable industry or regulatory standards on the proportion of vintage base wine; and (ii) through the process of blending base wine of different Wine Years, it is possible to achieve similar scent and aroma given the base used is naturally-brewed yellow wine without adding alcohol, notwithstanding the change in proportion of mixer base wine and vintage base wine.

Our Controlling Shareholder and Development of Our Business Model

Our ultimate Controlling Shareholder is Mr. CHEN Weizhong.

Historically, Mr. Chen controlled two condiment businesses, namely Zhong Wei and our Group. In December 2012, Zhong Wei was disposed of to an independent third party. Zhong Wei was established by Mr. Chen in 1995 as a manufacturer of pickled vegetables, soy sauce and other fermented products. Mr. Chen had developed a procurement platform and distribution network for Zhong Wei. Following Mr. Chen’s acquisition of our predecessor entity, Lao Heng He Brewing Factory in 2005, Mr. Chen set out to restore his family heritage with the “Lao Heng He” business and to transform the fortunes of the then ailing business. He did so by initially focusing Lao Heng He on manufacturing, while leveraging on Zhong Wei’s procurement platform and distribution network. As a result, Mr. Chen implemented certain distribution and procurement arrangements between us and Zhong Wei which existed during the Track Record Period.

Substantially all of our products were distributed by Zhong Wei in 2010. Since the end of 2010, as we built up our own sales and marketing department and established our own distribution network, we began selling products directly to distributors nationwide rather than to Zhong Wei and as a result, sales to Zhong Wei as a proportion of total sales declined significantly from 94.5% in 2010 to 41.4% in 2011, and further to 1.5% in 2012.

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Moreover, we purchased a majority of our raw materials, including rice and packaging materials, from Zhong Wei in 2010 in order to take advantage of Zhong Wei’s ability to secure a stable and quality supply of such raw materials. As our operations became more established, we began increasingly purchasing our raw materials directly from third party suppliers. Our purchases of raw materials from Zhong Wei, as a percentage of our total purchases of raw materials, decreased from 79.1% in 2011 to 5.5% in 2012.

After the disposal of Zhong Wei to an independent third party in December 2012, we ceased to purchase raw materials from Zhong Wei, while we continued to sell a small percentage of our products to Zhong Wei on an arm’s-length basis. Our sales to Zhong Wei, as a percentage of our total sales, was 0.2% in the eight months ended August 31, 2013. In addition, we continued to purchase certain popular Zhong Wei branded paste and pickled vegetable products from Zhong Wei to supplement our product offering and such procurement from Zhong Wei represented 3.8% of our total procurement in the eight months ended August 31, 2013. For details of our historical relationship with Zhong Wei, see “Business — The Development of Our Business Model”.

Our Distribution Network

We have established an extensive distribution network in China that enables our products to effectively reach consumers nationwide. We primarily rely on the established sales and distribution network of distributors to distribute our products across China, complemented by direct sales. We had over 200 distributors throughout China as of the Latest Practicable Date, covering 30 provinces, centrally administered-municipalities and autonomous regions.

We have implemented a multi-category distributor system to manage distribution of our products since 2011. Based on their distribution scale and capabilities, we classify our distributors into Categories A (the highest), B, C and D (the lowest). We primarily rely on our Category A distributors, who generally employ the most extensive distribution networks and sales channels covering one or more provinces, for distributing our products. The aggregate sales attributable to our Category A distributors constituted 74.2% and 83.3% of our revenue in 2012 and the eight months ended August 31, 2013, respectively. As of the Latest Practicable Date, we had six Category A distributors. In addition, we continue to enhance our distributor structure by reducing the number of Category D distributors located in regions that are already covered by higher-category distributors and focus on supporting and managing these higher-category distributors.

In setting our pricing policy, we take into account current market trends, production costs, consumers’ acceptable price range, the target consumer groups, our competitors’ prices and the economic condition of the relevant regions. We provide guidelines on suggested retail prices to retailers, which is consistent with market practice in the food and condiment industry in China. Before retail sales of our products commence, our distributors are required to submit retail prices stipulated by retailers for such products for our approval and we are entitled to impose penalties on distributors who fail to enforce our pricing policies. We typically grant credit terms ranging from 30 to 90 days to our Category A and B distributors, whereas prepayment is generally required for orders placed by our Category C and D distributors.

We also sell a small percentage of products directly to retailers mainly in markets where our distributors currently do not have a presence or due to our historical business relationship with certain hypermarkets and supermarkets.

SUMMARY

The table below sets out the revenue attributed to the sales of our products by sales made through our distributors and direct sales for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total sales of		% of total sales of		% of total sales of		% of total sales of		% of total sales of	
	RMB'000	goods	RMB'000	goods	RMB'000	goods	RMB'000	goods	RMB'000	goods
	(unaudited)									
Sales to Zhong Wei	30,749	94.5	45,333	41.4	4,931	1.5	3,873	2.1	606	0.2
Sales to third parties:										
Wholesale distribution	—	—	63,758	58.2	320,163	94.9	176,364	93.6	312,387	96.7
Direct sales	1,790	5.5	401	0.4	12,031	3.6	8,090	4.3	9,869	3.1
Subtotal	1,790	5.5	64,159	58.6	332,194	98.5	184,454	97.9	322,256	99.8
Total	32,539	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0

Bill Financing

During the Track Record Period, our operating subsidiary, Lao Heng He, and Zhong Wei entered into certain bill financing arrangements on the basis of sales and purchase contracts with sales amounts greater than the actual transaction amounts between our Group and Zhong Wei. Upon receiving advice that such bill financing activities were not in strict compliance with relevant PRC laws and regulations, we implemented policies and training steps to ensure that any bill financing activities will not take place again, and have since August 2012 ceased to conduct bill financing activities. Please refer to “Business — Legal Proceedings and Compliance — Bill Financing” for further details.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

You should read the summary consolidated financial statements set forth below in conjunction with our consolidated financial information included in the Accountants’ Report set out in Appendix I, together with the accompanying notes, which have been prepared in accordance with IFRS.

The following is a summary of our consolidated financial information for the periods and as of the dates indicated, extracted from the Accountants’ Report set out in Appendix I to this document. Results for interim periods are not indicative of results for the full year.

SUMMARY

Summary Consolidated Income Statements

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Revenue	36,297	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0
Gross profit	13,387	36.9	46,242	42.2	192,899	57.2	107,557	57.1	192,612	59.7
Profit before tax	8,421	23.2	27,674	25.3	135,449	40.2	76,691	40.7	129,094	40.0
Profit for the year	6,282	17.3	20,214	18.5	98,438	29.2	55,775	29.6	95,996	29.7
Attributable to:										
Owners of the Company	6,282	17.3	20,214	18.5	98,438	29.2	55,775	29.6	95,996	29.7

Summary Consolidated Statements of Financial Position

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Current assets	108,404	244,684	322,814	434,486
Non-current assets	17,775	49,879	155,383	189,097
Total assets	126,179	294,563	478,197	623,583
Liabilities				
Current liabilities	104,363	253,176	325,628	394,216
Non-current liabilities	6,358	5,715	19,459	11,259
Total liabilities	110,721	258,891	345,087	405,475
Equity				
Equity attributable to owners of the Company	15,458	35,672	133,110	218,108
Total equity	15,458	35,672	133,110	218,108
Total liabilities and equity	126,179	294,563	478,197	623,583

SUMMARY

Summary Consolidated Cash Flow Statements

	As of and for the year ended December 31,			As of and for the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash flow from/(used in) operating activities	21,818	12,829	59,710	27,065	(53,267)
Net cash flow from/(used in) investing activities	(37,836)	(54,885)	(165,794)	(86,330)	49,266
Net cash flow from financing activities	16,130	65,588	83,785	53,544	41,993
Cash and cash equivalents at beginning of year	886	998	24,530	10,430	2,231
Effect of foreign exchange rate changes, net	—	—	—	—	2
Cash and cash equivalents at end of year	<u>998</u>	<u>24,530</u>	<u>2,231</u>	<u>4,709</u>	<u>40,225</u>

Our Financial Track Record

We have achieved rapid growth in revenue and profit during the Track Record Period. In 2010, 2011 and 2012, we recorded a total revenue of RMB36.3 million, RMB109.5 million and RMB337.1 million, respectively, and net profit of RMB6.3 million, RMB20.2 million and RMB98.4 million, respectively. For the eight months ended August 31, 2012 and 2013, we recorded a total revenue of RMB188.3 million and RMB322.9 million, respectively, and net profit of RMB55.8 million and RMB96.0 million, respectively.

Revenue

The significant revenue growth achieved by the Group from RMB36.3 million in 2010 to RMB337.1 million in 2012 and from RMB188.3 million for the eight months ended August 31, 2012 to RMB322.9 million for the same period in 2013 primarily reflected increases in sales volume and average selling price of our principal products. The increase in sales volume of our principal products during the Track Record Period primarily reflected an increase in demand for our products, which we believe in turn reflected factors such as:

- (i) increasing recognition of our brand, particularly since the launch of our advertising campaign on China Central Television in 2011;
- (ii) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products which we introduced into the market;
- (iii) continued enhancement of our distribution network and deepening of market penetration by developing, supporting and managing our higher-category distributors; and
- (iv) rising disposable income level in the PRC.

SUMMARY

In addition, the increase in sales volume of our principal products from 2011 to 2012 also reflected an increase in supply of our products as a result of a significant increase in our bottling capacity following the commencement of production of our new bottling line in 2011.

The increase in the average selling price of our cooking wine products during the Track Record Period primarily reflected a combination of:

- (i) increased percentage of sales directly to our distributors, which were generally priced higher than sales to Zhong Wei;
- (ii) increased percentage of sales attributable to premium and high-end products; and
- (iii) price increases in all product lines in response to increasing demand.

Gross and Net Profit

The increase in our net profit during the Track Record Period was primarily due to increases in our revenue and our gross margin. Our gross profit margin increased from 36.9% in 2010 to 42.2% in 2011 to 57.2% in 2012, and from 57.1% in the eight months ended August 31, 2012 to 59.7% in the eight months ended August 31, 2013, primarily reflecting a combination of:

- (i) our strategic decision to concentrate our resources on cooking wine products and accordingly, an increase in the percentage of sales derived from cooking wine products, which generally had higher gross margins than our other products;
- (ii) an increase in the percentage of sales derived from premium and other higher-end cooking wine products as we gradually focused our product development efforts on such products, which generally bore higher margins than our lower-end cooking wine products; and
- (iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei.

NET CURRENT ASSETS/LIABILITIES

We had net current assets of RMB4.0 million as of December 31, 2010, net current liabilities of RMB8.5 million as of December 31, 2011, RMB2.8 million as of December 31, 2012 and net current assets of RMB40.3 million as of August 31, 2013. An important contributing factor for our net current liabilities in 2011 and 2012 was the increases in our interest-bearing bank borrowings during the Track Record Period. Since we began focusing our business on cooking wine products in late 2010, we have increased bank borrowings primarily to purchase rice, which is the principal raw material for our cooking wine products, and storage facilities such as earthen jars. The increased inventory of rice enabled us to increase the production of base wine, which helped us (i) meet the increase in demand for our cooking wine products; (ii) focus on higher end cooking wine products, which generally required more vintage base wine; and (iii) offset risks of future increases in the price of rice. Our net current liabilities during the Track Record Period were also attributable to an increase in our tax payable, which in turn was attributable to an increase in our profit before tax.

SUMMARY

INVENTORY

Our inventory is categorized into raw materials, work-in-progress for our products and finished products. Our raw materials and finished products as a percentage of inventory are relatively low, comprising only 11.1% and 9.5% of our inventory in total as of December 31, 2012 and August 31, 2013, respectively. A significant majority of our inventory is work-in-progress, consisting of primarily base wine stored in earthen jars for our cooking wine products. Our inventory turnover days were 271, 246, 226 and 343 in 2010, 2011, 2012 and primarily for the eight months ended August 31, 2013, respectively. The relatively long inventory turnover days reflect our business model, in particular the production process of base wine. As part of our business strategy, we have actively sought to accumulate stock of base wine in anticipation of higher sales, as well as a higher percentage of vintage wine to produce premium cooking wine to differentiate from their competitors. Our Directors believe our inventory turnover days are in line with the industry norm.

RECENT DEVELOPMENT

Based on our unaudited management accounts, we continued to experience stable growth during the eleven months ended November 30, 2013. Our revenue and gross profit for the eleven months ended November 30, 2013 were RMB488.3 million and RMB285.8 million, respectively.

The Directors confirm that there has been no material adverse change in our financial or trading position or prospects of our Company since August 31, 2013, which was the last balance sheet date of our latest audited financial results as set out in the Accountants' Report in Appendix I up to the date of this document. As far as we are aware, there was no material change in the general conditions in the PRC condiment market that had affected or would affect our business operations or financial conditions materially and adversely.

PROFIT ESTIMATE

Estimated consolidated profit attributable to owners of the Company

for the year ended December 31, 2013⁽¹⁾⁽³⁾ not less than RMB152 million
(approximately HK\$192 million)

Notes:

- (1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix III to this document. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2013 based on the audited consolidated results for the eight months ended August 31, 2013, the unaudited consolidated results based on management accounts of our Group for the three months ended November 30, 2013 and an estimate of the consolidated results of our Group for the remaining one month ended December 31, 2013.
- (3) The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK\$ at the exchange rate of RMB0.7927 to HK\$1.00.

SUMMARY

DIVIDEND POLICY

We have not declared any dividends in the years ended December 31, 2010, 2011 and 2012. Our shareholders will be entitled to receive dividends declared by us. We currently expect that approximately 20% to 30% of our net profits will be recommended for distribution in each fiscal year, commencing from the fiscal year ended December 31, 2013. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and any other factors that our Directors deem relevant.

We can give no assurance that any dividends will be paid. You should consider the risk factors affecting our Group contained in “Risk Factors” and the cautionary notice regarding forward-looking statements contained in “Forward-looking Statements”.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Anji Zhong Wei”	Anji Zhong Wei Food Co., Ltd. (安吉中味食品有限公司), a company established on January 12, 2006 under the laws of the PRC and currently wholly owned by an independent third party and is no longer the Group’s connected party
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), adopted on December 17, 2013 with immediate effect, a summary of which is set out in Appendix V
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, Macau and Taiwan
“China Wine Association”	China Wine Association (中國酒業協會), formerly known as China Wine Industry Association (中國釀酒工業協會), is a national trade association overseeing the PRC wine industry registered with the Ministry of Civil Affairs of the PRC in 1992. According to the articles of association of China Wine Association (中國酒業協會), the primary responsibilities of the association include providing guidance to the development of PRC wine industry and participating in the formulation and implementation of national and industry standards as authorized by the government, conducting industry surveys, analyzing and releasing industry statistics as well as promoting communication and exchange across regions and industry players, among others.
“China Wine Association, Yellow Rice Wine Branch”	China Wine Association, Yellow Rice Wine Branch (中國酒業協會黃酒分會) is one of the eleven branches of China Wine Association (中國酒業協會) and is in charge of yellow rice wine related matters

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	Honworld Group Limited, a company incorporated in the Cayman Islands with limited liability on December 4, 2012
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the relevant rules and unless the context requires otherwise, refers to Mr. CHEN Weizhong, our ultimate controlling shareholder, and the company through which he holds equity interest in our Company, namely, Key Shine
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law
“EIT Rules”	the Regulation on the Implementation of the PRC Enterprise Income Tax Law
“Euromonitor”	Euromonitor International, a global research organization established in 1972 that provides strategy research for consumer markets
“Euromonitor Report”	the report dated March 29, 2013 prepared by Euromonitor in relation to the condiment and cooking wine market in the PRC
“Exclusive Recipes Licensing Agreement”	a licensing agreement dated January 1, 2013 which was entered into between Mr. Chen and Lao Heng He, whereby Mr. Chen agreed to grant Lao Heng He an exclusive right to use certain trade-secret cooking wine recipes, including the recipe of fermentation starter and the recipe of spices
“Foremost”	Foremost Star Holdings Limited, a company incorporated on August 10, 2012 under the laws of BVI and wholly owned by Ms. HO Ping Tanya. Foremost is one of our substantial shareholders. For more details please refer to the section headed “Substantial Shareholder” of this document
“GDP”	gross domestic product

DEFINITIONS

“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huzhou Chen Shi”	Huzhou Chen Shi Tian Niang Management Consulting Co., Ltd. (湖州陳氏天釀管理諮詢有限公司), a company established on February 5, 2013 under the laws of the PRC and our wholly owned subsidiary
“Huzhou Weiyuan”	Huzhou Weiyuan Beverages Co., Ltd. (湖州味源飲料食品有限公司), a company incorporated in the PRC with limited liability on August 23, 2002, and a [●]. Huzhou Weiyuan is owned by Mr. CHEN Weidong, the elder brother of Mr. Chen. Mr. CHEN Weidong is one of the shareholders of Huzhou Weiyuan
“IFRS”	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party”	an individual or a company who is not considered a connected person of our Company under the relevant rules
“Key Shine”	Key Shine Global Holdings Limited, a company incorporated on September 28, 2012 under the laws of BVI and wholly owned by our ultimate Controlling Shareholder, Mr. CHEN Weizhong
“Lao Heng He”	Huzhou Lao Heng He Brewery Co., Ltd. (湖州老恒和釀造有限公司), a company established on July 1, 1979 under the laws of the PRC and our wholly owned subsidiary
“Lao Heng He Group Limited”	Lao Heng He Group Limited (老恒和集團有限公司), a company established on December 13, 2012 under the laws of Hong Kong and our wholly-owned subsidiary
“Lao Heng He Wine” or “Huzhou Lao Heng He Wine”	Huzhou Lao Heng He Wine Co., Ltd. (湖州老恒和酒業有限公司) a company established on July 20, 2010 under the laws of the PRC and our wholly owned subsidiary
“Latest Practicable Date”	January 9, 2014, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document

DEFINITIONS

“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部)
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Advisers”	Kai Tong Law Firm, the legal advisers to our Company as to the laws of the PRC
“Reorganization”	the reorganization of the Group in preparation of the [●], details of which are set out in “History, Reorganization and Group Structure— Reorganization”
“RMB”	Renminbi, the lawful currency of the PRC
“Ruoxiachun”	Huzhou RuoXiaChun Wine Co., Ltd. (湖州簪下春酒業有限公司), a company established on October 27, 1998 under the laws of the PRC which manufactures yellow rice wine and Chinese white wine, located in Huzhou, Zhejiang Province, an independent third party
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shares”	ordinary shares in the capital of our Company with nominal value of US\$0.0005 each
“Shareholder(s)”	holder(s) of Shares
“State Council”	the PRC State Council (中華人民共和國國務院)

DEFINITIONS

“Track Record Period”	the three financial years of our Company ended December 31, 2012 and the eight months ended August 31, 2013
“Trademark Office”	Trademark Office of the State Administration for Industry & Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局商標局)
“U.S.” or “United States”	the United States of America
“VAT”	value-added tax
“Yilong Zhong Wei”	Yilong County Zhong Wei Food Co., Ltd. (儀隴縣中味食品有限公司), a company established on August 24, 2007 under the laws of the PRC and a wholly-owned subsidiary of Zhong Wei
“Zhong Wei”	Zhejiang Zhong Wei Brewing Co., Ltd. (浙江中味釀造有限公司), a company incorporated in the PRC with limited liability on November 1, 1995 and currently wholly owned by an independent third party and is no longer the Group’s connected party

In this document, the terms “associate”, “[●]”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the relevant rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only.

GLOSSARY

This glossary contains explanations of certain terms used in this document that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“ABV”	alcohol by volume, a standard measure of how much alcohol is contained in an alcoholic beverage
“amino acids”	biologically important organic compounds comprising amine and carboxylic acid functional groups, which play central roles both as building blocks of proteins and as intermediates in metabolism
“base wine”	naturally-brewed yellow rice wine, used as the base of naturally-brewed cooking wine
“CAGR”	compound annual growth rate
“citric acid”	a commonly used acidifier, flavoring and preservative
“ester”	any of a class of organic compounds that react with water to produce alcohol and acids
“fermentation”	the conversion of sugar to acids, gases and/or alcohol using yeast or bacteria
“fermentation starter”	compounds to assist the beginning of the fermentation process in preparation of various foods and fermented drinks
“fermented bean curd”	a form of processed, preserved bean curd made from soy beans, commonly used in East Asian cuisine as a condiment
“glacial acetic acid”	undiluted acetic acid, also commonly used as a food additive with a distinct sour taste and pungent smell
“HACCP”	hazard analysis and critical control points, a systematic preventive approach to food safety and allergenic, chemical and biological hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safety level
“high-salt liquid state fermentation (高鹽稀態發酵)”	a soy sauce fermentation method where soy beans and wheat bran are fermented in liquid state
“ISO 9001”	the internationally recognized standard for the quality management of businesses
“low-salt solid state fermentation (低鹽固態發酵)”	a traditional soy sauce fermentation method where soy beans and wheat are fermented in solid state

GLOSSARY

“mixer base wine”	base wine aged less than two Wine Years
“MSG”	monosodium glutamate, a food additive used as a flavor enhancer to balance, blend and round the total perception of other tastes
“oligopeptide”	a peptide comprising a small number of amino acids
“peptide”	any of various natural or synthetic compounds containing two or more amino acids linked by the carboxyl group of one amino acid to the amino group of another
“plasticizer”	an additive that increases the plasticity or fluidity of a material
“QB/T 2745-2005 Standard”	The Light Industry Standard for Culinary Chinese Rice Wine of PRC (中華人民共和國輕工業行業標準•烹飪黃酒) promulgated and adopted by the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) in July 2005 and January 2006, respectively, an applicable industrial standard for cooking wine products in China
“SB/T 10416-2007 Standard”	The Domestic Trade Industrial Standard for Seasoning Wine of the PRC (中華人民共和國國內貿易行業標準•調味料酒) promulgated and adopted by MOFCOM in January and July 2007, respectively, an applicable industrial standard for cooking wine products in China
“vintage base wine”	base wine aged over two Wine Years
“Wine Year”	consistent with industry practice, the Wine Year of base wine is calculated from the commencement of the fermentation process, which generally takes place from October through May of the following year. Upon completion of the fermentation process and immediately prior to the beginning of the next fermentation season, base wine would be aged two Wine Years

The following table sets forth a reconciliation between Wine Years and calendar years:

	<u>Calendar Year</u>	<u>Wine Year</u>
Upon commencement of fermentation	0	0
Immediately prior to the beginning of the next fermentation season	0	Two
Starting from the year after completion of fermentation	X	X+1

RISK FACTORS

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We have experienced rapid growth in a relatively short period of time and may not be able to maintain similar rates of growth in the future.

During the Track Record Period, we expanded significantly and our revenue increased from approximately RMB36.3 million for the year ended December 31, 2010 to approximately RMB337.1 million for the year ended December 31, 2012, representing a CAGR of approximately 204.8%. Our revenue increased by 71.4% from RMB188.3 million for the eight months ended August 31, 2012 to RMB322.9 million for the eight months ended August 31, 2013. Revenue generated from sales of our cooking wine products increased from approximately RMB15.1 million for the year ended December 31, 2010 to approximately RMB292.3 million for the year ended December 31, 2012, representing a CAGR of approximately 339.6%. Revenue generated from sales of cooking wine products increased by 49.2% from RMB156.2 million for the eight months ended August 31, 2012 to RMB233.1 million for the eight months ended August 31, 2013.

We expect to continue expanding our sales and operations. However, our expansion strategy may be hindered and there is no assurance that we would be able to manage our future expansion effectively. In particular, we have implemented significant changes in our business model during the Track Record Period, including focusing our business operations on cooking wine products and discontinuing distribution and procurement arrangements with Zhong Wei. At the beginning of the Track Record Period, we primarily functioned as a manufacturing platform, and Zhong Wei as the centralized sales and procurement channel, for our Controlling Shareholder’s overall condiment business. Our products were historically sold through Zhong Wei and substantially all of our products were distributed through Zhong Wei in 2010. In addition, we purchased a majority of our raw materials from Zhong Wei in 2010. Since the end of 2010, we have been selling products directly to distributors nationwide rather than to Zhong Wei and increasingly purchasing our raw materials directly from third party suppliers. Our sales to Zhong Wei, as a percentage of our total sales, was 94.5%, 41.4%, 1.5% and 0.2% in 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively, while our procurement from Zhong Wei, as a percentage of our total procurement, was 29.9%, 41.4%, 8.5% and 3.8%, respectively, during the same periods. See “Business — The Development of Our Business Model”. As a result, our past performance may not be indicative of our future results. In addition, the growth of our business will impose substantial demands on our managerial, operational, financial and other resources and increase our working capital needs.

Our ability to grow our business is subject to other risks and uncertainties, including our ability to:

- compete effectively with companies in the condiment industry, particularly in the cooking wine segment, some of which have longer operating histories and greater financial resources than we do;
- offer commercially successful products to attract a larger base of consumers;
- increase sales and marketing activities and promote customer awareness and acceptance of our products;
- successfully streamline our product offerings and focus on high-end to premium products in accordance with our business strategies;

RISK FACTORS

- continue our existing arrangements with suppliers or distributors and enter into new arrangements with additional suppliers or distributors;
- manufacture and deliver products in a timely manner and in sufficient quantities;
- expand manufacturing capacities and ramp up operations;
- manage our raw material supplies and sourcing costs;
- maintain sufficient cash and financing to fund our expansion plans and business operations; and
- retain our management and skilled staff in research and development, production line operations and sales and marketing and attract additional key qualified personnel in order to keep pace with our growth.

If we are unsuccessful in addressing any of these risks and uncertainties, our business, financial condition, cash flows, results of operations and growth will be materially adversely affected.

We depend primarily upon sales of our cooking wine products and a decline in the growth of demand for these products would have a material adverse effect on our operating results and growth prospects.

In 2010, 2011, 2012 and the eight months ended August 31, 2013, we generated approximately 46.5%, 54.9%, 86.6% and 72.3% of our revenue from sales of our cooking wine products, respectively, and we expect to continue to depend upon sales of our cooking wine products for at least a substantial majority of our revenue in the foreseeable future. Because we are dependent on a single line of products, factors such as changes in consumer preferences may have a disproportionately greater impact on us than if we derive significant revenue from multiple lines of products. There can be no assurance that our cooking wine products will hold long-term consumer appeal. If consumer interest in cooking wine products or condiment products in general declines, we may experience a significant loss of sales, cancellation of orders from customers, loss of customers, excess inventories, inventory markdowns and deterioration of our brand image, and lower revenues and gross and operating margins as a result of price reductions and may be forced to liquidate excess inventories at a discount, any or all of which would have a material adverse impact on our operating results and growth prospects.

We face intense competition which may affect our market share and profit margins.

The PRC condiment market, including the cooking wine segment, is highly competitive and fragmented. According to the Euromonitor Report, as of December 31, 2012, there were more than 1,000 cooking wine manufacturers in China which were mainly small- to medium-sized ones competing at a regional level. Our larger competitors may have a longer operating history in the market, greater production, financial, research and development, and marketing capabilities than us. We cannot assure you that our current or potential competitors will not provide products comparable to or superior than ours, offer products at competitive prices or adapt more quickly than we do to evolving industry trends or changing market conditions. There is also the possibility of consolidation in the condiment industry,

RISK FACTORS

particularly the cooking wine segment, in the PRC among our competitors or that alliances may develop among our competitors whereby these alliances may acquire significant market share rapidly or that some of our competitors may commence production of products similar to those we offer.

Furthermore, our competitors may increase substantially their advertising expenses and promotional activities or engage in irrational or predatory pricing behavior. We cannot assure you that our competitors will not actively engage in activities, whether legal or not, designed to undermine our brand and product quality or to influence consumer confidence in our products. Increased competition may result in price reduction, reduced profit margins and a loss of our market share, any of which may have a material adverse effect on our business, financial condition and results of operations.

We depend on a stable and adequate supply of quality raw materials which are subject to price volatility and other risks.

For each of the years ended December 31, 2010, 2011, 2012 and the eight months ended August 31, 2013, our cost of raw materials accounted for approximately 68.0%, 69.6%, 71.7% and 71.4%, respectively, of our total cost of sales over the same periods. As a result, our production volume and production costs depend on our ability to source quality raw materials, such as rice, soy beans and wheat, at competitive prices. We procure all of our raw materials from the domestic markets. If we are unable to obtain raw materials in the quantities and of a quality that we require, our production volume, quality of products and profit margins may be adversely affected. In addition, raw materials used in our production are subject to price volatility caused by external conditions, such as market supply and demand, climate, environmental conditions, commodity price fluctuations, currency fluctuations, changes in governmental policies and natural disasters. In particular, the price of rice, our key raw material, has increased significantly in recent years. See “Industry Overview — the PRC Cooking Wine Market — Cooking Wine Manufacturing Methods in China” for the fluctuation of rice price in recent years. We expect increases in our cost of raw materials, including rice, to continue. Furthermore, the price of rice in the PRC market has been heavily subsidized by the PRC Government, resulting in a significant gap with the prevailing price in the international market. However, there can be no assurance that the price of rice in the PRC market will continue to be subsidized at the same level, or at all. In addition, our ability to pass increased raw material costs on to our customers may be limited by competitive pressure. We cannot assure you that we will be able to raise the prices of our products sufficiently to cover increased costs resulting from increases in the cost of our raw materials or overcome the interruption of sufficient supply of qualified raw materials for our products. As a result, any significant price increase of our raw materials may have an adverse effect on our profitability and results of operations.

We rely on our distributors to distribute and sell our products over whom we have limited control and our high distributor concentration exposes us to risks of fluctuations in our sales to major distributors from period to period.

We primarily sell our products to distributors that sell our products directly, or through their sub-distributors, to retailers and catering service operators. As of December 31, 2010, 2011, 2012 and August 31, 2013, we had one, 290, 427 and 214 distributors, respectively. For each of the years ended December 31, 2010, 2011, 2012 and the eight months ended August 31, 2013, sales to our distributors in aggregate, accounted for approximately 94.5%, 99.6%, 96.4% and 96.9%, of our total sales of goods, respectively. Our five largest distributors contributed 64.0% and 74.2% of our total revenue for the year ended December 31, 2012 and the eight months ended August 31, 2013, respectively. Our largest

RISK FACTORS

distributor contributed 15.3% and 23.5% of our total revenue during the same periods. We expect to continue to rely on our distributors, in particular, those major ones, for our sales. As such, the performance of our distributors, the maintenance of our relationships with major distributors and the ability of such distributors to distribute our products, uphold our brand, expand their businesses and sales network are crucial to the future growth of our business.

We have no ownership or managerial control over any of our distributors, and manage our distributors through our sales representatives who, among other things, monitor our distributors’ compliance with our inventory management and pricing policies. However, we cannot assure you that our distributors will at all times strictly adhere to the terms and conditions under our distribution agreements. In addition, most of our distributors sell products produced by other manufacturers that compete directly with our products, which may, in certain circumstances, hinder or impact our distributors’ ability or incentive to maximize sales of our products. If any of our distributors fails to distribute our products in a timely manner or in accordance with the terms of our distribution agreement, or at all, or if our distribution agreements are suspended, terminated or otherwise expired without renewal, our business, financial condition and results of operations may be materially adversely affected.

Our dependence on a limited number of major distributors may make it difficult for us to negotiate attractive prices for our products and expose us to the risks of substantial losses if a single major distributor stops conducting business with us. Any of the following events, among others, may cause material fluctuations or declines in our revenue and materially adversely affect our financial condition, cash flows, results of operations and prospects:

- a reduction in the quantity or price of cooking wine products purchased by one or more of our significant distributors and our failure to identify additional or replacement distributors in a timely manner;
- the loss of one or more of our significant distributors and our failure to obtain additional or replacement distributors that can replace lost sales volume at satisfactory prices or other terms; and
- the failure or inability of any of our significant distributors to make timely payment for our products.

In addition, while we have direct contractual arrangements with our Categories A, B and C distributors, we do not have any contractual arrangements with our Category D distributors. Nor do we have any contractual arrangements with any of our sub-distributors or the customers of these sub-distributors, such as retailers, and we rely on our distributors to manage their sales practices. As a result, we have limited control over the ultimate retail sales by these distributors, sub-distributors or their customers. There may be instances when these distributors, sub-distributors or their customers carry out actions which are not consistent with our business strategy, such as failure to follow our pricing policy and participate in our marketing and promotional activities. This inconsistency may, in turn, materially adversely affect our business, financial condition and results of operations.

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Our sales are geographically concentrated in a few regional markets in China, including Zhejiang Province, Shanghai, Guangdong Province, Liaoning Province, Shandong Province and Beijing.

Approximately 72.7%, 61.7%, 84.5% and 88.0% of our revenue from sales of goods for the years ended December 31, 2010, 2011, 2012 and for the eight months ended August 31, 2013 were contributed by sales in a few regional markets in China, including Zhejiang Province, Shanghai, Guangdong Province, Liaoning Province, Shandong Province and Beijing. We expect our sales in these regions to continue to account for significant portions of our total sales of goods in the near future and we will continue to depend heavily on the general economic conditions and consumer preferences in these regions. If there is any material adverse change in the economic and social conditions or sudden change in consumer preferences in these regions, and if we are unable to divert our sales to other regions in the PRC in a timely manner, our business, financial condition and results of operations may be materially adversely affected.

Failure to respond to changes in consumer preferences, perception and/or consumption pattern may materially adversely affect our business, financial condition and results of operations.

The food industry is subject to rapid changes in consumer preferences, perception and/or consumption pattern. Our future success will depend partly on our ability to predict accurately our consumer preferences and demands, anticipate or adapt to such changes in consumption pattern and to offer, on a timely basis, new products that meet changes in consumer preferences. Any failure to adapt our product offering to such changes may result in a decrease in our sales. Any changes in consumer preferences may also result in lower sales of our products, adverse changes in our product mix causing reduced sales of high-end or premium cooking wine products, increase pressure on the pricing of our products or increase selling and promotional expenses incurred by us. In these circumstances, our business, financial condition and results of operations may be materially adversely affected.

We may not gain market acceptance for any new products we introduce.

Our success relies, in part, upon our ability to introduce new products, flavors and packaging successfully, which in turn depends on our ability to anticipate the consumer preference, including the dietary habit of consumers and to market our products in ways that would appeal to their preferences. We cannot assure you that our new products such as our premium soy sauce product, Tai Soy Sauce (太油), which is expected to be launched in early 2014, will gain market acceptance. Consumer preferences change, and our products may fail to meet the particular preferences of consumers, or may be unable to replace their existing preferences. Our failure to anticipate, identify or react to these particular preferences or changes may limit the demand for any new products we introduce, which may result in us not being able to recover our development, production and marketing costs. If this occurs, our business, financial condition and results of operations may be materially adversely affected.

Loss of service of our Chairman and other key personnel or any failure to attract and retain necessary talents may materially adversely affect our business, financial condition and results of operations.

The success of our business has and will continue to depend on the continuing service of our key employees. In particular, we rely on the expertise and experience of Mr. Chen, our founder, Chairman and Chief Executive Officer, who has over 20 years of experience in the condiment industry in the PRC and possesses information regarding the research, development and intellectual property related to our

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products, including the trade-secret cooking wine recipes. Mr. Chen is the only person that has full access to such trade-secret recipes. We entered into the Exclusive Recipes Licensing Agreement with Mr. Chen in January 2013, pursuant to which Mr. Chen granted us an exclusive right to use his trade-secret cooking wine recipes for free in the manufacturing of our products until we cease our operations. Mr. Chen agreed not to license such recipes to any other third parties so long as the Exclusive Recipes Licensing Agreement is in force. Mr. Chen further entered into a Recipes Transfer Agreement with us in August 2013, transferring the trade-secret cooking wine recipes to us for nominal consideration and the transfer is to become effective on [●]. See “Connected Transactions — Continuing Connected Transactions — Exempted Continuing Connected Transaction”. However, there is no assurance that the Exclusive Recipes Licensing Agreement or the Recipes Transfer Agreement will be implemented as agreed and there may be risks with respect to their enforcement. If we lose the services of Mr. Chen, or the Exclusive Recipes Licensing Agreement or the Recipes Transfer Agreement is not implemented as agreed, we may be unable to retrieve such trade-secrets recipes, produce cooking wine products with traditional recipes and brewing techniques, or find a suitable replacement for him with comparable knowledge and experience. This may result in decreased consumer confidence in and reduced market demand for our cooking wine products and our business, financial condition and results of operations may be materially adversely affected.

Certain other members of our senior management team, including Mr. SHENG Mingjian and Mr. WANG Chao, have extensive experience in the condiment industry in the PRC and play an important role in our daily operations and implementing our business strategies. The loss of the services of any of these key executives could have a material adverse effect on our business and operations.

In addition, our success depends on our ability to attract and retain talented personnel, in particular, our front-line sales representatives as well as research and development personnel. We may not be able to attract or retain all the key personnel we need. We may also need to offer better remuneration and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain competent personnel, and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business.

Our insurance coverage may not be adequate to cover all the risks related to our business and operations, which may materially adversely affect our business, financial condition and results of operations.

Our insurance coverage may not adequately protect us against all risks relating to our business and operations. Although we maintain property insurance with respect to our inventories, including our base wine and semi-finished vinegar products, we do not have third-party liability, product liability or business interruption insurance coverage for our operations, except for work-related injury insurance for employees as required under the relevant PRC laws and regulations. In particular, the property insurance of our base wine only covers risk of natural disasters and certain accidents such as fire and explosion and is subject to terms and conditions under the insurance policies, including the maximum amount we may claim. We cannot assure you that we may be adequately compensated when making claims under the insurance policies or at all. Moreover, as our stock of base wine required in our production undergoes an aging process, we may not be able to recover from damages or interruptions caused to our stock of base wine in a timely manner or at all. As a similar stock of base wine may not be readily available, monetary damages we claim for under the insurance policies may not be adequate or

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meaningful for procuring replacement of base wine from third parties. We may have to incur significant time to build up a stock of base wine, which may materially adversely interrupt our production and sales of cooking wine products and affect our ability to fulfill the market demand. In addition, there is no assurance that we will be able to maintain sufficient insurance coverage in the future. As a result, losses incurred as a result of any defective product claim, business interruption, litigation or natural disaster may have a material adverse effect on our business, financial condition and results of operations.

Our business and reputation may be affected by product liability claims, food safety concerns, litigation, customer complaints, product tampering, quality control concerns or adverse publicity in relation to our products.

Like other consumer products, the sale of our products involves an inherent risk of our products being found to be unfit for human consumption, causing illness or failing to pass third-party tests. Food products may be rendered unfit for consumption due to product contamination or degeneration, illegal tampering by unauthorized third parties or other problems arising during the various stages of procurement, production transportation and storage. The occurrence of such incidents, including incidents such as the recent scandal involving the detection of plasticizer in food products manufactured by other companies, may result in customer complaints or adverse publicity causing serious damage to our reputation and brand, as well as product liability claims against us which may result in a loss in our sales. Under certain circumstances, we may be required to recall our products. We have not received any material customer complaints or material goods return requests or experienced any product recall due to product quality issues during the Track Record Period and up to the Latest Practicable Date. However, there is no assurance that we will not face any product liability claims or a product recall in the future. With China’s increasing awareness of health and food safety in recent years, particularly following several high profile food safety cases, there is no assurance that the PRC Government would not promulgate more ominous laws and regulations on food safety or set more stringent requirements on quality control. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection, may seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers. Consistent with the industry practice, we do not maintain product liability insurance in respect of our products sold in the PRC. Therefore, we may be held liable for the full amount of damages awarded against us if there is any product liability claim against us. A product liability judgment against us or a product recall may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, adverse publicity, whether they are valid or not, may adversely affect the overall consumer food industry, consumer confidence in our products and our sales. Notwithstanding that a product liability claim against us is unsuccessful or is not fully pursued, any negative publicity on the safety or quality of our products may materially adversely affect our reputation, brand name and goodwill. If there is a decrease in consumer confidence as a result of health concerns or adverse publicity on our products, our business, financial condition and results of operations may be materially adversely affected.

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Our success depends to a large extent on our intellectual property rights and failure to protect such intellectual property rights or counterfeiting of our brand name may materially adversely affect our reputation and our ability to compete.

Our trade secrets, trademarks, trade names, patents and other intellectual property rights are important to our business. As of the Latest Practicable Date, we had 25 patents registered in the PRC, all of which relate to our manufacturing process. Under the relevant PRC laws and regulations, invention and design patents are granted only for a term of 20 and ten years, respectively, and cannot be renewed upon expiry. The remaining life of our patents registered in the PRC ranges from six to 16 years from the Latest Practicable Date. Accordingly, upon expiration of such patents, we will cease to enjoy any protection afforded by the patents against third parties applying the relevant manufacturing process in the PRC.

Our intellectual properties may be infringed by third parties. Preventing intellectual property infringement, particularly in the PRC, is difficult, costly and time-consuming and the continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation, image and goodwill. We have in the past experienced limited instances of counterfeiting and imitation of our products, involving third-party cooking wine manufacturers imitating our patented packaging designs. These counterfeiting products may be of inferior quality and may have an adverse impact on our brand image. We cannot assure you that counterfeiting or imitation of our products will not occur again in the future or that if it does occur, we will be able to detect and address such incidences effectively. Any occurrence of counterfeiting or imitation could negatively impact our reputation and brand names and lead to loss of consumer confidence. Furthermore, counterfeiting and imitation of our products could result in a reduction of our market share, a decline in our sales and profitability as well as an increase in our administrative costs in respect of detection and prosecution, any of which may have a material adverse effect on our business, financial condition and results of operations.

We have licensed from Zhong Wei the exclusive rights to use “Lao Heng He” (“老恒和”) trademarks. We entered into a Registered Trademark Transfer Agreement in March 2013 and are currently in the process of transferring the above trademarks from Zhong Wei to Lao Heng He Wine, our wholly-owned subsidiary, with a nominal consideration of RMB1. The transfer process of registered trademark will typically be completed within six to ten months from the acceptance date of the application by the Trademark Office, and we expect such transfer to be completed by mid 2014. See “Business — Intellectual Property — Intellectual Property Licensed from Independent Third Parties”. While we have been advised by our PRC Legal Advisers that there is no substantive legal impediment for the completion of the transfer of the “Lao Heng He” (“老恒和”) trademarks, if we fail to complete the transfer and the trademarks are infringed by third parties, we may not be able to defend such intellectual property rights on our own. As all of our products are branded under “Lao Heng He” (老恒和), failure to complete the transfer or any failure in defending such trademark infringements may have a material adverse effect on our business and results of operations.

In addition, our trade secrets are not registrable and are only protected by confidentiality agreements with our employees. In particular, certain of our employees have partial access to our trade-secret recipes of fermentation starter and cooking wine spices. We have entered into confidentiality agreements with all of our production, quality control, research and development employees that have

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direct access to our trade secrets, as well as our senior management. However, these agreements may not be strictly adhered to and if there is any breach of these confidentiality agreements, our trade secrets may become known to our competitors.

There is also no assurance that the measures we take to protect our intellectual property rights are adequate. If we are unable to protect our trade secrets (including our proprietary recipe of fermentation starter), trademarks, trade names, patents and other intellectual property rights effectively, our reputation, image and goodwill may be materially adversely affected and our ability to compete may also suffer.

Our business, financial condition and results of operations could be materially adversely affected by claims by third parties for possible infringement of their intellectual property rights.

Third parties, including our competitors, may claim that one or more of our products infringe their intellectual property rights. If a third party asserts that our products are infringing upon its intellectual property rights, this could cause expenses and, if successfully asserted against us, could require us to pay substantial damages and/or prevent us from selling our products. Although we may succeed in defending against these claims, any litigation regarding intellectual property could be costly and time-consuming, and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of an intellectual property challenge, we may find it necessary to enter into royalty licenses or other costly agreements, and we may not be able to obtain such agreements at all or on terms acceptable to us.

We had net current liabilities during the Track Record Period and we cannot assure you that we will not experience net current liabilities in the future.

Our current liabilities mainly comprise short-term bank borrowings, trade and bills payables and other payables while our current assets mainly comprise inventories, trade and bills receivables and other receivables. If we fail to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will record net current liabilities. We had net current liabilities of approximately RMB8.5 million and RMB2.8 million as of December 31, 2011 and 2012, respectively. Such position was primarily attributable to bank borrowings to purchase rice to support our continuous business expansion. Although we had net current assets of approximately RMB40.3 million as of August 31, 2013, we cannot assure you that we will not have net current liabilities in the future. If we have significant net current liabilities, our working capital for purposes of our operations may be subject to constraints, which may have a material adverse effect on our business, financial condition and results of operations.

We have relatively long inventory turnover days and our inventory may be subject to write-off if it is not effectively managed.

Our inventory is categorized into raw materials, work-in-progress for our products and finished products. Our raw materials and finished products as a percentage of inventory are relatively low, comprising only 11.1% and 9.5% of our inventory as of December 31, 2012 and August 31, 2013, respectively. A significant majority of our inventory is work-in-progress, consisting of primarily base wine in earthen jars for our cooking wine products.

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Our inventory turnover days increased significantly from 226 days in 2012 to 343 days for the eight months ended August 31, 2013. The relatively long inventory turnover days reflects our business model, in particular the necessity to stock up base wine in advance to maintain sufficient aged base wine for producing cooking wine products. In particular, we substantially increased the production and stock of base wine in order to keep pace with our expansion plan in 2013 in light of the continuing increase in demand for our cooking wine products, and in anticipation of [●]. As a result, we are subject to risks associated with the relatively long turnover days, including, among others, the requirement for additional working capital which may be tied up with our inventory, the increase in our costs relating to holding inventory and the risk that we may have to write off our inventory. Although our Directors are of the view that our inventory turnover days are in line with industry norm and in accordance with our business strategy of accumulating stock of base wine in anticipation of higher sales, we cannot assure you that we can effectively manage our inventory levels or would not have significant levels of obsolete or excessive inventory. In the event we cannot effectively manage our inventory levels or turnover days, our business, financial condition and results of operations could be materially adversely affected.

We may require additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to expand our business.

We may require additional capital to finance our operations and to support our expansion plans, and to that end, we may need to issue additional equity or debt securities or obtain credit facilities. The sale of additional equity securities may have a dilution effect to the percentage of ownership of our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and we may be required to agree to operating and financing covenants that may restrict our operations. In particular, our ability to raise additional funds in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows, general market conditions for capital-raising activities by China-based companies, as well as economic, political and other conditions in China and elsewhere, including the global financial market volatility and credit tightening in China.

There is no assurance that we may be able to obtain the necessary capital that we require on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product offerings to respond to market demand or competitive challenges. In these circumstances, our business, financial condition and results of operations may be materially adversely affected.

All of our manufacturing and storage facilities are located in Huzhou, Zhejiang Province. Any disruption of our current facilities could reduce or restrict sales and materially adversely affect our business, financial condition, cash flows and results of operations.

We presently manufacture and store all of our raw materials, work-in-progress and finished products, including rice, base wine and bottled cooking wine at facilities in Huzhou, Zhejiang Province, China. Since we do not maintain back-up facilities, we depend on these facilities for the continued operation of our business. Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortages, storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land underlying our facilities, could significantly impair our ability to manufacture our products and operate our business. Our stock of base wine may not be readily

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available and we may not be able to recover from damages or interruptions caused to our base wine in a timely manner or at all. Moreover, our facilities and equipment would be difficult and costly to replace on a timely basis.

Catastrophic events could also destroy any inventory located in those facilities. The occurrence of any such event could result in the temporary or long-term closure of our production facilities and other business facilities, severely disrupt our business operations and materially adversely affect our results of operations and financial condition.

Breakdowns of our machinery may cause disruptions to our usual business operations.

We use machinery in our production process, which may be subject to breakdowns. There is no assurance that we will not require periodic machinery replacement or that replacements will be readily available. We may also require maintenance services of our machinery from external vendors which may or may not provide timely maintenance services. Under such circumstances, our financial resources will need to be employed or diverted to the servicing and replacement of machinery, which, in turn, may cause disruption to our usual business operations.

Our business is subject to fluctuations, which makes our results of operations difficult to predict and may cause our results of operations to fall short of expectations.

Our semi-annual revenue and other operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are beyond our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Historically, we have experienced higher sales of our cooking wine and other seasoning products in the third and fourth quarters of each year, in anticipation of the traditional Chinese festival and holiday seasons with more social gatherings when more meat- and seafood-based dishes are served, such as Lunar Chinese New Year, which typically falls in the first quarter of the year. Such seasonality may also vary across different regions in China. These factors may make our results of operations difficult to predict and cause our semi-annual results of operations to fall short of expectations.

We have not registered our leased properties and may be required to seek alternative locations.

As of the Latest Practicable Date, we did not register the leases in respect of five of the commercial properties leased by us with an aggregate gross floor area of approximately 68,709 sq.m., which are required to be registered. We were unable to register four leases as the relevant landlords could not provide the building ownership certificates and unable to register the other one lease as no registration system has been established by the local authority. Our PRC Legal Advisers have advised us that the failure to register these leases will not affect the legality, validity or enforceability of these leases. However, we may be subject to fines of up to RMB10,000 per incident for the non-registration of these leases. In addition, in the event that we are forced to relocate our operation as a result of the landlords' lack of building ownership certificates or otherwise or if we are unable to renew any of our leases on terms acceptable to us upon their expiration, we may be required to seek alternative locations for our operations which may lead to disruptions in our business operations and cause us to incur costs relating to such relocation. If we are required to relocate for the lack of registration of these leases, it is

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estimated to take up to approximately two months to complete the relocation of all of our base wine and equipment existing as of August 31, 2013, with aggregate relocation costs of approximately RMB1.8 million, assuming 100 workers are hired, working eight hours per day.

We have previously entered into certain bill financing transactions and such transactions were not in compliance with PRC laws.

During the Track Record Period, our operating subsidiary, Lao Heng He, and Zhong Wei entered into certain non-compliant bill financing arrangements with certain PRC commercial banks that involved the issuance of bank acceptance notes without underlying transactions. For details, see “Business — Legal Proceedings and Compliance — Bill Financing”. We have ceased entering into any further non-compliant bill financing transactions and started to implement measures to strengthen our internal controls since August 2012. We settled all the relevant bank acceptance bills in February 2013. However, we cannot assure you that the relevant regulatory authorities will not impose penalties and/or fines on Lao Heng He retroactively for the previous non-compliant bill financing transactions. Any such penalties and/or fines could adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Political, economic and social development of the PRC may materially adversely affect our business, financial condition and results of operations.

We conduct our core business operations principally through our operating subsidiaries in the PRC. Our results of operations and prospects are subject, to a large extent, to political, economic and social developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including the degree of government involvement, control of foreign exchange, allocation of resources, rate of inflation and level of development. Since the late 1970s, the PRC Government’s reform measures have resulted in significant economic growth and social progress. However, many of these reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Any revision or modification to the economic and political strategies and policies of the PRC Government may have a material adverse effect on the overall development of the condiment and cooking wine industry in the PRC as well as our business, financial condition and results of operations.

The legal system of the PRC is still developing and there are inherent uncertainties which may affect the protection afforded to our business and our Shareholders.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions may be cited for reference but have limited value as precedents, or at all. Since 1979, the PRC legal system has evolved rapidly and a number of laws, rules and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade, are promulgated by competent authorities. Some of these laws, rules and regulations are relatively new and the volume of published cases in relation to these laws and regulations are therefore limited. Some of these laws, rules and regulations may have retroactive effect. Furthermore, the interpretations of many laws, rules and regulations are not always uniform and consistent, and the enforcement of these laws, rules and regulations involves uncertainties. These

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uncertainties may limit the legal protections available to us and other foreign investors. In addition, any litigation in the PRC may be protracted, resulting in substantial costs and diversion of our resources and management attention.

We require various licenses and permits to operate our business. The loss of or failure to obtain or renew any or all of these licenses and permits may have a material adverse effect on our business, financial condition and results of operations.

Pursuant to the relevant PRC laws and regulations, we are required to obtain and maintain various licenses and permits, such as the food production permits and the food distribution permits, in order to commence and operate our business at our production facilities, and distribute our products. We are also required to comply with the applicable PRC health and hygiene and production safety standards in relation to our production processes. Our production plants and facilities are subject to regular and random inspections by the regulatory authorities for compliance with the Regulations on the Administration of Production Licenses for Industrial Products of the PRC 《中華人民共和國工業產品生產許可證管理條例》, which were promulgated on July 9, 2005 and became effective on September 1, 2005, the Measures for the Implementation of the Administration of Production Licenses for Industrial Products of the PRC 《中華人民共和國工業產品生產許可證管理條例實施辦法》, which were promulgated on September 15, 2005 and became effective on November 1, 2005 and amended on April 21, 2010, the Food Safety Law of the PRC 《中華人民共和國食品安全法》, which were promulgated on February 28, 2009 and became effective on June 1, 2009, and the Measures for the Administration of Food Distribution Permits 《中華人民共和國食品流通許可證管理辦法》, which were promulgated and became effective on July 30, 2009. Failure to pass these inspections, or the loss of or failure to obtain or renew our licenses and permits could result in a temporary or permanent suspension of some or all of our production activities. If this occurs, our business, financial condition and results of operations may be materially adversely affected.

The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer 《關於加強非居民企業股權轉讓企業所得稅管理的通知》, or Circular 698. Circular 698 became effective retroactively on January 1, 2008. The State Administration of Taxation also issued rules to provide clarification on this circular. By promulgating and implementing such circular, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise.

For example, Circular 698 specifies that the PRC State Administration of Taxation is entitled to reclassify the nature of an indirect equity transfer where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, and to disregard the existence of such overseas holding company, if such indirect transfer is deemed as for tax-avoidance purposes and without sound commercial purpose. Although Circular 698 contains an exemption for transfers of publicly traded stock in a PRC resident enterprise, it remains unclear whether we will be deemed a PRC resident enterprise and whether such exemption will be applicable to the transfer of our Shares. We are not required to pay taxes under Circular 698 as we

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have not conducted any transfer of equity interest subject to Circular 698. However, if we are to be regarded as a non-PRC resident enterprise, PRC tax authorities may deem any future transfer of our Shares by our Shareholders that are non-PRC resident enterprises to be subject to these regulations, which may subject such Shareholders to additional reporting obligation or tax burdens. In case of failure to comply with these circulars by these Shareholders, the PRC tax authorities may take certain enforcement actions, including requesting us to provide assistance for their investigation, which may have a negative impact on our business operation.

In addition, since we may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains or request that we submit additional documentation for their review in connection with any potential acquisitions, which may cause us to incur additional acquisition costs or delay our acquisition timetable.

We may be deemed as a PRC tax resident under the EIT Laws and be subject to the PRC taxation on our worldwide income.

Under the EIT Laws, enterprises established under the laws of jurisdictions other than the PRC may nevertheless be considered as PRC tax resident enterprises for tax purposes if these enterprises have their “de facto management body” within the PRC. Under the EIT Rules, the term “de facto management body” is defined as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. Since a majority of the members of our management team continued to be located in the PRC after the effective date of the EIT Laws and we expect them to continue to be located in the PRC for the foreseeable future, we may be considered a PRC resident enterprise by the PRC tax authorities and therefore be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. If we are considered by the PRC tax authorities as a PRC tax resident enterprise under the new PRC tax regime, our business, financial condition and results of operations may be materially adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using [●] we receive from the [●] to make loans or additional capital contributions to our PRC subsidiaries.

On August 29, 2008, SAFE promulgated the Notice on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises 《關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》 (“Notice 142”) which regulates the conversion by a foreign-funded enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-funded enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of the Renminbi funds converted from the foreign currency capital of a foreign-funded enterprise. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not, in any case, be used to repay Renminbi loans if such loans have not been used. Violations of Notice 142 will result in severe penalties, such as heavy fines as set out in the relevant foreign exchange control regulations.

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As an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries by utilizing the [●] we receive from the [●], subject to the foreign investment regulations in the PRC. For example, any of our loans to Huzhou Chen Shi cannot exceed the difference between the total investment amount that is approved to make under the relevant PRC laws and regulations, and its registered capital, and must be registered with or approved by the local branches of SAFE as a procedural matter. In addition, our capital contributions to our PRC subsidiaries are subject to the approval and registration of local branches of SAIC and MOFCOM or other relevant local authorities.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the [●] received from the [●] and to fund our PRC operations may be negatively affected, which may materially adversely affect our liquidity and ability to expand our business.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Pursuant to the EIT Laws, except for the application of any relevant income tax treaty that the PRC has entered into, a PRC enterprise income tax calculated at a rate of 10% will be charged on dividends payable to investors that are “non-resident enterprises” (and do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their source within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to PRC enterprise income tax calculated at a rate of 10% if such gain is regarded as income derived from sources within the PRC. If we are considered to be a “resident enterprise”, the dividends paid by us with respect to our Shares would be treated as income derived from sources within the PRC and be subject to PRC enterprise income tax.

Our ability to pay dividends and utilize cash resources in our subsidiaries is dependent upon our subsidiaries’ earnings and distributions.

We are a holding company incorporated in the Cayman Islands, and our business and operations are primarily conducted through our PRC subsidiaries. We rely on dividends and other distributions paid by our PRC subsidiaries for our future cash needs which cannot be provided by equity issuances or borrowings outside of the PRC, including the funds necessary to pay dividends to our Shareholders, to service any debt we may incur and to pay our operating expenses.

The ability of our subsidiaries to pay dividends or other distributions may be subject to their earnings, financial condition, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements.

As entities established in the PRC, our PRC subsidiaries are subject to limitations with respect to dividend payments. Regulations in the PRC currently permit payment of dividends by PRC subsidiaries only out of accumulated profits as determined in accordance with the PRC GAAP. According to applicable PRC laws and regulations, each of our PRC subsidiaries is required to maintain a general reserve fund of 10% of its after-tax profit based on PRC GAAP, up to a maximum of 50% of the registered capital of such PRC subsidiary. Huzhou Chen Shi, as a foreign invested enterprise, may also

RISK FACTORS

be required to set aside individual funds for staff welfare, bonuses and development, at its discretion and as stipulated in its articles of association. These reserves or funds are not distributable as dividends. Contributions to such reserves or funds are made from each of our PRC subsidiaries’ net profit after taxation. In addition, if one or more of our PRC subsidiaries incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, each of our PRC subsidiaries is restricted in its ability to transfer its net profit to us in the form of dividends.

If our PRC subsidiaries cannot pay dividends due to government policies or regulations, or because they cannot generate sufficient cash flow, we will not be able to pay dividends, service our debt or pay our expenses.

Government control of currency conversion and changes in the exchange rate between RMB and other currencies may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends.

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currencies for payment of dividends, if any, to holders of the Shares. Under the current foreign exchange regulations in the PRC, our PRC subsidiaries will be permitted to effect foreign exchange for current account transactions (including the distribution of dividends) through accounts permitted by the PRC Government. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of China for capital-account transactions, such as the repatriation of equity investment in the PRC and the repayment of the principal loans denominated in foreign currencies. There can be no assurance that the PRC Government will not in the future impose restrictions on foreign exchange transactions for current-account items, including the payment of dividends.

In addition, the value of RMB against the U.S. dollar, Hong Kong dollar and other currencies is subject to changes in the PRC’s governmental policies and international economic and political developments. In June 2010, the PBOC announced the removal of the de facto peg. Following this announcement, the RMB has continued to appreciate. The RMB may appreciate or depreciate significantly in value against the U.S. dollar or the Hong Kong dollar in the medium to long term if and when the PBOC changes its current intervention policy. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollar or Hong Kong dollar, of our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to us by our PRC subsidiaries. For example, an appreciation of the RMB against the U.S. dollar or the Hong Kong dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars or Hong Kong dollars into RMB for such purposes. If this occurs, our business, financial condition and results of operations may be materially adversely affected.

RISK FACTORS

There may be difficulties in effecting service of process or seeking recognition and enforcement of foreign judgments in the PRC.

Our business operations are conducted in the PRC and substantially all of our assets are located in the PRC. In addition, all of our Directors and executive officers reside outside of the U.S. As a result, it may not be possible to effect service of process within the U.S. or elsewhere upon some of our Directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Furthermore, our PRC Legal Advisers have advised us that the PRC does not have treaties with the U.S. or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

On July 14, 2006, the Supreme People’s Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, which came into effect on August 1, 2008, whenever a designated People’s Court of the PRC or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant Hong Kong court or People’s Court of the PRC for reciprocal recognition and enforcement of the judgment. However, we understand that the rights under the arrangement may be limited and the interpretation of and cases decided under the arrangement have not been fully developed, and, therefore, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

The implementation of the PRC Labor Contract Law may significantly increase our operating expenses and adversely affect our business and results of operations.

On June 29, 2007, the PRC National People’s Congress enacted the PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008. In addition, the Implementing Rules for the PRC Labor Contract Law, or the Implementing Rules, were promulgated and became effective on September 18, 2008. The Labor Contract Law and the Implementing Rules set forth workers’ rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions, and specify standards and procedures for the termination of an employment contract. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon terminating an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract under certain circumstances. As there has not been much detailed guidance as to how the Labor Contract Law will be interpreted and enforced by the relevant PRC authorities, there remains substantial uncertainty as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law and the Implementing Rules may significantly increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. If we terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and the Implementing Rules may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

RISK FACTORS

Our business, financial condition and results of operations may be materially adversely affected by environmental, safety and health related laws and regulations to which we are subject.

The PRC Government has published various environmental, safety and health related laws and regulations with which we are required to comply. Any failure to comply with these laws and regulations by us may result in fines and/or suspension or revocation of our licenses or permits to conduct our business. Given the magnitude and complexity of these laws and regulations, compliance with them may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. Furthermore, these regulations are continually evolving and changing. There can be no assurance that the PRC Government will not impose additional or more stringent environmental, safety and health related laws or regulations, compliance with which may cause us to incur substantial costs, which we may not be able to pass on to our customers.

We face risks related to natural disasters and health epidemics in China, which could materially adversely affect our business and results of operations.

Our business could be materially adversely affected by natural disasters or the outbreak of health epidemics in China. For example, in May 2008, a major earthquake registering 8.0 on the Richter scale struck Sichuan Province and certain other parts of China, devastating much of the affected areas and causing tens of thousands of deaths and widespread injuries. In addition, in early 2008, parts of China, in particular its southern, central and eastern regions, experienced reportedly the most severe winter weather in the country in half a century, which resulted in significant and extensive damages to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. Moreover, certain countries and regions, including China, have encountered incidents of a severe acute respiratory syndrome, or SARS, over the last decade, the outbreak of influenza A (H1N1), as well as the H5N1 strain of avian flu, and more recently, China has encountered incidents of the H7N9 strain of avian flu.

We are unable to predict the effect, if any, that any natural disasters and health and public security hazards may have on our business. Any future natural disasters and health and public security hazards may, among other things, significantly disrupt our ability to adequately staff our business, result in quarantines, temporary closures of our offices and manufacturing facilities, as well as travel restrictions or the sickness or death of our key personnel. Furthermore, such natural disasters and health and public security hazards may severely restrict the level of economic activity in affected areas. Any of the above may cause material disruptions to our business operations, which in turn may materially adversely affect our business, financial condition and results of operations.

Inflation in the PRC may have a material adverse effect on our business, financial condition and results of operations.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and results of operations may be materially adversely affected. To control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowdown in the economic growth and may materially adversely affect our business, financial condition and results of operations.

RISK FACTORS

Our business and results of operations may be adversely affected by a severe and prolonged global economic downturn and corresponding slowdown of the Chinese economy.

Recent global market and economic conditions have been unprecedented with recession in most major economies persisting and significant market volatility. Continued concerns about the systemic impact of a potentially long-term and widespread recession, downgrade of the U.S. credit rating and the sovereign debt crisis in Europe, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook has negatively affected business and consumer confidence and contributed to unprecedented volatility levels. There remain substantial uncertainties in the current and future conditions of global economies. The Chinese economy also faces challenges. Since we conduct our operations mainly in China, any prolonged slowdown in the Chinese economy may negatively impact our business and results of operations. Further disruptions in the financial markets could also significantly restrict our ability to obtain financing in the capital markets or from financial institutions, if and when such financing is needed.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “in the future”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- developments and trends in consumer preferences and consumption pattern;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our dividend policy;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Statements of or references to our intentions or those of the Directors are made as of the date of this document.

DIRECTORS

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
CHEN Weizhong	No. 21 Zhangtian Avenue Yishan Village, Balidian Town Wuxing District, Huzhou City Zhejiang Province PRC	Republic of Guinea-Bissau
SHENG Mingjian	No. 128 Lujiabei Avenue Lujiabei Village, Balidian Town Wuxing District, Huzhou City Zhejiang Province PRC	PRC
WANG Chao	Room 505, Block 15 Nanbaiyutan Section, Longquan Road Wuxing District, Huzhou City Zhejiang Province PRC	PRC
<i>Non-Executive Director</i>		
ZHANG Bihong	Room 4, Block 21 Kangle Sub-district Qingshan District, Baotou City Inner Mongolia PRC	PRC
<i>Independent Non-Executive Directors</i>		
SHEN Zhenchang	Room 603, Block 3 North Sea Garden Yuecheng District, Shaoxing City Zhejiang Province	PRC
LEI Jiasu	Unit 502, Floor 2 Tsinghua University Heights Haidian District, Beijing City PRC	PRC
MA Chaosong	1005, Unit 1, Building 8 Area 5, Century City Yuandayuan Haidian District, Beijing City PRC	PRC

CORPORATE INFORMATION

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Head Office in the PRC**

Balidian Town, Food and Industrial Park
Wuxing District, Huzhou City
Zhejiang 313000, PRC

**Principal Place of Business and
Head Office in Hong Kong**

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Sheung Wan, Hong Kong

Registered Office

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Grand Cayman KY1-1111
Cayman Islands

Company’s Website

<http://www.hzlaohenghe.com>

*(The information on the website does not form part of
this document)*

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Zhejiang Province
PRC

AU Wai Keung
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Pokfulam Gardens
Pokfulam, Hong Kong

Audit Committee

MA Chaosong (*Chairman*)
LEI Jiasu
SHEN Zhenchang

Remuneration Committee

SHEN Zhenchang (*Chairman*)
LEI Jiasu
MA Chaosong

CORPORATE INFORMATION

Nomination Committee

LEI Jiasu (*Chairman*)
MA Chaosong
SHEN Zhenchang

INDUSTRY OVERVIEW

This section contains information, forecasts and statistics relating to the economy in the PRC and the industry in which we operate. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. We have derived such information and data partly from publicly available government and official sources as well as a report we commissioned from Euromonitor, an independent third party, which have not been independently verified by us nor any of their or our directors, affiliates, advisers or any other parties. The information that appears in this section prepared by Euromonitor reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in the [●]. Furthermore, the information provided by the PRC Government sources may not be consistent with the information compiled within or outside China by third parties. Neither we nor Euromonitor makes any representation as to the correctness or accuracy of government or official information contained in this document. Accordingly, such information should not be unduly relied upon.

EUROMONITOR REPORT

We commissioned Euromonitor to conduct an analysis of the condiment and cooking wine market in the PRC and prepare the Euromonitor Report at a combined fee of RMB237,864. The Euromonitor Report includes information on the condiment and cooking wine market in the PRC such as production value, production volume, sales value, sales volume, market share of leading players, and the outlook of the condiment and cooking wine market in the PRC, which have been quoted in this document.

This Euromonitor Report includes research estimates from publicly available secondary sources and trade interview analysis of the opinions and perspectives of leading industry players. The Euromonitor Report only covers wine products positioned as cooking wine, i.e., wine products labeled as cooking wine or claimed to contain at least salt as seasoning, and does not include drinking wine used for cooking in some instances.

Established in 1972, Euromonitor is a global research organization with over 500 full-time staff and field-based analysts in over 80 countries worldwide, researching and tracking fast-moving consumer goods, industrial, service and B2B markets.

Euromonitor’s independent analysis was undertaken through primary and secondary research obtained from various sources. Primary research includes discussions on, and interviews with leading industry participants and industry experts, such as the China Condiment Industry Association and the China Alcohol Drinks Association, major competitors and key distributors. Secondary research involves gathering, refining and confirming information from multiple and relevant published data sources. Projected market size by production value, production volume, retail sales value and retail sales volume was obtained based on a comprehensive and in-depth review over the historical market development, and a cross check with established government or industry figures or trade interviews, where possible.

INDUSTRY OVERVIEW

Euromonitor made the following major assumptions about China’s economy in the preparation of the Euromonitor Report:

- The macroeconomic environment in China remains stable from 2013 to 2017;
- Disposable income per capita continues to grow from 2013 to 2017; and
- There is no dramatic change in consumption habits from 2013 to 2017.

Our Directors confirm that there were no adverse changes in the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF THE PRC ECONOMY

Strong Economic Growth

The PRC is the second largest economy in the world and one of the fastest growing in terms of GDP. The economy of the PRC has grown rapidly since economic reforms and opening up policies were introduced in the early 1980s. Over the past thirty years, booming exports, investment and domestic consumption have driven the PRC’s rapid GDP growth. From 2008 to 2011, according to National Bureau of Statistics of China, the PRC’s nominal GDP grew from RMB31.4 trillion to RMB47.3 trillion and its per capita GDP grew from RMB23,708 to RMB35,181, representing a CAGR of approximately 14.6% and 14.1%, respectively.

Growing Urbanization and Increasing Spending Power

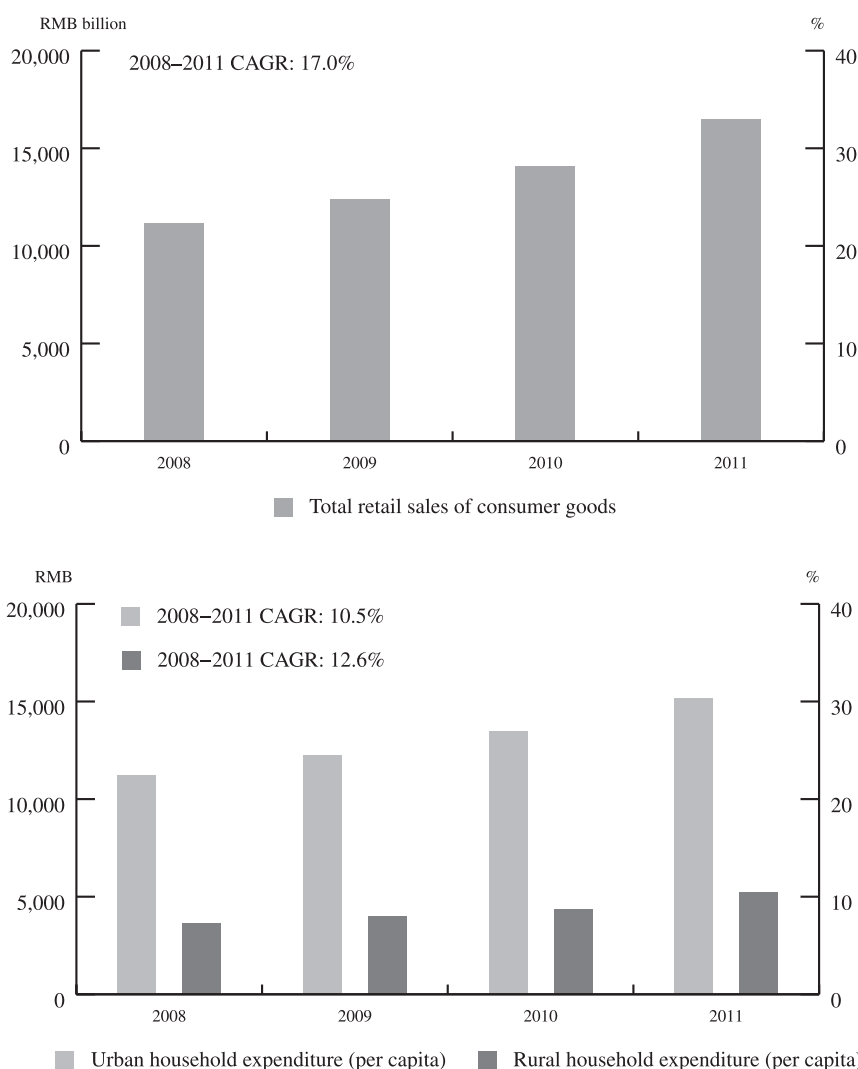
Industrialization and economic growth in the PRC have resulted in growing urbanization through the migration of rural populations to urban areas and the development of towns into cities. According to the National Bureau of Statistics of China, the urban population as a percentage of the total population increased from 47.0% as of the end of 2008 to 52.6% as of the end of 2012, and is projected to continue to increase at least over the next decade.

Growth in the economy and the proportion of urban residents are associated with improvements in living standards and increases in spending levels in the PRC. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households in the PRC has increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of 11.7%. During the same period of time, per capita annual net income of rural households increased from RMB4,761 in 2008 to RMB7,917 in 2012, representing a CAGR of 13.6%.

INDUSTRY OVERVIEW

Strong Consumer Spending Growth

Rising disposable income and rapid urbanization have coincided with an increase in consumer spending in the PRC. According to the National Bureau of Statistics of China, total retail sales of consumer goods in the PRC increased from RMB11.5 trillion in 2008 to RMB18.4 trillion in 2011, representing a CAGR of 17.0%. Per capita consumption expenditure of urban households increased from RMB11,243 in 2008 to RMB15,161 in 2011, and per capita consumption of rural households increased from RMB3,661 to RMB5,221, representing a CAGR of 10.5% and 12.6%, respectively. The following charts show the growth of total retail sales of consumer goods in the PRC and per capita consumption expenditure of urban households and rural households from 2008 to 2011.



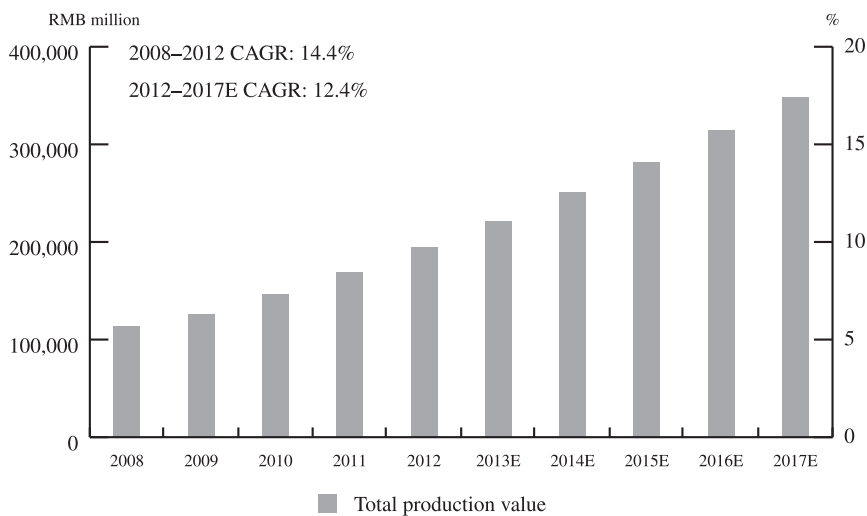
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

THE PRC CONDIMENT MARKET

Condiment products are widely used in food preparation to impart a particular flavor and aroma, or enhance the flavor of a dish. Key condiment products include cooking wine, soy sauce, vinegar and MSG.

The PRC condiment industry is primarily driven by the size and growth of the PRC population, rising demand for products with health and wellness attributes and increasing popularity of regional cuisines outside of their originated regions. According to the Euromonitor Report, total production value of the PRC condiment market has increased rapidly in recent years at a CAGR of 14.4% from 2008 to 2012 and is expected to grow at a CAGR of 12.4% between 2012 and 2017. The following chart illustrates the market size of the PRC condiment products for the period indicated.



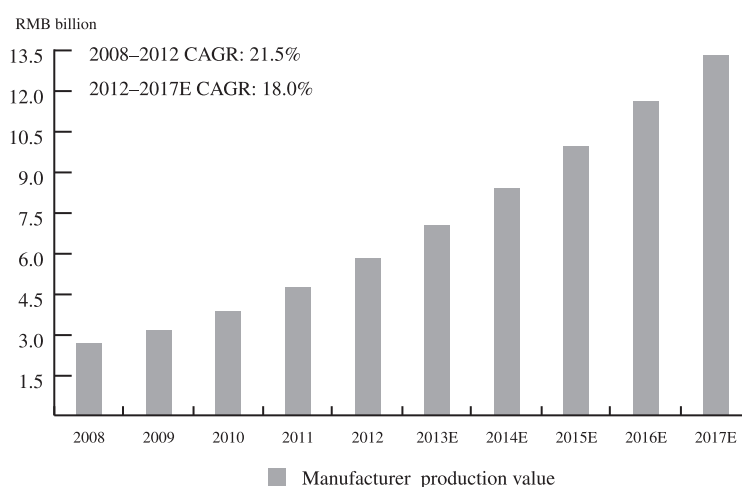
Source: Euromonitor Report

INDUSTRY OVERVIEW

THE PRC COOKING WINE MARKET

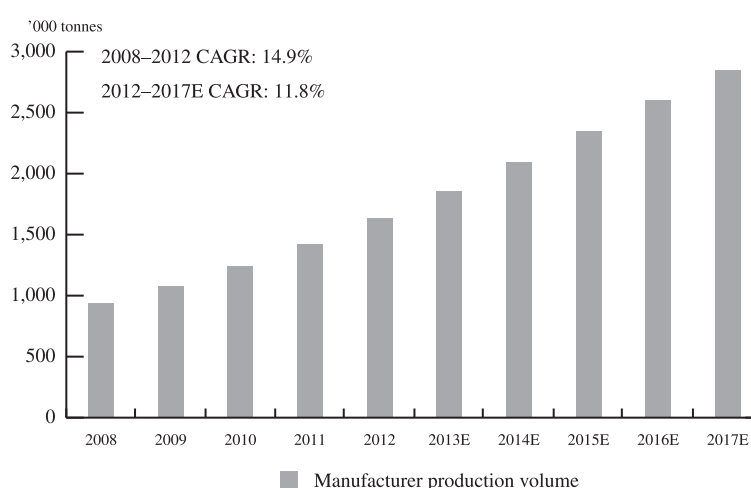
Market Overview

Cooking wine is one of the most commonly used condiments in Chinese cuisines, and is used widely in preparing a broad array of dishes to deliver richer flavors and dissolve meat and fish odors. According to the Euromonitor Report, between 2008 and 2012, the PRC cooking wine market grew at a CAGR of 21.5% in terms of production value, and reached RMB5.8 billion in 2012. The PRC cooking wine market, in terms of production value, is expected to grow at a CAGR of 18.0% from 2012 to 2017 and reach RMB13.3 billion in 2017.



Source: Euromonitor Report

In terms of production volume, the PRC cooking wine market grew at a CAGR of 14.9% from 2008 to 2012 and is expected to grow at a CAGR of 11.8% between 2012 and 2017, reaching approximately 2.9 million tonnes by 2017, according to the Euromonitor Report.



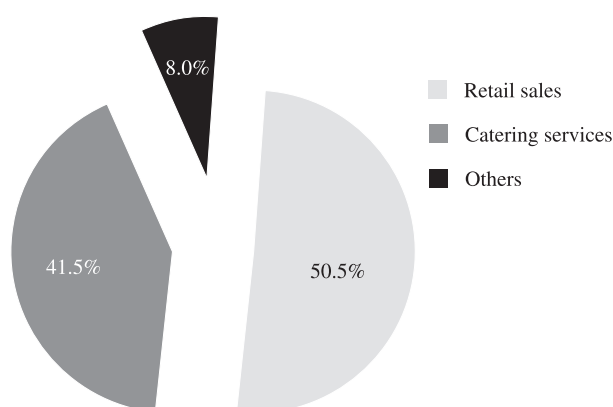
Source: Euromonitor Report

Historically, the PRC cooking wine produced had been consumed in the domestic market and there is minimal over-supply in the PRC cooking wine market.

INDUSTRY OVERVIEW

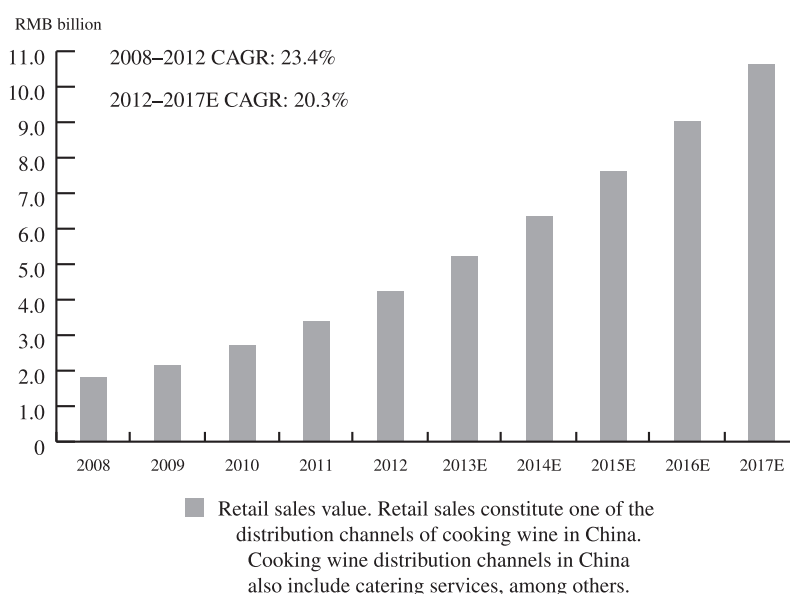
Major distribution channels of cooking wine in China include retail sales and catering services. In 2012, 50.5% and 41.5% of cooking wine in China in terms of volume was distributed via retail sales and catering service channels, respectively, with the remaining 8.0% distributed via other channels such as food manufacturing and exports. The total sales volume of cooking wine in the PRC could be derived from dividing the retail sales volume of cooking wine in 2012 in the PRC by 50.5%, which was 1.6 million tonnes and equals approximately to the production volume in 2012. Leading cooking wine brands tend to concentrate on retail sales channels as households generally demand higher value cooking wine products and are more brand sensitive.

Cooking wine sales volume breakdown by distribution channel in China in 2012



Source: Euromonitor Report

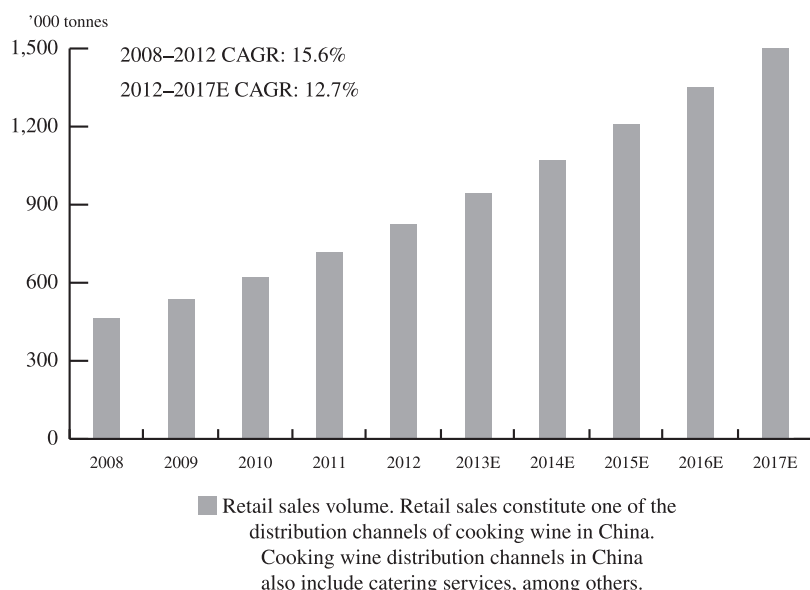
The historical retail sales value of the total PRC cooking wine market grew at a CAGR of 23.4% from 2008 to 2012, according to the Euromonitor Report. As one of the fastest growing segments in the overall PRC condiment market, the PRC cooking wine market, in terms of retail sales value, is expected to grow at a CAGR of 20.3% from 2012 to 2017 and reach approximately RMB10.6 billion by 2017, according to the Euromonitor Report.



Source: Euromonitor Report

INDUSTRY OVERVIEW

In terms of retail sales volume, the PRC cooking wine market grew at a CAGR of 15.6% from 2008 to 2012 and is expected to grow at a CAGR of 12.7% between 2012 and 2017, reaching approximately 1.5 million tonnes by 2017, according to the Euromonitor Report.



Source: Euromonitor Report

The above charts related to the production volume and retail sales volume as disclosed on pages 47 and 49 in this document cannot be compared directly to determine whether there is an over or under-supply in the PRC cooking wine market.

Cooking Wine Manufacturing Methods in China

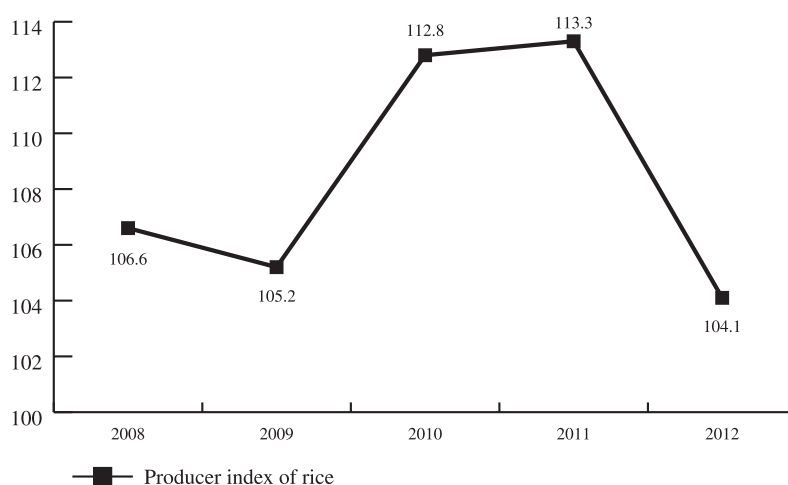
According to the applicable industrial standards in China, cooking wine products can be manufactured in one of the following three methods: (i) using naturally-brewed rice wine as base; (ii) using alcohol as base; and (iii) using a mixture of alcohol and naturally-brewed rice wine as base. Cooking wine produced by the means of (ii) and (iii) is referred to as chemically-produced cooking wine, which generally contains preservatives, plasticizer, glacial acetic acid and other artificial flavorings. The higher the proportion of naturally-brewed rice wine, the better the quality of the cooking wine and as such the order in terms of quality is (i) followed by (iii) and finally (ii). Naturally-brewed cooking wine products manufactured by the means of (i) are rich in nutrients, such as vitamins, minerals, trace elements and a variety of amino acids, including eight essential amino acids that cannot be synthesized by human body and must be obtained from daily diet. Naturally-brewed cooking wine products are generally priced at a premium compared with chemically-produced cooking wine products.

With China's growing levels of consciousness on health and food safety as well as rising disposable income and consumption growth, naturally-brewed cooking wine products are expected to gain more popularity and experience higher growth rate compared to other cooking wine products. According to the Euromonitor Report, we were the only one among the top three cooking wine producers in China in terms of retail sales value in 2012 that manufactures cooking wine products using exclusively naturally-brewing method.

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Market Price of Rice

Rice constitutes the primary raw material for the production of naturally-brewed cooking wine products. According to Euromonitor, given the abundance of rice suppliers in the domestic market, rice supplies are generally available. Further, the Chinese government pays great attention to the improvement of agricultural technology to increase the quantity as well as the quality of rice. According to the National Bureau of Statistics of China, the price of rice in the PRC in general has been on a rising trend since 2008. The producers’ price index for rice (which equals to the product of price of rice in a given year divided by price of rice in the previous year and multiplied by 100, reflecting fluctuations in the price at which rice producers directly sell rice) as of December 31, 2008, 2009, 2010, 2011 and 2012 was 106.6, 105.2, 112.8, 113.3 and 104.1, respectively. The chart below sets forth the producers’ price index for rice for the period from 2008 to 2012.



Source: National Bureau of Statistics of China

Market Price of Naturally-Brewed Rice Wine

According to China Wine Association, Yellow Rice Wine Branch, in 2008 and 2009, the rice wine market, especially the market for long-aged rice wine, in China was still illiquid. The total annual trading volume of rice wine in China in 2008 and 2009 was approximately 2 billion liters, in which Shaoxing City, the most well-known and prominent production base for rice wine, accounted for approximately 400 million liters and Zhejiang Province (excluding Shaoxing City) accounted for approximately 600 million liters. Trading prices of rice wine were mostly determined by the brand and scale of the relevant producers. The rice wine products of certain famous retail brands in Shaoxing City could be sold at a premium to other rice wine products, and the prices vary depending on the brand and product positioning. Rice wine produced by other producers was normally traded at approximately RMB0.44 to 0.89 per liter.

According to China Wine Association, the long-aged rice wine was not traded at a significant premium to newly-produced rice wine in 2008 and 2009 due to the following reasons: (a) long-aged rice wine is rarely used for direct consumption like Chinese Baijiu as its taste deteriorates with age despite its increasing aroma, and as a result, it was primarily used as base wine to produce final rice wine

INDUSTRY OVERVIEW

products; (b) before the concept of long-aged rice wine was widely advertised, long-aged rice wine was regarded merely as a type of base wine, and the purchase price for base wine was generally determined based on the historical cost of production and storage plus a reasonable profit; and (c) in 2008 and 2009, a number of small rice wine producers experienced serious operational difficulties as a result of the financial crisis, and the transaction prices of rice wine, which had been determined based on the historical cost of production (which included significant lower historical raw material costs), storage costs plus a reasonable profit, were under pressure from increasing supply.

According to China Wine Association, the price of long-aged rice wine has increased significantly since the speculations of rice wine started in late 2009. Since then, the content of long-aged rice wine started to be widely advertised and it became an investment tool in the same way as Shaoxing-produced branded long-aged rice wine and eventually led to the introduction of national public online trading market for rice wine in December 2011, which provides the public with updated pricing information on rice wine products. Currently, market prices of rice wine of similar vintage as our base wine are significantly higher than the carrying amount of our base wine.

Key Growth Drivers

According to the Euromonitor Report, the following dynamics have contributed to the rapid development of the PRC cooking wine market:

Increasing urban population and rising purchasing power

With the rapid growth of the PRC’s economy and urban population, per capita disposable income of the Chinese population has continued to rise and is expected to keep rising going forward, providing consumers greater purchasing power for condiment products. Busier lifestyles as a result of urbanization encourage consumers to seek more convenient and diversified forms of condiment consumption.

With rising living standards, Chinese consumers have been gradually switching their dietary focus from rice and noodles to non-staple food such as poultry, fish and vegetables, which calls for increased demand and more consumption of condiment products including cooking wine. In addition, Chinese consumers’ purchase decisions have become increasingly driven less by price, and more by brand awareness, product quality, and even packaging design and style. In particular, cooking wine products from a reputable brand are more easily recognized and are preferred by consumers.

Increasing health and food safety awareness

As a result of increasing consumer sophistication, health consciousness and food safety awareness in recent years, particularly following several high-profile food safety scandals, demand for branded cooking wine products with strict quality control and high quality standards has experienced strong growth. Demand for cooking wine products with healthy and natural concepts and nutritional value is also expected to increase. In particular, there has been an increasing market demand for naturally-brewed cooking wine which is free of blended alcohol, preservatives and artificial flavorings.

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Gradual convergence of consumer tastes and demands

Due to the geographic divergence in consumer tastes, the PRC cooking wine market used to be highly fragmented caused by the different regional products that suit the respective regional demand. Driven by the robust population migration across China in the past decades, there is a trend of product homogeneity in the cooking wine market in China as differences in regional consumer preferences are greatly narrowed. Cooking wine produced from yellow rice wine which used to be primarily consumed by consumers in Yangtze River Delta region is now becoming more popular in other regions including the inland areas. The trend of convergence of consumer tastes and demands creates growth opportunities for cooking wine manufacturers, especially those with extensive distribution network and established relationship with seasoned distributors, to tap into the nationwide market.

Favorable governmental policy for the PRC agriculture industry and grain production

The PRC central, provincial and local governments have been implementing favorable policies for the development of the agriculture industry, including subsidizing grain production and developing an integrated national market for agricultural products. Such favorable policies create opportunities for a healthy and sustainable development of the cooking wine industry as the key raw materials for the manufacturing of cooking wine by natural brewing method are agriculture products, such as rice and wheat. The PRC central government has, since the 1990s, implemented measures subsidizing grain production, procurement and storage. Since 2004, a nationwide direct subsidy program for grain production has been implemented, supplemented by a nationwide grain production promotion program whereby the government subsidizes farmers who adopt high-yield crop strains. Governments at provincial and local levels have since then adopted and implemented subsidies in their respective jurisdictions. Pursuant to the Notice of the People’s Government of Zhejiang Province regarding Grain Production and Sales in 2013 (浙江省人民政府關於切實抓好2013年糧食產銷工作的通知) issued in March 2013, the People’s Government of Zhejiang Province, together with local governmental authorities, will continue to support and incentivize grain productions by, among other things, (i) providing direct subsidies to large-scale grain farmers, (ii) providing direct subsidies to farmers who cultivate high-yield or new varieties of crop strains, (iii) incentivizing grain farmers who sell rice to state-owned grain supplier centers, (iv) subsidizing grain farmers who purchase agricultural machineries, and (v) subsidizing state-owned grain supplier centers who source rice from grain farmers. The ability to access an extensive network of agriculture product suppliers also drives growth of the cooking wine market.

Given the strong demand generated by the abovementioned growth drivers, as confirmed by Euromonitor, the PRC cooking wine market is not expected to experience any unreasonable or massive over-supply from 2013 to 2017.

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COMPETITIVE LANDSCAPE OF COOKING WINE MARKET IN THE PRC

Market Fragmentation

As of December 31, 2012, there were over 1,000 cooking wine manufacturers in China, most of which are small- to medium-sized players who compete on a regional level. The PRC cooking wine industry is led by a small number of major players, with the rest of the market highly fragmented. In 2012, the top five manufacturers accounted for an aggregate of 28.1% and 14.0% of the total cooking wine market share in terms of retail sales value and retail sales volume, respectively. Leading players have been placing more emphasis on retail sales as they enjoy higher brand awareness among households and offer higher value cooking wine products. With more established distribution network and branding activities as well as higher-end product offerings, these leading players are expected to continue to benefit from the rising consumer demands in China for high quality cooking wine products.

According to the Euromonitor Report, we were the largest manufacturer of cooking wine products in the PRC by both retail sales value and retail sales volume in 2012. The following table sets forth detailed analysis of the top five cooking wine manufacturers in China by retail sales value and retail sales volume in 2012, respectively:

Rank	Company name	Market share in 2012 in terms of retail sales value (%)	Market share in 2012 in terms of retail sales volume (%)	Primary production method
1	Huzhou Lao Heng He Brewery Co., Ltd (湖州老恒和釀造有限公司)	13.8	5.8	Naturally-brewed
2	Beijing Wang Zhi He Food Group Co., Ltd (王致和集團)	6.4	3.6	Chemically-produced
3	Beijing Lao Cai Chen Food Co., Ltd (北京市老才臣食品有限公司)	4.3	2.4	Chemically-produced
4	Hengshun Vinegar-industry Co., Ltd (江蘇恒順醋業股份有限公司)	2.3	1.4	Chemically-produced
5	Chengdu Julong Food Co., Ltd (成都巨龍生物科技股份有限公司)	1.3	0.8	Naturally-brewed
Total		28.1	14.0	N/A

Source: Euromonitor

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The market share data reported above have been determined via a fieldwork program consisting of desk research and trade interviews by Euromonitor. While audited data was available for some of the companies, they typically do not break the revenues into the relevant categories which were covered in this study. For these companies as well as those companies that are covered in the market share study but are not publicly listed, Euromonitor has assessed the markets share data based on estimates provided by various trade sources (i.e. not just the companies themselves) and sought a consensus on these estimates as much as possible. For avoidance of doubt, market share estimates as contained in the table above is based on views of interviewed trade sources and not views of Euromonitor.

Entry Barriers

As consumers have become more conscious of quality of consumable products, following various contamination and food safety scandals in recent years, competition in the PRC cooking wine industry is likely to shift from pricing to quality and brand reputation. There has been rising consumer demand for food products of higher quality and nutritional value, such as naturally-brewed cooking wine products, which require an abundant reserve of yellow rice wine as base. In particular, the large-scale production of our higher-end cooking wine products generally requires higher concentration level of long-aged vintage base wine in order to deliver the desirable scent, making it a relatively lengthy process to ramp up the business. As a result, it is generally more difficult for new market players to enter into the naturally-brewed cooking wine business. Furthermore, as the PRC government has tightened and is likely to continue to issue stringent food quality laws and regulations and strengthen its supervision and enforcement over environment protection, this is likely to create pressure on the part of small- to medium-sized cooking wine manufacturers in adhering to such stringent regulations. Other factors that may affect market players entering the PRC cooking wine market include brand awareness, production formula and distinctive recipe as well as establishment of distribution networks.

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FOOD SAFETY

The PRC has established a series of laws and regulations to strengthen the control on production, operation and sales of food.

The Food Safety Law

According to the Food Safety Law of the PRC (中華人民共和國食品安全法) (the “**Food Safety Law**”) adopted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on February 28, 2009 and implemented on June 1, 2009, its implementation rules, food safety standards are mandatory. The Health Administrative Department of the State Council (國務院衛生行政部門) is responsible for formulating and announcing national food safety standards. Where there are no national food safety standards, the provincial health administrative authorities may formulate their own local food safety standards. If there are no national or local food safety standards, enterprises should formulate their own food production standards.

In addition, the Food Safety Law introduces a licensing system on food production and operation. Enterprises that are engaged in food production or food distribution are required to obtain relevant licenses in accordance with law.

Further, pursuant to the Implementation Regulations of the PRC Food Safety Law (中華人民共和國食品安全法實施條例) promulgated and implemented on July 20, 2009, manufacturers and traders who engage in the production of food, food additives and food related products must comply with applicable laws, regulations and food safety standards, establish and improve food safety management system, and take effective management measures to ensure food safety. In addition, the manufacturers and traders shall be responsible for the safety of food they produce and distribute.

Production License for Industrial Products

Pursuant to Regulations on the Administration of Production Licenses for Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例), which was promulgated on July 9, 2005 and became effective from September 1, 2005, and the Measures for the Implementation of the Administration of Production Licenses for Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例實施辦法), which was last amended on April 21, 2010 and became effective from June 1, 2010, a production licensing system is implemented by the state and only enterprises with production licenses are eligible to produce the important industrial products. Furthermore, the period of validity of a production license shall be five years, other than for production licenses for food processing enterprises, for which the period of validity shall be three years. Where, during the period of validity of a production license, there is any change in the relevant standards and requirements for the product, the competent authorities may organize a further examination and inspection in accordance with the provisions of relevant regulations. And where, during the period of validity of a production license, there is a change in the production conditions, inspection method, production technology or technique of the enterprise, the enterprise shall file an application with the relevant authorities, and the competent authorities shall organize a further examination and inspection in light of the provisions of the relevant regulations.

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Food Distribution Permits

Pursuant to the Measures for the Administration of Food Distribution Permits (食品流通許可證管理辦法), promulgated by State Administration for Industry and Commerce (國家工商行政管理總局) and effective as of July 30, 2009, enterprises engaging in food distribution shall comply with certain standards and apply with competent administrative authorities of industry and commerce for food distribution permits, and those who fail to obtain such permits before their commencement of food distribution business will be subject to confiscation of illegal income, confiscation of operation instrument and products, fines or other administrative penalties.

Food Recall

Pursuant to the Provisions on the Administration of Food Recall (食品召回管理規定) issued and implemented by the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) on August 27, 2007, food recall is categorized into three grades, namely Grade One Recall, Grade Two Recall and Grade Three Recall, based on the severity level of food safety hazards. Food will be recalled on two bases: voluntary recall or recall by order. In addition, in accordance with the Food Safety Law, where a food producer finds that the food it produces does not comply with the applicable food safety standards, it is required to immediately stop production, recall the food on the market, notify the relevant producers, traders and consumers, and record the recall and notification. Where a food trader finds that the food it trades does not comply with the applicable food safety standards, it shall immediately stop trading, notify the relevant producers, traders and consumers, and record the cessation of trading and the notification. Where the food producers consider that the food should be recalled, the food is required to be recalled immediately. The food producers should take such measures as remedy, destruction and harmless disposal for the recalled food, and report the recalling and disposal of the recalled food to the quality supervision department at or above the county level. Where the food producers or traders fail to recall or stop trading of the food failing to comply with the food safety standards in accordance with the law, the quality supervision, administration for industry and commerce, food and drug supervision and administration departments at and above the county level must order them to recall or stop trading.

Food Hygiene Standards

Pursuant to the Standardization Law of the PRC (中華人民共和國標準化法) promulgated by the Standing Committee of the National People’s Congress on December 29, 1988 and its implemented regulations (中華人民共和國標準化法實施細則), the food hygiene standard is a compulsory standard imposed on food production enterprises. Food products that fall short of the compulsory standards shall not be distributed or imported.

Industrial Standards for Condiment Products

There is no national standard governing the manufacturing process of cooking wine products in China. The Domestic Trade Industrial Standard for Seasoning Wine of the PRC (中華人民共和國國內貿易行業標準•調味料酒), or the SB/T 10416-2007 Standard, promulgated and adopted by MOFCOM in January and July 2007, respectively, and the Light Industry Standard for Culinary Chinese Rice Wine of PRC (中華人民共和國輕工業行業標準•烹飪黃酒) promulgated and adopted by the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) in July 2005 and January 2006, respectively, or the QB/T 2745-2005 Standard, are the applicable industrial standards for

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cooking wine products in China. Pursuant to these standards, cooking wine products can be manufactured in one of the following three methods: (i) using naturally-brewed yellow rice wine as base; (ii) using alcohol as base; and (iii) using a mixture of alcohol and naturally-brewed rice wine as base.

PRC National Standard for Fermented Soy Sauce (中華人民共和國國家標準•釀造醬油) (GB18186-2000) and PRC National Standard for Fermented Vinegar (中華人民共和國國家標準•釀造食醋) (GB18187-2000) promulgated and adopted by the General Administration of Quality Supervision, Inspection and Quarantine in September 2000 and adopted in September 2001, are the applicable national standards for soy sauce and vinegar products in China. There is no national standard with respect to fermented bean curd products in China, and the Domestic Trade Industrial Standard for Fermented Bean Curd of the PRC (中華人民共和國國內貿易行業標準•腐乳) (SB/T 10170-2007), promulgated and adopted by the MOFCOM in May 2007 and November 2007, respectively, is the applicable industrial standard for fermented bean curd products in China.

CONSUMER PROTECTION

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the “**Consumer Protection Law**”), which was promulgated on October 31, 1993, implemented on January 1, 1994 and amended in 2009.

According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons or properties.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases. According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller, after settling compensation, has the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

PRODUCT LIABILITY

Manufacturers and sellers of defective products in the PRC may incur liability for loss and injury caused by such products. Under the General Principles of the Civil Laws of the PRC (中華人民共和國民法通則), which became effective on January 1, 1987 and was amended on August 27, 2009, a defective product which causes property damage or physical injury to any person could subject the manufacturer or seller of such product to civil liability.

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Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) (as promulgated on February 22, 1993, implemented on September 1, 1993 and amended in 2000), the Law of the PRC on the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (as promulgated on 31 October 1993, implemented on January 1, 1994 and amended in 2009) and the Tort Law of the PRC (中華人民共和國侵權責任法) (as promulgated on December 26, 2009 and implemented on July 1, 2010), the manufacturer is responsible for the quality of the products it produces. Where any harm is caused by a defective product, the injured party may require compensation to be made by the manufacturer or the seller of the product. If the defect of the product is caused by the manufacturer and the seller has made the compensation, the seller is entitled to reimbursement by the manufacturer. If the defect of the product is caused by the seller and the manufacturer has made the compensation, the manufacturer is entitled to reimbursement by the seller.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated and came into effect on December 26, 1989:

1. any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
2. any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
3. any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee thereof.

The purposes of the Environmental Protection Law are to protect and enhance living environment, prevent and cure contamination and other public hazards, and safeguard human health. The State Administration for Environmental Protection (環境保護部) implements uniform supervision and administration of environmental protection nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at the county level and above are responsible for the environmental protection in their jurisdictions. Government authorities should impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for rehabilitation, orders to stop production, orders to re-install contamination prevention and rehabilitation facilities which have been arbitrarily removed or left unused, imposition of administrative actions against relevant responsible persons, and orders to close down those enterprises or authorities.

In addition, the PRC government has promulgated a series of laws on discharge of atmospheric pollutants, waste water, solid wastes and noise to the environment, including Atmospheric Pollution and Prevention Law of the PRC (中華人民共和國大氣污染防治法) (as promulgated by the Standing Committee of the National People’s Congress on September 5, 1987, amended on August 29, 1995 and April 29, 2000, and effective as from September 1, 2000), Water Pollution and Prevention Law of the PRC (中華人民共和國水污染防治法) (as promulgated by the Standing Committee of the National People’s Congress on May 11, 1984, amended on May 15, 1996 and February 28, 2008, and effective as

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from June 1, 2008), Environmental Noise Pollution and Prevention Law of the PRC (中華人民共和國環境噪聲污染防治法) (as promulgated by the Standing Committee of the National People’s Congress on October 29, 1996 and effective as from March 1, 1997) and Environmental Pollution Prevention and Control Law of Solid Wastes of the PRC (中華人民共和國固體廢物污染環境防治法) (as promulgated by the Standing Committee of the National People’s Congress on October 30, 1995, amended on December 29, 2004 and effective as from April 1, 2005), which have respectively specified the prevention, control, supervision and administration of atmospheric pollution, water pollution and pollution from noise and solid wastes. Pursuant to these laws, in case of new construction, expansion and reconstruction of projects that discharge pollutants to the atmosphere or water body, and/or produce noise or solid wastes, the relevant enterprise is required to comply with the state regulations concerning administration of construction project environmental protection and make pollutant discharge declaration according to law and discharge pollutants in accordance with regulations.

With regard to enterprises violating these laws, the relevant competent authorities of environmental protection may impose administrative penalties. Any enterprises that have caused an environmental pollution hazard will be responsible for cleaning it up and compensating the entities or individuals directly damaged.

PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (中華人民共和國安全生產法), effective as of November 1, 2002, production and operating enterprises should meet the safety conditions for production as set out in the Production Safety Law of the PRC and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that does not comply with such safety conditions will not be allowed to engage in any production or operating activities. Production and operating enterprises should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, upgrade and abandonment of safety facilities should follow the relevant national standards or industrial standards. In addition, production and operating enterprises should provide employees with protective equipment that meets the relevant national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operating procedures of the relevant enterprises regarding safety.

TAXATION

Income tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”), which was promulgated on March 16, 2007 and became effective from January 1, 2008, the income tax for both domestic and foreign-invested enterprises is at a uniform rate of 25%. The Regulation on the Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**EIT Rules**”) was promulgated on December 6, 2007 and became effective from January 1, 2008.

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Pursuant to the EIT Law and its EIT Rules, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment in the PRC but the income it derives has no actual connection with such organization or establishment, only its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax is being levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or a non-resident enterprise which has set up a permanent establishment in the PRC whose earning income is not connected with the abovementioned permanent establishment will only be subject to tax on its PRC-sourced income. The income for such enterprise will be taxed at the reduced rate of 10%.

Pursuant to the EIT Law and its EIT Rules income from equity investment between qualified resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt income.

Moreover, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends. Meanwhile, Circular of the State Administration of Taxation on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (國家稅務局關於如何理解和認定稅收協定中“受益所有人”的通知) has stipulated some factors that are unfavourable to the determination of “beneficial owner”.

In addition, pursuant to the Circular of the SAT on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaty (國家稅務總局關於執行稅收協議股息條款有關問題的通知) issued by the SAT on February 20, 2009, all of the following requirements should be satisfied where a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (1) such a tax resident who obtains dividends should be a company as provided in the tax treaty; (2) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; (3) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

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Pursuant to the Administrative Measures for Non-residents to Enjoy Treatment under Tax Treaties (Trial) (非居民享受稅收協議待遇管理辦法(試行)) which came into effect on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) wishes to enjoy the preferential tax treatment under the tax treaty, it is required to apply for approval to or file with the competent tax authority for record because the preferential tax treatment is not automatically applied. Without approval or record filing, the non-resident enterprise will not enjoy the preferential tax treatment as stipulated in the tax treaty.

VAT

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) last amended on November 5, 2008 and became effective from January 1, 2009 and its EIT Rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay VAT. The amount of VAT payable is calculated as “output VAT” minus “input VAT”. With certain exceptions, the rate of VAT is 17% for those engaging in the sale or importation of goods and for those providing processing services, repairs and replacement services.

Consumption Tax

In accordance with the Circular of the SAT Concerning the Levy of Consumption Tax on the Seasoning Cooking Wine (No. 742 [2008] of the SAT) (國家稅務總局《關於調味料酒徵收消費稅問題的通知》(國稅函[2008]742號)) promulgated by the SAT on August 21, 2008, cooking wine falls into the category of condiments rather than mixed wine and brewage, and therefore, no consumption tax is levied on it. Cooking wine refers to the liquid condiments which are mixed and made with spirits, yellow rice wine or drinkable alcohol as the main raw materials with the addition of salt and plant spices.

Urban Maintenance and Construction Tax and Education Surtax

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which was promulgated and became effective from October 18, 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例) promulgated in 1985 and the Tentative Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定) promulgated in 1986 by the State Council are applicable to foreign-invested enterprises, foreign enterprises and individual foreigners from December 1, 2010.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例), which was last amended on January 8, 2011, and Circular of the SAT on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on March 12, 1994 and became effective from January 1, 1994, any enterprise or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer has already paid and will be made simultaneously when the latter are paid.

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Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with Tentative Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定), which was last amended on January 8, 2011, all enterprises and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each enterprise or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

LABOR LAW AND SOCIAL SECURITY

Enterprises are mainly subject to the following PRC labor laws and regulations: Law of the PRC (中華人民共和國勞動法), Labor Contract Law of the PRC (中華人民共和國勞動合同法), Social Insurance Law of the PRC (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), Regulations on Management of Housing Provident Fund (住房公積金管理條例) and other relevant regulations, rules and circulars issued by the competent governmental authorities.

Pursuant to Labor Law of the PRC (中華人民共和國勞動法) and Labor Contract Law of the PRC (中華人民共和國勞動合同法), when an employer hires an employee, a written labor contract shall be entered into, and the employee salary shall not be lower than the local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by the national standards and provide relevant education and training to its employees. Employees are also entitled to work in safe and sanitary conditions conforming to the relevant rules and standards. Employers shall provide regular health examinations to employees engaging in hazardous occupations.

As required under Social Insurance Law of the PRC (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) and the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), PRC enterprises are obligated to provide employees in the PRC with social security insurance premiums covering pension insurance, unemployment insurance, maternity insurance, employment injury insurance and medical insurance.

In accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) promulgated on April 3, 1999 and amended on March 24, 2002, enterprises shall register with the relevant housing provident fund management center, open special housing provident fund accounts at a designated bank and pay housing provident fund contributions for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. The payment rate may be raised if the employer desires.

REGULATORY OVERVIEW

OTHERS

Circular No. 75

According to SAFE’s Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Resident to Engage in Financing and Round-trip Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“Circular No. 75”) which became effective on November 1, 2005, a PRC domestic resident legal person or a PRC domestic resident natural person is required to effect foreign exchange registration with the local foreign exchange bureau, when such domestic residents use its/his/her enterprise assets or interests in the PRC to establish or take control of a special purpose vehicle abroad, and its/his/her domestic enterprises receive round trip investments from funds raised by an overseas special purpose vehicle controlled by domestic residents. “Control” as mentioned in the Circular No. 75 refers to the act of obtaining a special purpose vehicle or a domestic enterprise by a domestic resident through acquisition, trusteeship, holding shares on behalf of others, voting rights, repurchase, convertible bonds, etc.

M&A Rules

Under the Rules on the Merger and Acquisition of Domestic Enterprises in the PRC by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Rules**”), which was issued by the MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006, became effective on September 8, 2006 and was further amended on June 22, 2009 by the MOFCOM, a foreign investor is required to obtain necessary approvals when (i) it acquires equity in a domestic non-foreign invested enterprise (the “domestic enterprise”) thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) it establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

OVERVIEW

We are the largest cooking wine producer in China, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume in 2012, respectively, according to the Euromonitor Report. The following table outlines the key milestones in the history of our Company and the Lao Heng He brand.

1851–1861	Lao Yuan Da Jiang Yuan (老元大醬園) established
1915	Panama — Pacific International Exposition Gold Award (巴拿馬世界博覽會金獎) for condiment products
1929	West Lake Exposition Gold Award (西湖博覽會金獎) for rose fermented bean curd
1930	Lao Heng He (“老恒和”) brand established
May 2000	Lao Heng He restructured into a joint-stock cooperative enterprise
June 2005	Purchase of Lao Heng He by our ultimate Controlling Shareholder
2010	Began streamlining product line and concentrating on cooking wine products
2012	Consumers’ Favorite and Safest Condiment Brand of 2012 (2012消費者最愛、最放心調味品品牌)
2013	National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業)

CORPORATE AND BUSINESS DEVELOPMENT HISTORY

Early History and Restructuring from SOE into Joint-Stock Cooperative Enterprise

Our brand, “Lao Heng He” (“老恒和”), can be traced back to Lao Yuan Da Jiang Yuan (老元大醬園), which was established during the reign of Chinese Emperor Xianfeng (咸豐帝) (1851 A.D.–1861 A.D.) in the Qing dynasty as a brewing enterprise focused on the manufacturing and sale of condiment products. Lao Yuan Da Jiang Yuan had a number of fermentation starter recipes used to produce soy sauce, fermented bean curd, pickled vegetables and other fermented products. It won the Gold Award at the Panama — Pacific International Exposition, a world fair hosted by San Francisco, California in the United States in 1915 for its sauces and pickled vegetables, and at the West Lake Exposition, a world fair hosted by Hangzhou City in 1929 for its rose fermented bean curd. In 1930, it changed its name into “Lao Heng He Brewing Enterprise” (“老恒和醬園”), to reflect “Heng” (“恒”) and “He” (“和”) in the enterprise training motto, meaning “persistence” and “harmony”, respectively. The ancestor family of our ultimate Controlling Shareholder, Mr. Chen, including Messrs. CHEN Guofu (陳果夫) and CHEN Lifu (陳立夫), was a major shareholder of the Lao Heng He business in its early days. In 1951, two years after the founding of the PRC, Lao Heng He Brewing Enterprise was registered with the Huzhou City government as a private partnership and renamed into Lao Heng He Xing Ji Brewing Factory (老恒和興記醬園釀造工廠). It became a joint state-private operative enterprise under the name

HISTORY, REORGANIZATION AND GROUP STRUCTURE

of Joint State-Private Operative Hu Zhou Lao Heng He Brewing Factory (公私合營湖州老恒和釀造廠) in 1957, and was restructured into a state-owned enterprise named Huzhou Brewing Factory (湖州釀造廠) in 1966. In 1988, Huzhou Brewing Factory restored its proud heritage by reinstating “Lao Heng He” (“老恒和”) into its name. It was renamed as Huzhou Lao Heng He Brewing Factory (湖州老恒和釀造廠).

On May 23, 2000, the Enterprise Restructuring and Reform Deepening Office of Huzhou Government (湖州市企業結構調整和深化改革領導小組辦公室) approved the restructuring of Huzhou Lao Heng He Brewing Factory into a joint-stock cooperative enterprise. Immediately upon completion of the restructuring, the shareholders of Huzhou Lao Heng He Brewing Factory (湖州老恒和釀造廠) consisted of 110 employee-shareholders as well as Huzhou Commercial Group Corporation (湖州市商業集團公司), a state-owned enterprise. The registered capital of Huzhou Lao Heng He Brewing Factory then was RMB889,000. Such registered capital was fully paid, as to 3.15% by Huzhou Commercial Group Corporation and as to 96.85% by the then employee-shareholders.

Purchase by Our Ultimate Controlling Shareholder

Our ultimate Controlling Shareholder and Zhong Wei

In 1995, Mr. Chen established Huzhou Zhong Wei Brewing Factory (湖州中味釀造廠), a manufacturer of pickled vegetables, soy sauce and other fermented condiment products and the predecessor of Zhong Wei. In 2006, it changed its name to the current form, namely Zhejiang Zhong Wei Brewing Co., Ltd. (浙江中味釀造有限公司). Zhong Wei and its brand have received a number of awards in recent years, including National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) in 2010, China’s Best Ten Condiment Producer (中國調味品製造業十強企業) in 2010 and Famous Brand in Zhejiang Province (浙江省著名商標) in 2011. With a nationwide brand recognition and an established sales force, Zhong Wei’s revenues totaled RMB111.2 million in 2010 and RMB121.1 million in 2011, respectively, with a net profit of RMB3.0 million in 2010 and RMB5.5 million in 2011, respectively. Due to the segregation of Lao Heng He’s business from that of Zhong Wei as elaborated below, Zhong Wei’s revenue decreased to RMB33.6 million with a net loss of RMB11.1 million in 2012.

Purchase of Lao Heng He

To further expand his condiment business and to restore his family heritage with the Lao Heng He business, on June 1, 2005, Mr. Chen entered into a purchase agreement with Huzhou Lao Heng He Brewing Factory, pursuant to which Mr. Chen acquired all the equity interests in Huzhou Lao Heng He Brewing Factory and reincorporated it as a limited liability company under PRC laws. As part of the agreement, Mr. Chen paid a total of RMB4,173,527 as consideration, of which (i) RMB2,456,559 was used to offset the net liabilities of Huzhou Lao Heng He Brewing Factory, and (ii) RMB1,716,968 was cash payouts to the shareholders. Such consideration also included RMB84,000 paid to Huzhou Commercial Group Corporation for its equity interests, which was state-owned and the transfer of which required governmental approval. The transfer of such state-owned equity interests was approved on June 3, 2005 by the State-owned Assets Supervision and Administration Commission of Huzhou Government (湖州市人民政府國有資產監督管理委員會) and subsequently completed and settled in compliance with all applicable laws and regulations.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

To facilitate Mr. Chen’s purchase of Huzhou Lao Heng He Brewing Factory, as Mr. Chen did not have sufficient cash on hand at that time, Ms. HO Ping Tanya (何平), a longtime business acquaintance of Mr. Chen, extended him a loan of RMB2.6 million for a 25.41% equity interest pursuant to an agreement entered into in June 2005. Mr. Chen paid the remaining consideration of RMB1,573,527 for the purchase of Huzhou Lao Heng He Brewing Factory with his personal funds out of dividends and distributions he received as the majority shareholder of Zhong Wei.

Pursuant to a loan repayment agreement entered into between Mr. Chen and Ms. HO Ping Tanya in July 2012, Mr. Chen and Ms. HO Ping Tanya confirmed the prospective settlement of the RMB2.6 million loan in the form of a 25.8214% equity interests in our Group. The original percentage of Ms. HO Ping Tanya’s ownership agreed in 2005 was 25.41%, which was based on a combination of factors, including the fact that Huzhou Lao Heng He Brewing Factory was an ailing business at the time of the acquisition, and that its net assets value was approximately RMB11.3 million as of December 31, 2004, based on the valuation report provided by Huzhou Hengsheng Asset Appraisal Company (湖州恒生資產評估公司). Ms. Ho’s percentage ownership was adjusted to 25.8214% in 2012 to take into account approximately RMB900,000 in customer trade receivables owed to Huzhou Lao Heng He Brewing Factory, which amount was included as part of its net asset value as of December 31, 2004, that subsequently became uncollectible.

After the purchase of Huzhou Lao Heng He Brewing Factory, Mr. Chen reincorporated it into Lao Heng He, a limited liability company under PRC laws with a registered capital of RMB880,000, of which RMB680,000 and RMB200,000 were respectively contributed by Mr. Chen and Ms. XING Liyu (邢利玉), wife of Mr. Chen. Upon completion of the foregoing, Lao Heng He was held as to 77.27% by Mr. Chen and as to 22.73% by Ms. XING Liyu.

Increase in Registered Capital

In September 2008, to support Lao Heng He’s business expansion, Mr. Chen and Ms. XING Liyu increased the registered capital of Lao Heng He from RMB880,000 to RMB10 million. As part of the increase in registered capital, Mr. Chen contributed RMB8.32 million in cash, and Ms. XING Liyu contributed RMB800,000 in cash, as a result of which Lao Heng He was held as to 90% by Mr. Chen and as to 10% by Ms. XING Liyu.

Increasing Focus on Cooking Wine Business

After Mr. Chen became the owner of both Zhong Wei and Lao Heng He, it became apparent that two businesses offered distinctive products: Zhong Wei’s products were produced based on the pickled and preservation process, while Lao Heng He’s products were produced based on a natural fermentation process. The products of Zhong Wei and Lao Heng He had very different food safety risk profiles and Mr. Chen decided to keep the two businesses separate rather than merge them into one company. Therefore, to better focus our resources and segregate the business of Lao Heng He from that of Zhong Wei, in July 2010, we established Huzhou Lao Heng He Wine to specialize in the manufacturing of cooking wine. Upon incorporation, Huzhou Lao Heng He Wine was 100% held by Lao Heng He, with an initial registered capital of RMB10 million. Shortly thereafter, Mr. Chen acquired 10% of the equity interests in Huzhou Lao Heng He Wine from Lao Heng He for a consideration of RMB1 million. In March 2011, Mr. Chen transferred his equity interests in Huzhou Lao Heng He Wine to Zhong Wei for a consideration of RMB1 million. Upon completion of the foregoing transfer, Huzhou Lao Heng He Wine was held as to 90% by Lao Heng He and as to 10% by Zhong Wei.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

In July 2010, to further expand our business, Lao Heng He and Mr. Chen, then shareholders of Huzhou Lao Heng He Wine, resolved to increase the registered capital of Huzhou Lao Heng He Wine from RMB10 million to RMB38 million, with Lao Heng He contributing an initial amount of RMB10 million. Lao Heng He and Zhong Wei, then shareholders of Huzhou Lao Heng He Wine in July 2012, completed this capital increase with Lao Heng He contributing RMB11.7 million in the form of land use rights and an additional RMB3.5 million in cash; and Zhong Wei contributing RMB2.8 million in cash. The shareholding structure of Huzhou Lao Heng He Wine remained unchanged upon completion of the foregoing capital increase.

Leveraging Zhong Wei’s Capabilities

Since acquiring our Group’s business in 2005, Mr. Chen had sought to rebuild the century-old brand of “Lao Heng He” (“老恒和”) and expand our business by capitalizing on Zhong Wei’s established condiment business. This effort is primarily reflected in the leveraging of Zhong Wei’s distribution network and its procurement capabilities. As our Group’s business became more established, however, we increasingly sold our products and procured raw materials directly to and from third parties.

Sales through Zhong Wei’s Distribution Network

Zhong Wei’s condiment product distribution network was well-established, and consisted of a large number of distributors and direct customers, such as supermarket and hypermarket chains, across China. As a result, our products were sold to Zhong Wei first, which then resold to its distributors. In late 2010, as our distribution network became more established, we began selling products directly to those third party distributors rather than to Zhong Wei. After a transitional period, by 2012, substantially all of our products were sold directly to third party distributors rather than to Zhong Wei. See “Business — The Development of Our Business Model”.

The following table sets forth, by product line, sales of finished products to Zhong Wei as a percentage of our total sales of finished products for the years indicated.

	For the year ended December 31,		
	2010	2011	2012
Cooking wine	88.2%	32.6%	0.8%
Soy sauce	100.0%	75.8%	7.9%
Vinegar	100.0%	50.9%	3.0%
Others	100.0%	21.1%	2.0%

For the eight months ended August 31, 2013, the total sales of finished products to Zhong Wei represented only 0.2% of our total sales of finished products.

Procurement from Zhong Wei

Because Zhong Wei was a National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業), it had access to a larger number of third party raw material suppliers and enjoyed a more stable supply of rice (which is the largest component of our raw material supply) than we did, and as a result, during the Track Record Period and particularly in 2011, most of our rice

HISTORY, REORGANIZATION AND GROUP STRUCTURE

purchases were made from Zhong Wei. As our business became more successful, we increasingly purchased from third party suppliers directly. In addition, to supplement our product offering, we purchased Zhong Wei’s popular paste and pickled vegetable products during the Track Record Period. As a result, procurement (i.e. raw materials, semi-finished goods, finished products and packaging materials) from Zhong Wei represented 29.9%, 41.4%, 8.5% and 3.8% of our total procurement in 2010, 2011, 2012, and for the eight months ended August 31, 2013, respectively.

For more information on the impact of our transactions with Zhong Wei during the Track Record Period on our historical financial information, see “Financial Information — Financial Impact of Separation from Zhong Wei”.

Soy Sauce Processing Service to Zhong Wei

As the main manufacturing platform of the condiments business of Zhong Wei and Lao Heng He then, we also provided soy sauce processing services to Zhong Wei in 2009 and 2010. At the time, Zhong Wei offered a range of condiment products under the “Zhong Wei” brand and its major products were pickled vegetables. As soy sauce only constituted a small part of Zhong Wei’s business, its soy sauce production capacity was minimal. In order to fulfill orders that exceeded Zhong Wei’s minimal soy sauce production capacity, Zhong Wei engaged external soy sauce production plants to process soy sauce products. Historically, Zhong Wei engaged not only Lao Heng He, but also independent third parties, such as Fuyang Jiuzhen Food Co., Ltd. (阜陽九珍食品有限公司) and Tianhaoyuan Brewery (Jiangsu) Co., Ltd. (天浩圓釀造(江蘇)有限公司) which are based in Anhui Province and Jiangsu Province respectively, to provide such soy sauce processing services.

Lao Heng He’s soy sauce production capacity had gradually ramped up in late 2008. When Zhong Wei’s soy sauce processing agreement with Tianhaoyuan Brewery (Jiangsu) Co., Ltd. (天浩圓釀造(江蘇)有限公司) ended in February 2009, Zhong Wei requested Lao Heng He, which had only then started to have excess soy sauce production capacity, to provide soy sauce processing services. Lao Heng He did not provide similar services to other third parties because its excess production capacity was only sufficient to meet Zhong Wei’s requirements as it also manufactured and sold soy sauce products under its own “Lao Heng He” brand.

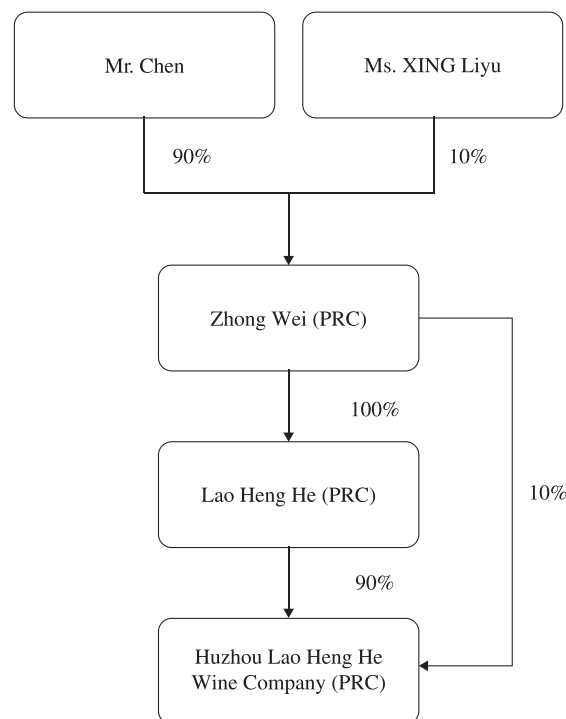
In late 2010, Zhong Wei suspended the production of “Zhong Wei” brand soy sauce products as Mr. Chen gradually built up the “Lao Heng He” brand, which was positioned at the high end market compared to the “Zhong Wei” brand. Mr. Chen did not consider it commercially sensible for his condiments business to promote two different soy sauce brands at the same time, and decided to focus on the high end soy sauce market which was facing increased demand by consumers. At the same time, we made a strategic decision to focus its resources on the manufacturing and sale of cooking wine and to offer a limited range of condiments products under the “Lao Heng He” brand (including soy sauce products) to supplement its cooking wine offering. In light of this shift in strategic focus, we ceased processing soy sauce products for Zhong Wei and utilized all of our soy sauce production capacity for the manufacturing of soy sauce products under our own brand. See also “Financial Information — Description of Certain Income Statement Items — Revenue”.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Contemplated Listing of Zhong Wei

In 2010, Mr. Chen began contemplating a potential public listing of Zhong Wei (including the Lao Heng He business) in the PRC. Given Mr. Chen had owned and managed Zhong Wei for a longer period of time, and that Zhong Wei had established supply and sales channels, Mr. Chen decided to use Zhong Wei as the holding company and listing vehicle of the potential public listing in the PRC. In view of the historical connected transactions between Zhong Wei and Lao Heng He, and Mr. Chen’s understanding of the strict regulatory regime against connected transactions and potential competing businesses, Lao Heng He had to be included in the listing plan, even though Mr. Chen had kept Zhong Wei and Lao Heng He separate in terms of both legal ownership and legal entities. Accordingly, Mr. Chen decided to transfer his and his wife’s ownership of Lao Heng He to Zhong Wei. In December 2010, Mr. Chen and Ms. XING Liyu transferred their equity interests in Lao Heng He to Zhong Wei for nominal consideration. Upon completion of these transfers, Lao Heng He was 100% held by Zhong Wei. In addition, in March 2012, Lao Heng He transferred its trademarks to Zhong Wei also for nominal consideration.

Set out below is the shareholding structure of Lao Heng He and Zhong Wei immediately prior to the Reorganization.



HISTORY, REORGANIZATION AND GROUP STRUCTURE

REORGANIZATION

Decision to Divest Zhong Wei

In the spring of 2012, Mr. Chen learned from various media reports that the CSRC had a significant backlog of applications for listing on the A-share markets and expected the vetting and approval process for any listing of Zhong Wei in the PRC to be lengthy as well as uncertain. Accordingly, Mr. Chen abandoned plans to list Zhong Wei in the PRC, decided to revert Lao Heng He’s ownership back to himself. At the time of such decision, the preparatory work for the listing of Zhong Wei was only at an initial stage, and no sponsor or underwriter in connection with the listing had yet been retained.

Mr. Chen’s decision to revert Lao Heng He’s ownership back to himself took into account the following factors:

- Zhong Wei and Lao Heng He had always been kept under separate legal entities;
- Lao Heng He had successfully built up its own procurement and distribution capabilities and its business grew rapidly under Mr. Chen’s leadership since late 2010 when the strategic decision was made to focus on cooking wine products;
- Lao Heng He’s cooking wine business was believed to be in an attractive market segment and present great growth opportunities, whereas Zhong Wei’s pickled vegetables business had been growing at a slower pace;
- Lao Heng He’s manufacturing processes of cooking wine were more standardized and automated than those of Zhong Wei’s pickled vegetables, which can be more susceptible to quality and consistency issues (since a key step in the pickling process is the exposure of pickled vegetables to open air, a step that subjects the vegetables to the harmful bacteria and foreign substances in the air and is not easily replaced by machinery, whereas the aging process of fermentation occurs in sealed earthen jars, hence eliminating these uncertainties); and
- Zhong Wei had significant receivables from Mr. Chen and companies invested by Mr. Chen for property development, and it was not appropriate to list in Hong Kong without settling such receivables.

Transfer of Lao Heng He from Zhong Wei to Our Ultimate Controlling Shareholder

In June 2012, Zhong Wei transferred to Mr. Chen and Ms. XING Liyu, respectively, 95% and 5% of the equity interests in Lao Heng He, for a consideration of RMB9.5 million and RMB500,000, respectively, which was based on the registered capital of Lao Heng He. In addition, Zhong Wei granted Lao Heng He exclusive licenses to use the trademarks that were previously transferred by Lao Heng He, for nominal consideration.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Purchase of Zhong Wei’s Principal Assets through Merger

In October 2012, Lao Heng He purchased through a merger by absorption under the PRC Company Law (中華人民共和國公司法), Huzhou Wu Xing Wu Cheng Wine Company (湖州吳興烏程酒業有限公司), a spin-off company from Zhong Wei and 100% held by Mr. Chen, whose assets were mainly comprised of manufacturing facilities, production equipment, land use rights and office building, with the subsequently increased registered capital of Lao Heng He as consideration paid to Mr. Chen, the sole shareholder of Huzhou Wu Xing Wu Cheng Wine Company. As a result of the merger, Lao Heng He’s registered capital increased from RMB10 million to RMB11 million, with Mr. Chen and Ms. XING Liyu holding 95.45% and 4.55% of its equity interests, respectively.

Sale of Zhong Wei to Independent Third Party

- As discussed above, Zhong Wei had significant receivables from Mr. Chen and companies invested by Mr. Chen for property development projects, and further investments were expected to be made on some of these projects before any gains would be realized;
- Zhong Wei’s pickled vegetables business was of less promising prospects and involved less standardized and automated manufacturing processes compared to Lao Heng He’s cooking wine business; and
- The increasing responsibility associated with being a board and management member of a public company became more prominent on Mr. Chen’s mind as the preparation of the [●] went on to more advanced stage, and he wished to focus on managing Lao Heng He’s business.

On December 25, 2012, Mr. Chen and Ms. XING Liyu, together holding 100% of Zhong Wei, agreed to transfer all of their equity interests in Zhong Wei to an independent third party. The considerations paid to Mr. Chen and Ms. XING Liyu were RMB8,973,000 and RMB1,027,000, respectively, for their corresponding equity interests in Zhong Wei. The third party purchaser of Zhong Wei had been an investor in construction materials and condiment products distribution businesses. As far as the Directors were aware of, his considerations for making the purchase included the following, among others:

- Zhong Wei had a well-recognized brand in the condiment business that took years to build and the purchaser could capitalize on it to increase sales and develop other products, particularly in light of his experience in the condiment distribution business;
- Zhong Wei had two plots of land, one in Anji, Zhejiang Province and the other in Yilong, Sichuan Province, which may be further developed into real estate properties, and the purchaser had access to financing to develop such land; and
- The cancellation of Zhong Wei’s receivables from Mr. Chen and companies invested by Mr. Chen for property development projects.

Taking into account these principal factors, the parties arrived at a total purchase price of RMB10 million after arm’s-length negotiations. The sale of Zhong Wei was subsequently completed in compliance with all applicable laws and regulations.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Shareholding Restructuring of Huzhou Lao Heng He Wine

On December 3, 2012, Zhong Wei transferred its 10% equity interests in Huzhou Lao Heng He Wine to Lao Heng He for a consideration of RMB3.8 million, which was based on the registered capital of Huzhou Lao Heng He Wine. Upon completion of the foregoing transaction, Huzhou Lao Heng He Wine became a wholly-owned subsidiary of Lao Heng He. In addition, on March 22, 2013, Zhong Wei transferred the trademarks that it previously received from Lao Heng He to Huzhou Lao Heng He Wine for nominal consideration. Such trademarks transfer is currently under the routine review of the Trademark Office and as of the Latest Practicable Date, our Company was not aware of any challenge or impediment to such transfer and, as advised by our PRC Legal Advisers, there is very little likelihood that such transfer would fail to complete. Since there is no specific provision in the PRC Trademark Law and other relevant regulations on the time limit for the Trademark Office to complete the review of the application for trademark transfer, the completion date of the transfer primarily depends on the review process of the Trademark Office and subjects to the transfer date announced by the Trademark Office. As advised by our PRC Legal Advisers, the transfer process of registered trademark will typically be completed within six to ten months from the acceptance date of the application by the Trademark Office.

Establishing Offshore Holding Companies

On December 4, 2012, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorized share capital of US\$50,000, divided into 100,000,000 shares with a par value of US\$0.0005. Upon establishment, our Company allotted and issued 10,000,000 shares. Mr. Chen subscribed for 74.18% of our shares through his wholly-owned vehicle incorporated in the British Virgin Islands. The remaining 25.82% of our shares was allotted and issued to another vehicle incorporated in the British Virgin Islands and wholly-owned by Ms. HO Ping Tanya, to settle the loan she extended to Mr. Chen back in 2005 for the purpose of acquiring Huzhou Lao Heng He Brewing Factory.

On December 13, 2012, we also established Lao Heng He Group Limited under the laws of Hong Kong as a wholly-owned subsidiary of our Company.

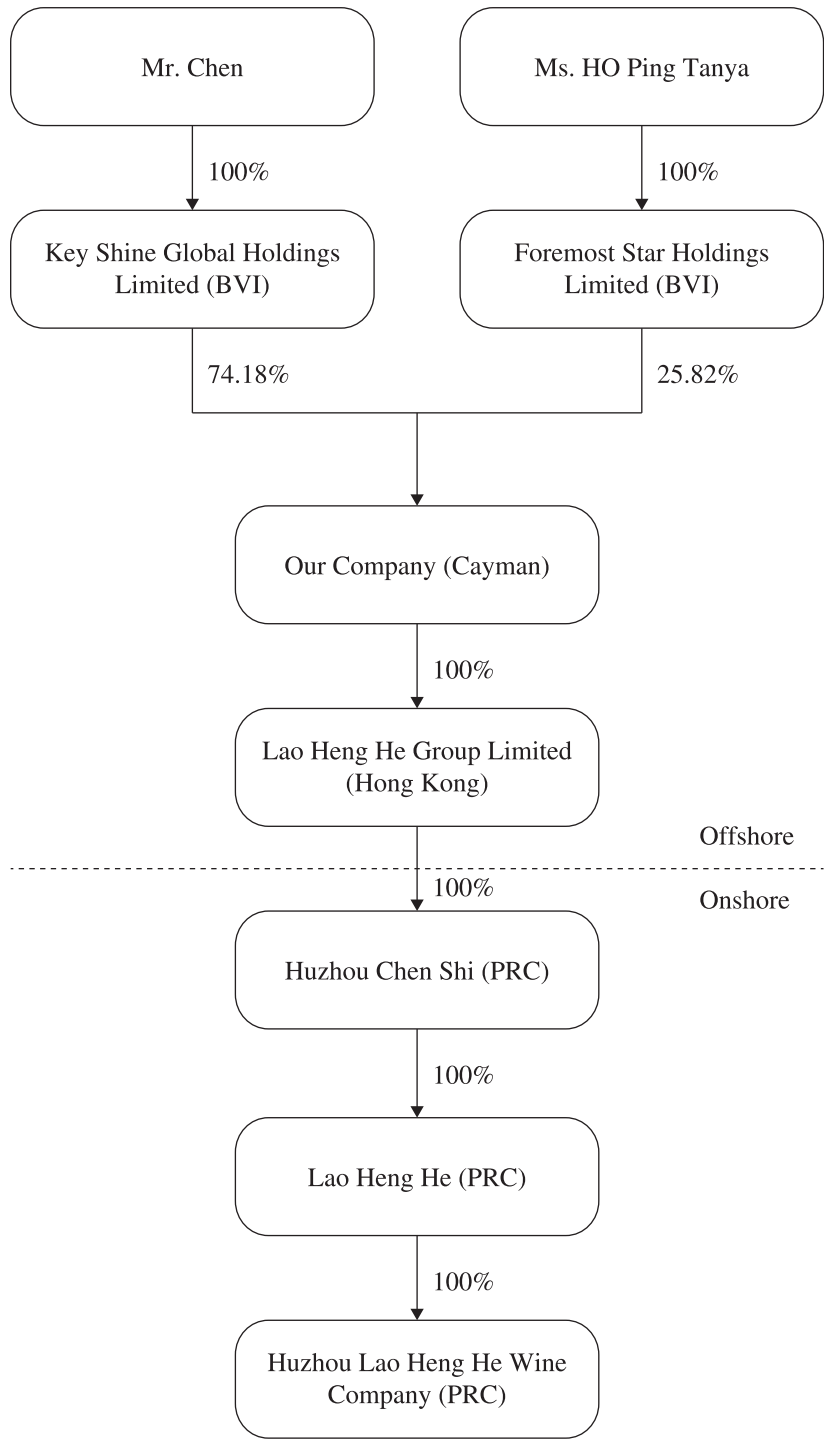
Establishing Onshore WOFE and Its Acquisition of Lao Heng He

On February 5, 2013, we established Huzhou Chen Shi Tian Niang Management Consulting Co., Ltd. (湖州陳氏天釀管理諮詢有限公司) (Huzhou Chen Shi), a wholly foreign-owned enterprise under PRC laws with a registered capital of HK\$500,000. Upon incorporation, Huzhou Chen Shi was 100% held by Lao Heng He Group Limited. On March 15, 2013, Mr. Chen and Ms. XING Liyu transferred all of their equity interests in Lao Heng He to Huzhou Chen Shi, for a consideration of RMB10.5 million and RMB500,000, respectively. Upon completion of the foregoing transactions, Lao Heng He became a wholly-owned subsidiary of Huzhou Chen Shi and consequently, 100% beneficially owned by our Company.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE

The following diagram illustrates our corporate and shareholding structure:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

Compliance with PRC Laws

Circular No. 75

According to the Circular No. 75, PRC residents who establish or control offshore special purpose vehicles (“SPV”) shall apply to the local branch of foreign exchange administration to register their overseas investments. Additionally, where a PRC resident contributes her assets or shareholding in a PRC enterprise into an offshore SPV, or engages in the shareholding alteration of an offshore SPV, with regard to the net interests she holds in such offshore SPV, she shall properly register or update her registration with the local branch of foreign exchange administration. Our PRC Legal Advisers are of the opinion that since Mr. Chen is a citizen of Republic of Guinea-Bissau⁽¹⁾ and Ms. HO Ping Tanya is a permanent resident of Hong Kong, they are not PRC residents under the Circular No. 75 and accordingly, they are not required to go through registration procedures under Circular 75 with respect to their overseas investments.

M&A Regulation

As advised by our PRC Legal Advisers, as Mr. Chen is a citizen of the Republic of Guinea-Bissau, he is not a PRC domestic natural person as defined under the M&A Rules and the offshore companies established or controlled by him, including Key Shine Global Holdings Limited, Honworld Group Limited and Lao Heng He Group Limited, do not constitute the companies established or controlled by any domestic company, enterprise or natural person as provided in Article 11.1 of the M&A Rules. Therefore, the incorporation of Huzhou Chen Shi and its acquisition of Huzhou Lao Heng He was not a scheme to circumvent any laws, rules or regulations in the PRC, in particular the M&A Rules by way of investment in a PRC domestic company by a foreign-owned enterprise. Accordingly, pursuant to the provision of Article 52.3 of the Supplementary Provisions of the M&A Rules, where a foreign investor acquires a PRC domestic company by its PRC foreign-invested enterprise, the relevant provisions on domestic investment by foreign-invested enterprises apply. Therefore, Huzhou Chen Shi’s acquisition of Huzhou Lao Heng He is governed by the Interim Provisions on Domestic Investment by Foreign-invested Enterprises. As our PRC Legal Adviser is of the view that the relevant M&A Rules are not applicable to us, they have advised us that it is not necessary to consult the relevant PRC government authorities in relation to the provisions of Article 11.1 of the M&A Rules.

(1) Change in the nationality of Mr. Chen to the Republic of Guinea-Bissau is part of Mr. Chen’s route to immigrate to Hong Kong. Earlier in 2012, Mr. Chen planned to immigrate to Hong Kong through investment. To qualify for admission under the Capital Investment Entrant Scheme launched by the Hong Kong Government, a Chinese national must first become a foreign national or obtain a permanent resident status in a foreign country. As planned, Mr. Chen’s nationality had been changed to the Republic of Guinea-Bissau before applying to the Immigration Department of Hong Kong Government. On August 6, 2012, Mr. Chen obtained the Republic of Guinea-Bissau passport. In December 2012, Mr. Chen made an application to the Immigration Department of Hong Kong together with relevant documents. Mr. Chen’s immigration application has received an approval in principle from the Immigration Department of Hong Kong as of the Latest Practicable Date.

BUSINESS

OVERVIEW

We are the largest manufacturer of cooking wine in China, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume in 2012, respectively, according to the Euromonitor Report. We are committed to offering high-quality and healthy cooking wine and other condiment products, including soy sauce and vinegar. Our market leadership earned us the accolade of National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) in 2013.

Cooking wine is an essential ingredient widely used in food preparation to deliver richer flavors and dissolve meat and fish odors. According to the Euromonitor Report, the PRC cooking wine market, in terms of retail sales value, grew at a CAGR of 23.4% from 2008 to 2012, and is expected to grow at a CAGR of 20.3% from 2012 to 2017 and reach approximately RMB10.6 billion by 2017.

Prior to December 2011, our cooking wine products were mainly produced using a mixture of primarily naturally-brewed yellow rice wine and relatively small quantity of alcohol. We officially introduced the concept of naturally-brewed cooking wine into our business in December 2011 and since then all of our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base without adding any alcohol. We were the only one among the top three cooking wine producers in China in terms of retail sales value in 2012 that manufactured cooking wine products using exclusively the naturally-brewing method, according to the Euromonitor Report. We adhere to our traditional brewing methods and manufacture cooking wine products that are more nutritious and impart richer flavor and aroma to dishes compared to cooking wine products manufactured involving blending of alcohol. Such traditional methods are integrated into our advanced and patented manufacturing process, which enables us to achieve large-scale production with high and consistent quality. We also manufacture our other condiment products using naturally-brewing methods. We believe we have established a strong reputation for manufacturing high-quality and naturally-brewed cooking wine and other condiment products, which allows us to price our products at a premium and tap into the fast growing condiment market in China.

We brand our products under “Lao Heng He” (“老恒和”), which dates back to more than 130 years ago, and is recognized for its strong heritage in China’s condiment market. Our “Lao Heng He” (“老恒和”) branded cooking wine products were awarded with “2012 Best Selling Products in the Condiment Industry of China” (“2012年中國調味品產業最暢銷單品”) by the Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會) in 2012 and “Leading Cooking Wine Brand in China” (“中國料酒產業領導品牌”) by the China Condiment Industry Association (中國調味品協會) in 2010. We believe we have successfully positioned “Lao Heng He” (“老恒和”) brand to associate with naturally-brewed and high-quality condiment products, which appeals to the increasingly health-conscious and brand-discerning Chinese consumers.

We primarily sell our products to wholesale distributors who then sell to sub-distributors or directly to retailers and catering service providers downstream. We have established an extensive distribution network in China that enables us to effectively reach end consumers. We have been continuously expanding our nationwide distribution networks and enhancing our distributor structure to reduce the number of Category D distributors located in regions that are already covered by higher-category distributors and focus on supporting and managing these higher-category distributors. We had over 200 distributors throughout China as of the Latest Practicable Date, covering 30 provinces, centrally administered-municipalities and autonomous regions.

BUSINESS

We have four production facilities located in Huzhou, Zhejiang Province. As large-scale production of naturally-brewed cooking wine products requires an abundant stock of base wine and an aging process, we have been increasing stock of base wine since late 2010 when we made a strategic move to focus on cooking wine products. As of August 31, 2013, we maintained a stock of approximately 55.4 million liters of base wine in earthen jars. We intend to establish additional production facilities and lease additional warehouses in Huzhou and upgrade existing production facilities in order to scale up production of base wine and increase stock of base wine to approximately 169 million liters by 2014. We adopt and adhere to a strict quality control system from the sourcing of raw materials to processing, packaging and inventory storage, and have received various certifications, including the HACCP certification and ISO9001 certification.

We have achieved rapid growth in revenue and net profit during the Track Record Period. For 2010, 2011 and 2012, we recorded a total revenue of RMB36.3 million, RMB109.5 million and RMB337.1 million, respectively, and net profit of RMB6.3 million, RMB20.2 million and RMB98.4 million, respectively. For the eight months ended August 31, 2012 and 2013, we recorded a total revenue of RMB188.3 million and RMB322.9 million, respectively, and net profit of RMB55.8 million and RMB96.0 million, respectively.

COMPETITIVE STRENGTHS

We believe that our historical success and future prospects are underpinned by a combination of the following competitive strengths:

Leading position in China’s fast growing cooking wine market

Cooking wine is one of the essential ingredients used widely in Chinese cuisines. According to the Euromonitor Report, we are the largest cooking wine manufacturer in China in 2012, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume, respectively. Our market leading position is also evidenced by certifications awarded by the Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會) in 2012, including “2012 Best Selling Products in the Condiment Industry of China” (2012年中國調味品產業最暢銷單品) and “Enterprise with Most Growth Potential in China Condiment Industry of 2012” (2012年中國調味品產業最具成長力企業).

The PRC condiment market has demonstrated continued growth supported by strong economic fundamentals, rising urbanization rate and growing disposable income. According to the Euromonitor Report, the production value of condiment products in China grew from RMB113.2 billion in 2008 to RMB194.2 billion in 2012, representing a CAGR of 14.4%, and is expected to grow at a CAGR of 12.4% between 2012 and 2017. The cooking wine market in China has also experienced rapid growth, with retail sales value growing from RMB1.8 billion in 2008 to RMB4.2 billion in 2012, representing a CAGR of 23.4%, and is expected to grow at a CAGR of 20.3% from 2012 to 2017.

BUSINESS

We officially introduced the concept of naturally-brewed cooking wine into our business in December 2011 and since then all our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base, with the addition of salt, spices and water. Other production methods in the market involve a blend of alcohol, and generally contain preservatives, plasticizer, citric acid, glacial acetic acid and other artificial flavorings. The higher the proportion of naturally-brewed rice wine, the better the quality of the cooking wine and as such the order in terms of quality is (i) cooking wine using naturally-brewed rice wine as base without adding any alcohol, followed by (ii) cooking wine using a mixture of alcohol and naturally-brewed rice wine as base and finally (iii) cooking wine using alcohol as base. According to the Euromonitor Report, we were the only one among the top three cooking wine producers in China in terms of retail sales value in 2012 that manufactures cooking wine products using exclusively the naturally-brewing method. With Chinese consumers’ growing consciousness on health and food safety, particularly following several high profile food safety incidents, there has been an increasing market demand for natural and high-quality condiment products, including our naturally-brewed cooking wine. We believe that we are well positioned to tap into the rapidly growing demand for high-quality condiment products in China.

Large-scale production of naturally-brewed cooking wine products requires an abundant stock of well-aged base wine. As a result of our continuous expansion of production facilities and growing output of base wine, our stock of base wine in earthen jars increased rapidly from approximately 11.8 million liters as of December 31, 2010 to approximately 21.3 million liters as of December 31, 2011, approximately 29.4 million liters as of December 31, 2012 and further to approximately 55.4 million liters as of August 31, 2013. We believe that our large volume of base wine reserve, combined with our early mover advantage, established brand awareness and extensive distribution networks, has created, and will continue to allow us to maintain and widen our lead over our competitors.

Superior products manufactured through distinctive traditional methods enhanced by modern production techniques

To manufacture products with consistently high quality at scale, we combine modern production techniques with traditional production methods across product lines including cooking wine, soy sauce and vinegar. In particular, we apply traditional recipes and brewing techniques to produce our naturally-brewed cooking wine products. Our recipe of fermentation starter for cooking wine contains wheat and over 40 varieties of all-natural Chinese herbs and is derived from one used to produce yellow rice wine for the imperial family in the Song Dynasty (960 A.D. – 1279 A.D.). Our cooking wine products are rich in nutrients, such as minerals, trace elements and 16 varieties of amino acids that are more effective in removing unpleasant smell in fish and meat than cooking wine products manufactured using purely alcohol or involving blending of alcohol and enriching flavor and aroma of dishes. The distinctive ecological conditions in Huzhou, Zhejiang Province, where our production facilities are located and cooking wine products are brewed, including the local water, air and accompanying microbiological conditions, have provided a suitable environment for our traditional brewing methods. We believe we have built a strong reputation for producing high-quality, naturally-brewed cooking wine using our heritaged techniques, allowing us to price our products at a premium.

BUSINESS

Further, to maintain consistently high quality and achieve scaled, cost-effective and stable production of our products, we have integrated traditional production methods into modern techniques. We have formulated standardized production manuals with repeatable steps that translate traditional production know-how into modern process controlled and monitored in an automated and digitalized manner. Our dedicated research and development team focuses on analyzing traditional formulae and developing modern technologies that can be deployed in large-scaled production with consistent quality. In addition to our in-house research and development efforts, we also pursue cooperation with universities and academic institutions to develop and optimize modern manufacturing techniques. We own four patented inventions relating to the manufacturing techniques of our cooking wine and soy sauce products as of the Latest Practicable Date and are in the course of applying for four additional patents with respect to our cooking wine, soy sauce and fermented bean curd manufacturing techniques. We also implement stringent quality control procedures throughout our manufacturing processes, as evidenced by our ISO 9001 and HACCP certifications.

Effective market positioning leveraging established brand recognition and strong heritage

We believe we have established distinctive brand recognition of strong heritage in China’s condiment market. We sell our products under the “Lao Heng He” (“老恒和”) brand across product lines. According to local chronicles in Huzhou, Zhejiang Province where we are located, the “Lao Heng He” (“老恒和”) brand dates back to more than 130 years ago. Lao Heng He fermented bean curd had been a part of the special tributes to China’s emperors in the Qing dynasty (1644 A.D.–1912 A.D.). In 1915, “Lao Heng He” (“老恒和”) branded paste products received the gold award at the Panama-Pacific International Exposition (巴拿馬世界博覽會). “Lao Heng He” (“老恒和”) branded rose-fermented bean curd was granted the gold award at the 1929 Westlake Exposition (首屆西湖博覽會), a world’s fair that attracted over 20 million visitors. Taking advantage of our brand with rich heritage, we strategically focus our resources on naturally-brewed cooking wine products, including the premium product segment, and shape our brand image for cooking wine products of superior quality with health and wellness attributes. Sales of our premium cooking wine products which we launched in late 2011, as a percentage of our total sales of cooking wine products, was 11.0%, 27.9% and 27.9% in 2011, 2012 and the eight months ended August 31, 2013, respectively.

We have effectively positioned “Lao Heng He” (“老恒和”) as a brand for naturally-brewed and high-quality condiment product since December 2011 when we ceased manufacturing cooking wine products that involved blending of alcohol and officially introduced the concept of naturally-brewed cooking wine into our business. Our “Lao Heng He” (“老恒和”) brand was recognized as “2012 Well-known Cooking Wine Brand in China Condiment Industry” (“2012年中國調味品產業料酒著名品牌”) by Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會) in 2012 and “Leading Cooking Wine Brand in China” (“中國料酒產業領導品牌”) by China Condiment Industry Association (中國調味品協會) in 2010. We believe our market positioning and brand image appeal to the increasingly health-conscious and brand-discerning Chinese consumers and will continue to be a main factor in driving our future success.

BUSINESS

Extensive distribution network and strong relationships with key distributors

We have established an extensive distribution network in China that enables our products to reach consumers nationwide. We primarily sell our products to regional distributors who then sell to sub-distributors or directly to retailers and catering service providers. Our sales have been geographically concentrated in a few key regional markets, namely Zhejiang Province, Shanghai, Guangdong Province, Liaoning Province, Shandong Province and Beijing, contributing an aggregate of 84.5% and 88.0% of our revenue in 2012 and the eight months ended August 31, 2013, respectively. We have been continuously expanding our nationwide distribution networks and streamlining our distributor structure to focus our resources to manage and support key distributors. We had over 200 distributors throughout China as of the Latest Practicable Date, covering 30 provinces, municipalities and autonomous regions.

We have implemented a multi-category distributor system to manage distribution of our products since 2011. Based on their distribution scales and capabilities, we classify our distributors into Categories A, B, C and D, with our Category A distributors employing extensive distribution networks and sales channels covering one or more provinces, while Categories B, C and D distributors maintaining more limited distribution capacities and geographic reach. Our product distribution is primarily handled through Category A distributors and supplemented by Categories B, C and D distributors to ensure comprehensive market coverage. The aggregate sales attributable to our Category A distributors constituted 74.2% and 83.3% of our revenue in 2012 and the eight months ended August 31, 2013, respectively. As of the Latest Practicable Date, we had six Category A distributors. We seek to maintain effective management of our distributors by monitoring their inventory levels and marketing activities, and evaluate their respective categorization semi-annually. We also provide support to them with respect to sales, marketing and related activities. In addition, we continue to enhance our distributor structure by reducing the number of Category D distributors located in regions that are already covered by higher-category distributors and focus on supporting and managing these higher-category distributors.

We believe one of our key success factors is our effective management of and strong working relationships with our Category A distributors, which provide an efficient and cost-effective distribution structure enabling us to enhance our market penetration, shorten the lead time for entering into new markets and save costs in building up a multi-layered distribution network.

Experienced and stable management team with proven track record of delivering growth and profitability

Our management team has extensive experience in the condiment industry. Our senior management team is led by Mr. Chen, our founder and chairman, who is a descendant of the major shareholder of the historical Lao Heng He (老恒和) business. Mr. Chen started his career in the condiment industry as early as 1990 and has accumulated extensive experience in this industry since then. He has been dedicated to the development of a premium brand of high-quality, healthy and naturally-brewed cooking wine in China. Spearheaded by Mr. Chen in upgrading our product offerings and formulating development strategies, we have been transformed, from an ailing company back in 2005 when Mr. Chen acquired us, into a profitable and sustainable business.

BUSINESS

Our management team is self-motivated, dedicated and in possession of in-depth knowledge of China’s condiment industry. We maintain a stable management team who has been with us for over ten years on average and has extensive operational and management experience in the marketing and manufacture of condiment products in China.

Our management team has successfully implemented an apprentice system among our production personnel to ensure that traditional production techniques and know-how are passed on. Under the leadership of our management, we have also introduced standardized manufacturing process for all of our products to ensure consistent product quality, which we believe differentiates us from many of our competitors. We have also built up a corporate culture to help attract and retain employees and encourage delivery of consistently high-quality condiment products. We believe our experienced management team is key to our success in the past and will continue to contribute to our growth in the future.

BUSINESS STRATEGIES

Our overall business objective is to further strengthen our leading position in China’s cooking wine market. Our long-term objective is to become one of the most influential and respected companies in the condiment industry in China. To achieve these objectives, we have formulated the following major business strategies:

Further optimize product mix

With a strategic focus on premium cooking wine products, we endeavor to continue to streamline our cooking wine product portfolio, shape our brand image for products of superior quality and strengthen our competitiveness in the cooking wine market in China. In particular, while we expect to continue to generate a significant portion of sales from medium-range cooking wine products, we intend to focus our product development efforts on premium and high-end cooking wine products such as Well-aged Cooking Wine (年份料酒) and 15% ABV Cooking Wine (15度料酒), which are manufactured using vintage base wine with weighted average age from eight to ten Wine Years and an ABV of 15%, the optimal ABV level for food preparation. We have been eliminating certain less popular cooking wine products, especially those mass-market cooking wine products, in the past few years and plan to consolidate our cooking wine products into five to six products eventually. We believe that our commitment to premium cooking wine products will differentiate ourselves from our competitors and position us to capitalize on the rapidly growing demand for high-quality food products in China.

We also plan to invest in and strengthen our product development activities for high-end soy sauce, vinegar and other condiment products to continuously offer innovative and superior products to accommodate the changing preferences of consumers. For example, in view of growing health awareness among consumers in their consumption of condiment products, we are developing an ultra-premium soy sauce product, Tai Soy Sauce (太油), which primarily targets the high-end segment of the health-conscious consumer base.

We believe that our continuous optimization of product mix supported by strong product development capabilities along with our established brand name will provide a solid foundation for us to increase our market share in the fast-growing PRC condiment industry.

BUSINESS

Broaden and strengthen distribution network

Our multi-category distribution network in China primarily consists of Category A distributors, supplemented by Categories B, C and D distributors. As of the Latest Practicable Date, we had over 200 distributors covering 30 provinces, centrally administered-municipalities and autonomous regions across China. Our sales have been geographically concentrated in a few regional markets. We believe further enhancement and expansion of our existing multi-category distribution network is crucial to increasing our market share and coverage both in our well established markets as well as regions in which we are still building up our distribution network and market presence. We also believe such strengthening is necessary to capitalize on the increasing spending power and consumer demand for high-quality cooking wine products.

To accomplish this, we intend to:

- continue to streamline our distributor structure and expand our pool of Category A distributors by engaging additional seasoned condiment distributors, and provide additional support to eligible Category B or C distributors with a view to upgrading them to Category A as their distribution networks grow organically. We also plan to continue to reduce the number of Category D distributors located in regions that are already covered by higher-category distributors in order to focus our resources to manage and support key distributors;
- further strengthen our sales and marketing efforts through enhanced advertising and promotional activities with Category A distributors, which we expect will continue to contribute a growing percentage of our revenue in the future;
- promote the concept and advantages of naturally-brewed cooking wine products and deepen our penetration in the regional markets where we currently derive a majority of revenue, such as Zhejiang Province, Shandong Province and Shanghai, as well as in other major markets, including Guangdong Province and Beijing, in order to maintain our market leadership in these regions; and
- deepen our market penetration in other regions where we believe we are well-positioned to capture significant market opportunities by strengthening our collaboration with existing distributors or engaging new ones with more established distribution channels. During the eight months ended August 31, 2013, we engaged 27 distributors across China which we believe were of strategically importance to the enhancement of our nationwide sales network.

BUSINESS

Increase stock of base wine and pursue production expansion

We intend to expand our production to capitalize on the anticipated growth of the condiment industry and the increase in demand for our products, in particular, our cooking wine products. The output of our cooking wine products is subject to the constraints of stock of yellow rice wine, the base wine for our cooking wine products, which in turn is subject to the availability of funding for purchase of rice as well as production facilities and warehouse storage space.

Continue to strengthen research and development capabilities

We will continue to invest in the development and commercial application of modern technologies to solidify our traditional brewing methods for scalable production of high-quality condiment products. To date, we have obtained four invention patents in relation to the manufacturing techniques of our products and are in the process of securing four additional invention patents, which we believe will enable large-scale production of consistent quality. Our research and development team will continue to work closely with our production department and collaborate with universities and academic institutions in standardization of production process, product development, packaging designs, and laboratory testing as well as improvement of taste and nutritional contents of our products and operational efficiency of our production process. We also intend to build up a management information system, explore efficient management techniques and further ramp up our operations.

THE DEVELOPMENT OF OUR BUSINESS MODEL

Historically, Mr. Chen, our ultimate Controlling Shareholder, controlled two condiment businesses, namely Zhong Wei and our Group. Zhong Wei was sold to an independent third party in December 2012.

Mr. CHEN Lianqing (陳連清), uncle of our ultimate Controlling Shareholder, founded Huzhou Sheng Shan Fermented Products Factory (湖州升山醬品廠), a manufacturer of pickled vegetables, soy sauce and other fermented condiment products, in 1988. In 1995, our ultimate Controlling Shareholder, previously a manager of Huzhou Sheng Shan Fermented Products Factory, inherited Mr. CHEN Lianqing’s business and established Huzhou Zhong Wei Brewing Factory (湖州中味釀造廠), the predecessor of Zhong Wei. Under our ultimate Controlling Shareholder’s leadership, Zhong Wei’s condiment business continued to grow. Zhong Wei has received a number of awards in recent years, including National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) and one of China’s Best Ten Condiment Producers (中國調味品製造業十強企業) in 2010 and Famous Brand in Zhejiang Province (浙江省著名商標) in 2011.

In 2005, our ultimate Controlling Shareholder acquired Huzhou Lao Heng He Brewing Factory (湖州老恒和釀造廠), our predecessor, which was then an ailing company struggling to turn itself into a sustainable business. In order to achieve his overall business objectives, our ultimate Controlling Shareholder sought to expand our business by capitalizing on Zhong Wei’s existing successful condiment business, in particular, by leveraging Zhong Wei’s established distribution network and procurement capabilities. Our ultimate Controlling Shareholder implemented certain distribution and procurement arrangements between us and Zhong Wei under which we primarily functioned as a manufacturing platform, and Zhong Wei as the centralized sales and procurement channel, for our ultimate Controlling Shareholder’s overall condiment business.

BUSINESS

Zhong Wei’s distribution network was well-established and consisted of a large number of distributors and direct sale customers, such as supermarket and hypermarket chains across China. As a result, our products were historically sold through Zhong Wei, which enabled us to take advantage of Zhong Wei’s established distribution channels to maximize sales of our products at our initial development stage. During the Track Record Period and prior to our ultimate Controlling Shareholder’s disposal of Zhong Wei in December 2012, our sales to Zhong Wei were generally marked up 10% to 15% on a cost-plus basis and the selling prices were generally lower than those at which our products were sold to third-party distributors, which was primarily due to our use of Zhong Wei’s then-existing procurement and distribution platform. Substantially all of our products were distributed through Zhong Wei in 2010 and we believe the transactions with Zhong Wei were conducted on normal commercial terms and in the ordinary course of business.

In addition, we purchased a majority of our raw materials, including rice, the primary raw material for our cooking wine products, as well as packaging materials, from Zhong Wei in 2010. Such procurement arrangements were implemented taking into account the following: (i) to centralize resources and facilitate the overall growth of our ultimate Controlling Shareholder’s condiment business, Zhong Wei was historically designated as the centralized procurement channel whereas we served as a manufacturing platform and used to be an ailing business with a solid manufacturing heritage when our ultimate Controlling Shareholder acquired us, (ii) before shifting our strategic focus to cooking wine and the streamlining of our product offerings, we manufactured a variety of condiment products at a relatively small scale in each product line, requiring a wide range of raw materials each in relatively small amounts, and as Zhong Wei had been purchasing many of these raw materials, our ultimate Controlling Shareholder was of the view that centralized sourcing by Zhong Wei was a more convenient and efficient alternative, and (iii) as a National Flagship Enterprise in Agricultural Industrialization with established reputation in the condiment industry, Zhong Wei had access to a larger number of raw material suppliers and enjoyed a more stable supply of raw materials, and by procuring raw materials from Zhong Wei, we were able to leverage Zhong Wei’s ability to identify and secure a stable supply of quality raw materials while we gradually built up our own network of quality suppliers. Raw materials we purchased from Zhong Wei were generally marked up 10% to 15% by Zhong Wei on the cost at which Zhong Wei purchased the raw materials from independent third party suppliers. Our Directors are of the view that the 10% to 15% markup reflected normal commercial terms between Zhong Wei and us and constituted a reasonable margin in light of Zhong Wei’s raw material procurement efforts. As these raw materials are readily available in the market, we did not experience difficulty in procuring raw materials directly from independent third-party suppliers. However, due to the reasons outlined above, we purchased a portion of our raw materials from Zhong Wei during the Track Record Period prior to Zhong Wei’s disposal by our ultimate Controlling Shareholder.

The terms of the distribution agreements and framework supply agreements we entered into with Zhong Wei during the Track Record Period were substantially identical with those we entered into with independent third party distributors and suppliers, other than the selling or purchase prices and the designated distribution areas. See “— Sales and Marketing — Wholesale distribution-Distribution arrangement with Zhong Wei” and “— Raw Materials and Suppliers” for details of our distribution and framework supply agreements with Zhong Wei. The historical connected transactions between us and Zhong Wei were conducted out of commercial considerations. In light of Zhong Wei’s existing and stronger procurement and distribution platform, our procurement and sales were naturally conducted through Zhong Wei at our early development stage in order to leverage on its experience and capabilities.

BUSINESS

In late 2010, we made a strategic move to focus our resources on the manufacturing and sale of cooking wine products which we believe is an attractive market segment and presents greater growth opportunities. Since then, our cooking wine business has grown to become our largest product line which contributes a majority of our revenue. Meanwhile, in order to streamline our operations and enhance the brand recognition of “Lao Heng He” (“老恒和”) which is known for its strong historical heritage in condiment products, we and our ultimate Controlling Shareholder took steps to gradually separate our business from that of Zhong Wei. Since the end of 2010, as we built up our own sales and marketing department, entered into direct distributorship arrangement with downstream distributors of Zhong Wei, established contacts with new distributors and expanded our own distribution network, we began selling products directly to distributors nationwide rather than through Zhong Wei. Moreover, as our operations grew and became more established, we began increasingly purchasing our raw materials directly from third party suppliers. After a transitional period, by 2012, we predominantly sold our products through our distributors and purchased our raw materials from third party suppliers on arms-length basis. Our sales to Zhong Wei, as a percentage of our total sales, decreased from 41.4% in 2011 to 1.5% in 2012 while our purchases of raw materials from Zhong Wei, as a percentage of our total purchases of raw materials, decreased from 79.1% in 2011 to 5.5% in 2012.

In December 2012, Zhong Wei was disposed of to an independent third party. See “History, Reorganization and Group Structure — Reorganization — Sale of Zhong Wei to Independent Third Party”. After the disposal of Zhong Wei, we ceased to purchase raw materials from Zhong Wei, while we continued to sell a small percentage of our products to Zhong Wei, which now acted as one of our Category D distributors, on an arm’s-length basis. Our sales to Zhong Wei, as a percentage of our total sales, was 0.2% in the eight months ended August 31, 2013. In addition, we continued to purchase certain popular Zhong Wei branded paste and pickled vegetable products from Zhong Wei to supplement our product offering and such procurement from Zhong Wei represented 3.8% of our total procurement in the eight months ended August 31, 2013.

PRODUCTS

Overview

Our modern production techniques, combined with traditional recipes and brewing methods, enable us to offer naturally-brewed and high-quality condiment products. Our products are classified into the following four categories:

- ***cooking wine products.*** These products primarily comprise:
 - Well-aged Cooking Wine (年份料酒) and Chef’s Huadiao (廚用花雕), our premium cooking wine products;
 - 15% ABV Cooking Wine (15度料酒) and Steamed Fish Cooking Wine (蒸魚料酒), our high-end cooking wine products;
 - Spiced Cooking Wine (五香料酒), Scallion & Ginger Cooking Wine (蔥薑料酒) and Lao Heng He Cooking Wine (老恒和料酒), our medium-range cooking wine products; and

BUSINESS

- mass-market cooking wine products, primarily bagged cooking wine products that are suitable for local consumption.
- **soy sauce products.** Major soy sauce products include Fish Soy Sauce (魚生醬油) and Premium Flavored Soy Sauce (鮮上鮮特級醬油).
- **vinegar products.** Our vinegar products include Rose Rice Vinegar (玫瑰米醋), Premium Zhejiang Vinegar (上品浙醋) and Crab Vinegar (蟹醋).
- **other products.** These products consist of Zhong Wei branded paste and pickled vegetable products we purchase from Zhong Wei to enrich our product offering, as well as Rose Fermented Bean Curd (玫瑰腐乳) under our brand.

As of January 1, 2010, we had 112 condiment products, including 36 cooking wine products, 38 soy sauce products, 28 vinegar products and 10 other seasoning products. Since the end of 2010, we have been streamlining our product offerings in order to focus our product development efforts on selected cooking wine products, including Well-aged Cooking Wine (年份料酒) and Steamed Fish Cooking Wine (蒸魚料酒), and shape our brand image for superior products. Our total number of products decreased to 46 as of the Latest Practicable Date, including 24 cooking wine products, 11 soy sauce products, eight vinegar products and three fermented bean curd products.

We made a strategic move in late 2010 and gradually focused our business development efforts on cooking wine products with a goal of transitioning our business from a comprehensive condiment manufacturer into a leading cooking wine producer. As a result of such efforts, sales of our cooking wine products as a percentage of total sales of goods increased from 46.5% in 2010 to 54.9% in 2011 and further to 86.6% in 2012. Sales of our cooking wine products as a percentage of our total sales of goods was 82.8% and 72.3% in the eight months ended August 31, 2012 and 2013, respectively. We expect to continue to concentrate our operating, financial and managerial resources on cooking wine products and generate a majority of revenue from sales of such products.

Prior to December 2011, our cooking wine products were mainly produced using a mixture of primarily naturally-brewed rice wine and relatively small quantity of alcohol. In light of China’s growing levels of consciousness on health and food safety as well as consumers’ rising demand for naturally-produced goods, we started producing Chef’s Huadiao, a naturally-brewed cooking wine product, in early 2011 on trial-basis. We officially introduced the concept of naturally-brewed cooking wine to our manufacturing process and marketing campaign in December 2011 and since then, all of our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base without adding alcohol.

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The table below sets out our total revenue from sales of goods by product segment for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total revenue from sales		% of total revenue from sales		% of total revenue from sales		% of total revenue from sales		% of total revenue from sales	
	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods	RMB'000	of goods
(unaudited)										
Cooking wine products	15,121	46.5	60,153	54.9	292,273	86.6	156,217	82.8	233,134	72.3
Soy sauce products	9,735	29.9	20,538	18.8	12,780	3.8	8,696	4.6	70,219	21.7
Vinegar products	3,770	11.6	13,865	12.7	9,291	2.8	6,163	3.3	3,478	1.1
Other products	3,913	12.0	14,936	13.6	22,781	6.8	17,251	9.3	16,031	4.9
Total revenue from sales of goods	32,539	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0

In 2010, we processed soy sauce products for Zhong Wei under its brand and recognized net processing income in the amount of RMB3.8 million. Pursuant to the soy sauce processing framework agreements we entered into with Zhong Wei, we processed soy sauce products to supplement Zhong Wei's soy sauce production in exchange for processing fees equal to approximately 11% of the selling price of the finished soy sauce products. Such arrangement was terminated in 2011. See “Financial Information — Description of Certain Income Statement Items — Revenue”.

Cooking wine products

Cooking wine is a condiment widely used in preparing a broad array of dishes to deliver richer flavor and aroma and dissolve meat and fish odors. Since December 2011, our cooking wine products have been manufactured solely from naturally-brewed yellow rice wine, as opposed to cooking wine manufactured by blending alcohol with artificial flavorings. See “Industry Overview — The PRC Cooking Wine Market — Cooking Wine Manufacturing Methods in China”. In manufacturing our cooking wine products, we blend a portion of vintage base wine, which delivers desirable scent to attract our target customers, with mixer base wine to adjust the ABV, sweetness and acidity, adding salt, spices and water. Adhering to traditional brewing techniques with fine ingredients, we produce cooking wine products that are rich in nutrients, such as minerals, trace elements and 16 varieties of amino acids, including eight essential amino acids that cannot be synthesized by human body and must be obtained from daily diet. The amino acids help dissolve odors in meat- and seafood-based dishes and add richer flavors to cuisines. The average shelf life for our cooking wine products is 18 months.

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Our cooking wine products are broadly categorized into four series: premium, high-end, medium-range and mass-market, based on the following:

- (i) weighted average Wine Year of vintage base wine used. Our higher-end cooking wine products use vintage base wine with longer weighted average ages. The difference in Wine Years of vintage base wine used in each range of our cooking wine products differentiates them and contributes to the price difference;
- (ii) the concentration level of total base wine and the concentration level of vintage base wine. Our higher-end cooking wine products have higher concentration level of total base wine and less water than lower end-ones, and the concentration level of vintage base wine in our higher-end cooking wine products is also higher than the vintage base wine concentration level of the lower-end ones; and
- (iii) other factors such as packaging materials. The packaging materials for higher-end cooking wine products are generally more expensive than lower-end ones.

The above factors contribute to the difference in the aroma, taste and value of our cooking wine products, and therefore, the prices of the final cooking wine products vary accordingly.

As consumers are driven by the aroma and taste of the final cooking wine products and the flavor each type of cooking wine can add to food, our Directors are of the view that customers are willing to pay a premium for our premium and high-end products taking the above factors into consideration, including the relatively small difference in percentage of vintage base wine used in the various categories of our cooking wine products.

The table below sets out our total sales of cooking wine products by product series for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total		% of total		% of total		% of total		% of total	
	sales of		sales of		sales of		sales of		sales of	
	cooking		cooking		cooking		cooking		cooking	
	wine		wine		wine		wine		wine	
	RMB'000	products	RMB'000	products	RMB'000	products	RMB'000	products	RMB'000	products
	(unaudited)									
Premium	—	—	6,596	11.0	81,481	27.9	27,528	17.6	65,157	27.9
High-end	—	—	—	—	24,781	8.5	6,214	4.0	60,873	26.1
Medium-range	6,338	41.9	38,953	64.7	115,423	39.4	61,189	39.2	92,355	39.6
Mass-market	8,783	58.1	14,604	24.3	70,588	24.2	61,286	39.2	14,749	6.4
Total	15,121	100.0	60,153	100.0	292,273	100.0	156,217	100.0	233,134	100.0

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Premium



High-end



Medium-range



Mass-market

Premium cooking wine products

Our premium cooking wine products consist of Well-aged Cooking Wine (年份料酒) and Chef's Huadiao (廚用花雕), both launched in late 2011. These products are produced using vintage base wine with weighted average age of ten Wine Years, blended with mixer base wine, salt, spices and water. These products have an ABV of 15%, which is the optimal ABV level for cooking, and come in 500 ml and 750 ml bottles, with suggested retail prices of RMB19.8 and RMB38.0, respectively.

Both of our Well-aged Cooking Wine (年份料酒) and Chef's Huadiao (廚用花雕) products are suitable for preparing a wide range of cuisines. They are positioned as premium-priced and high-quality products for consumers that are willing to pay more for premium products. As we streamlined our product mix with efforts on developing and promoting higher-end products, sales of our premium cooking wine products increased from RMB6.6 million in 2011 to RMB81.5 million in 2012, accounting for 11.0% and 27.9% of our total revenue generated from our cooking wine products, respectively, and increased from RMB27.5 million in the eight months ended August 31, 2012 to RMB65.2 million in the eight months ended August 31, 2013, accounting for 17.6% and 27.9% of our total revenue generated from our cooking wine products, respectively.

High-end cooking wine products

15% ABV Cooking Wine (15度料酒) and Steamed Fish Cooking Wine (蒸魚料酒) launched in the first and second half of 2012, respectively, represent our high-end cooking wine products. These products have an ABV of 15% and are produced using vintage base wine with weighted average age of eight Wine Years, blended with mixer base wine, salt, spices and water. Our high-end and premium cooking wine products generally have higher concentration level of base wine, including vintage base wine, than medium-range and mass-market cooking wine products. The suggested retail prices for our high-end cooking wine products are between RMB16.8 and RMB19.8. Steamed Fish Cooking Wine features light color and flavor, which is suitable for cooking steamed fish and other seafood dishes, while 15% ABV Cooking Wine is thick in texture and suitable for cooking poultry. Sales of our high-

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end cooking wine products were RMB24.8 million in 2012, accounting for 8.5% of our total sales of cooking wine products in 2012 and RMB60.9 million in the eight months ended August 31, 2013, accounting for 26.1% of our total sales of cooking wine products during the same period.

Medium-range cooking wine products

Our medium-range cooking wine products mainly consist of Spiced Cooking Wine (五香料酒), Scallion & Ginger Cooking Wine (葱薑料酒) and Lao Heng He Cooking Wine (老恒和料酒) with suggested retail prices ranging between RMB7.9 and RMB16.0. These products are generally produced using vintage base wine with weighted average age of five to six Wine Years, blended with mixer base wine, salt, spices and water, and have an ABV of 10%. We generated a majority of our sales of cooking wine products from medium-range cooking wine products in 2011. As we streamlined our cooking wine product portfolio to focus on higher-end products, the number of our medium-range cooking wine products decreased from 20 as of January 1, 2010 to ten as of the Latest Practicable Date. Sales of our medium-range cooking wine products, as a percentage of our total sales of cooking wine products, was 41.9%, 64.7%, 39.4% and 39.6% in 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively.

Mass-market cooking wine products

We also manufacture a series of cooking wine products with suggested retail prices ranging from RMB2.5 to RMB6.0 which are suitable for mass-market consumption locally in Zhejiang Province. These products primarily include bagged cooking wine products manufactured using the vintage base wine with similar Wine Year to that used for our bottled medium-range cooking wine products, blended with mixer base wine, salt, spices and water. Our mass-market cooking wine products also include certain bottled products. As we upgrade and streamline our product offerings, we have been eliminating certain less popular mass-market cooking wine products. Sales of our mass-market cooking wine products, as a percentage of our total sales of cooking wine products, decreased from 58.1% in 2010 to 24.3% in 2011, 24.2% in 2012 and further to 6.4% in the eight months ended August 31, 2013. The number of our mass-market cooking wine products also decreased significantly during the Track Record Period.

Soy sauce products

Soy sauce is a condiment produced from a fermented paste of boiled soy beans. As we gradually focus on cooking wine products and optimize our product mix, we have eliminated certain soy sauce products and our total number of soy sauce products decreased from 38 as of January 1, 2010 to 11 as of the Latest Practicable Date.

Our soy sauce products mainly consist of Fish Soy Sauce (魚生醬油) and Premium Flavored Soy Sauce (鮮上鮮特級醬油). Fish Soy Sauce (魚生醬油) is produced using fish and soy beans in the fermentation process, a production technique that is patented by us in China, and is primarily used as a dipping sauce and comes in 200ml bottles with a suggested retail price of RMB28.0. Premium Flavored Soy Sauce (鮮上鮮特級醬油) products, which come in 150 ml to 1.28 liter bottles with suggested retail prices ranging from RMB4.9 to RMB26.8, can be used both as a dipping sauce or as flavoring agent in cooking and food preparation. Sales of our soy sauce products were RMB9.7 million, RMB18.8 million,

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RMB12.8 million and RMB70.2 million in 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively, accounting for 29.9%, 18.8%, 3.8% and 21.7% of our total revenue from sales of goods during the same periods. The significant increase in the sales of our soy sauce products in the eight months ended August 31, 2013 was primarily attributable to the addition to our distribution network one of the leading soy sauce distributors, which deepened the market penetration of our soy sauce products, particularly in the eastern China market which had high purchasing power for condiment products, and an increase in demand of our higher-priced soy sauce products such as high end Premium Flavored Soy Sauce (鮮上鮮特級醬油).



We currently adopt the high-salt liquid-state fermentation technique in the production of our soy sauce products. We plan to employ the traditional low-salt solid-state fermentation technique to produce ultra-premium soy sauce product, Tai Soy Sauce (太油), which is expected to be launched in early 2014. See “— Research and Development.”

The average shelf life for our soy sauce products is 18 months.

Vinegar products

Rice vinegar is a condiment made from fermented rice. Our key vinegar products include Rose Rice Vinegar (玫瑰米醋) and Premium Zhejiang Vinegar (上品浙醋), which are categorized as Zhejiang rose rice vinegar (浙江玫瑰米醋), one of “the Four Well-known Vinegar” (“四大名醋”) in China. We also produce Crab Vinegar (蟹醋), which comprises vinegar and ginger sauce and is mainly used as crab dipping sauce. As we gradually focus on cooking wine products and optimize the product mix, we have eliminated certain vinegar products and our total number of vinegar products decreased from 28 as of January 1, 2010 to eight as of the Latest Practicable Date.

All of our vinegar products are naturally-fermented and have undergone liquid-state fermentation as well as an aging process ranging from three to eight years. As a result of this production process, our vinegar products are rich in nutrients, including amino acids and various minerals and trace elements.

Our naturally-brewed vinegar products can be used as flavoring agents in cooking and food preparation, or as dipping sauce for various cuisines, especially for seafood such as steamed fresh water crabs, a popular seasonal dish in China. Our vinegar products come in 200 ml to 750 ml bottles or 400 ml bags, with suggested retail prices ranging from RMB4.3 to RMB38.0 to meet differentiated consumer demands.

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The average shelf life for our vinegar products is 18 months.



Other products

To diversify our product offering, we sell certain popular Zhong Wei branded paste and pickled vegetables procured from Zhong Wei, such as Gold Chili Paste (金辣醬). We also produce and sell “Lao Heng He” (“老恒和”) branded bean curd products, such as Rose Fermented Bean Curd (玫瑰腐乳), which was granted the gold award at the 1929 Westlake Exposition (首屆西湖博覽會), a world fair that attracted over 20 million visitors. The average shelf life for our fermented bean curd products is 12 months.



SALES AND MARKETING

We primarily rely on the established sales and distribution network of distributors to distribute our products across China, complemented by direct sales. As of the Latest Practicable Date, we engaged more than 200 distributors in the PRC with an extensive distribution network covering 30 provinces, centrally administered-municipalities and autonomous regions. These distributors sell our products directly, or through their sub-distributors, to retailers and catering service operators in China.

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The map below illustrates our distribution network as of the Latest Practicable Date:



In 2010, substantially all of our products were distributed to Zhong Wei, which acted as our centralized distribution channel. As we gradually ramped up our business and established our own sales and distribution network, we began selling products directly to distributors nationwide rather than through Zhong Wei in late 2010. After a transitional period in 2011, by 2012, substantially all of our products were sold to third party distributors rather than to Zhong Wei. See “— The Development of Our Business Model”.

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The table below sets out the revenue attributed to the sales of our products by our wholesale distribution and direct sales for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	% of total sales of		% of total sales of		% of total sales of		% of total sales of		% of total sales of	
	RMB'000	goods	RMB'000	goods	RMB'000	goods	RMB'000	goods	RMB'000	goods
	(unaudited)									
Sales to Zhong Wei	30,749	94.5	45,333	41.4	4,931	1.5	3,873	2.1	606	0.2
Sales to third parties:										
Wholesale distribution	—	—	63,758	58.2	320,163	94.9	176,364	93.6	312,387	96.7
Direct sales	1,790	5.5	401	0.4	12,031	3.6	8,090	4.3	9,869	3.1
Subtotal	1,790	5.5	64,159	58.6	332,194	98.5	184,454	97.9	322,256	99.8
Total	32,539	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0

The table below sets forth the geographic breakdown of our revenue attributed to the sales of our products for the periods indicated:

	For the year ended December 31, 2012		For the eight months ended August 31, 2013	
	RMB'000	% of total sales of goods	RMB'000	% of total sales of goods
Zhejiang Province	98,253	29.1	78,995	24.5
Shanghai	17,091	5.1	55,098	17.1
Guangdong Province	52,103	15.5	47,016	14.6
Liaoning Province	44,664	13.3	38,679	12.0
Shandong Province	41,205	12.2	34,264	10.6
Beijing	31,421	9.3	29,944	9.3
Rest of China	52,388	15.5	38,866	12.0
Total	337,125	100.0	322,862	100.0

We have historically experienced geographically concentrated sales, with sales generated from our top six regional markets, namely Zhejiang Province, Shanghai, Guangdong Province, Liaoning Province, Shandong Province and Beijing, accounted for an aggregate of 84.5% and 88.0% of our total revenue in 2012 and the eight months ended August 31, 2013, respectively. We expect our operations in these key markets to continue to account for significant portions of our overall operations in the near future and we will continue to rely heavily on the general economic conditions and consumer preferences in these regions. As we continuously expand our nationwide distribution network and deepen market penetration in other regions, we expect sales in those regions to grow in the foreseeable future. For instance, subsequent to the Track Record Period, we engaged two distributors in Chongqing and Harbin where we foresee growing market demands.

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Wholesale distribution

We handle our distribution predominantly through distributors. Our distributors are typically large regional distributors with well-established local distribution networks and are primarily involved in the distribution of food and condiment products. Our distributors sell our products through their sub-distributors or directly to retailers and catering service operators. We believe that our distribution arrangements with experienced distributors who have their own distribution networks and sales channels provide an efficient and cost-effective distribution structure which enables us to (i) enhance our market penetration throughout the relevant regions in the PRC, (ii) shorten the time for introducing our products to new markets and (iii) save resources that would otherwise be incurred on marketing and promotional activities or to build up and maintain internal logistics and other related capacities to supply retailers nationwide. This sales and distribution arrangement is generally in line with market practice in the PRC food and condiment industry.

Selection and categorization of distributors

Our criteria for selecting distributors include the following: (a) distribution capabilities, (b) reputation and track record in the food and condiment industry, (c) distribution network and sales channels, (d) creditworthiness and financial condition, (e) geographical coverage, (f) capabilities in warehousing and logistics, and (g) experience and capabilities in managing retailers in respect of product promotions, displays of products and inventory control.

We have implemented a multi-category distributor system to manage distribution of our products since 2011. Based on their distribution scale and capabilities, we classify our distributors into Categories A (the highest), B, C and D (the lowest). Our Category A distributors employ extensive distribution networks and sales channels with each covering one or more provinces and in aggregate contributed a majority of our sales since 2011. Our Categories B, C and D distributors generally maintain more limited distribution capacities and geographic reach. The following table sets forth the revenue attributed to the sales of our products by category of distributors for the periods indicated:

	For the year ended December 31,				For the eight months ended August 31, 2013	
	2011		2012			
	RMB'000	% of total sales of goods	RMB'000	% of total sales of goods	RMB'000	% of total sales of goods
Category A	77,507	70.7	250,004	74.2	269,132	83.3
Category B	14,759	13.5	41,188	12.2	25,219	7.8
Category C	9,398	8.6	8,775	2.6	7,330	2.3
Category D	7,427	6.8	25,127	7.4	11,312	3.5
Total	109,091	99.6	325,094	96.4	312,993	96.9

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The following table sets forth the geographic regions as well as distribution channels covered by each of our six Category A distributors and five Category B distributors in the eight months ended August 31, 2013:

<u>Distributor</u>	<u>Designated distribution area</u>	<u>Designated distribution channels</u>	<u>Length of relationship as of August 31, 2013</u>
Category A			
Huzhou Wuxing Aishan Food Co., Ltd. (湖州吳興愛山食品有限公司)	Zhejiang Province	supermarkets, sub-distributors and catering service providers	over three years
Shanghai Rongjin Enterprise Co., Ltd. (上海榮進實業有限公司)	Shanghai	supermarkets	one year
Shandong Zhicheng Industrial and Trading Co., Ltd. (山東志成工貿有限公司)	Shandong Province	supermarkets, sub-distributors and catering service providers	over three years
Beijing Xiongjixiang Trading Co., Ltd. (北京市雄紀祥貿易有限責任公司)	Beijing	supermarkets, sub-distributors and catering service providers	over three years
Shenyang Sunshine Food Co., Ltd. (瀋陽太陽食品有限公司)	Liaoning Province	supermarkets, sub-distributors and catering service providers	over three years
Guangzhou Yuemeida Trading Co., Ltd. (廣州粵美達商貿有限公司)	Guangdong Province	supermarkets, sub-distributors and catering service providers	over three years

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<u>Distributor</u>	<u>Designated distribution area</u>	<u>Designated distribution channels</u>	<u>Length of relationship as of August 31, 2013</u>
Category B			
Zhengzhou Yangming Food Co., Ltd. of Henan Province (河南鄭州市陽明食品有限公司)	Henan Province	supermarkets, sub-distributors and catering service providers	over two years
Jinjiang Lvchao Trading Co., Ltd. (晉江綠潮商貿有限公司)	Southern Fujian Province	supermarkets, sub-distributors and catering service providers	over two years
Shaanxi Ruidi Trading Co., Ltd. (陝西銳迪商貿有限責任公司)	Shaanxi Province	supermarkets and sub-distributors	over three years
Wuhan Jiaxiang Trading Co., Ltd. (武漢市加祥貿易有限公司)	Hubei Province	supermarkets and sub-distributors	over two years
Shanghai Tianyue Food Co., Ltd. (上海天越食品有限公司)	Shanghai	certain specified supermarket chains in Shanghai	over two years

We focus on a selected number of well-established and seasoned condiment distributors in developing our distribution network. The aggregate sales attributable to our Category A distributors constituted 74.2% and 83.3% of our revenue in 2012 and the eight months ended August 31, 2013, respectively. As of the Latest Practicable Date, we had six Category A distributors. We have been continuously streamlining our distributor structure to focus our resources on key distributors, in particular, Category A distributors. As part of our management of distributors, we monitor their inventory levels and marketing activities, and evaluate their respective categorization semi-annually. We also provide support to them with respect to sales, marketing and related activities. In order to better leverage our limited operating resources on the key distributors that employ extensive distribution networks and sales channels and maintain broad geographic reach, and support and manage our distributors in a more cost-effective way, we engaged a limited number of Categories A and B distributors for a majority of our sales during the Track Record Period. Our Categories C and D distributors primarily complement the geographic coverage of our Categories A and B distributors and in aggregate contributed less than 10% of our total sales in the eight months ended August 31, 2013. Our high distributor concentration during the Track Record Period also reflected the industry practice that smaller scale distributors prefer to transact with condiment producers with a wide array of condiment products to reduce sourcing costs while we have been increasingly focused on cooking wine products.

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With the ongoing optimization process of our distributor structure, we expect to consolidate or upgrade certain Categories C and D distributors into Categories A and B distributors when appropriate opportunities arise. Each of our Categories A, B, C and D distributors transacts with us directly.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any sub-distribution relationships among such distributors for the distribution of our products and to our knowledge, such distributors manage their business and operations independently of each other.

Management of distributors

We enter into standard distribution agreements with all of our Categories A, B and C distributors and we do not enter into any distribution agreement with our Category D distributors. Our distribution agreements are generally for a term of one year and are renewed annually upon review. In line with the industry practice in China’s condiment market, all of our distributors are permitted to distribute condiment products that directly compete with ours. We believe that such model enables us to select distributors with extensive experience in distributing condiment products as most reputable and large-scaled condiment distributors sell products from multiple manufacturers. This in turn facilitates the promotion of our products and provides broad coverage of the distribution network.

- *Designated distribution areas*

The distribution agreements specify the designated distribution areas and designated products for each of our distributors. Our distributors are not permitted to distribute our products into the designated distribution areas of another distributor without our prior consent.

- *Pricing*

We provide guidelines on suggested retail prices to retailers, which is consistent with market practice in the food and condiment industry in China. Before retail sales of our products commence, our distributors are required to submit retail prices stipulated by retailers for such products for our approval. In addition, our sales representatives monitor our distributors and their retailers to ensure that our pricing policies are implemented and, in particular, that our products are not sold at a price below the suggested retail prices without our prior written consent. Under our distribution agreements, we are entitled to impose penalties on distributors who fail to enforce our pricing policies.

- *Payment terms*

In general, we grant credit terms ranging from 30 to 90 days to our Categories A and B distributors. Our higher category distributors are generally entitled to better credit terms, e.g. a credit term of 90 days is generally granted to our Category A distributors whereas prepayment is typically required with respect to orders placed by our Categories C and D distributors. Most of the sales to our distributors are settled in RMB via bank transfers.

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- *Sales targets*

We generally formulate pre-set annual and monthly sales targets for our distributors. Based on the performance of a particular distributor, we may adjust its annual and monthly sales target, credit terms, dispatching priority as well as level of sales support for the succeeding year. Under our distribution agreements, we are entitled to terminate the respective distribution agreement should such distributor fail to meet its annual sales target or its monthly sales targets for three consecutive months.

- *Defective products, sales returns and exchanges*

We generally do not accept the return or exchange of products from our distributors except for defective products which are primarily due to damaged packaging. Historically, to incentivize our distributors to promote new products or expand into new markets, our distribution agreements entered into prior to 2013 provided that new products or products purchased by newly-engaged distributors can be exchanged in certain rare circumstances when such products fail to receive anticipated demand within the initial three months after entering into certain designated market. As no such exchange of products have been claimed during the Track Record Period, beginning in 2013, our distribution agreements no longer include such provisions. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or exchanges from our distributors.

- *Inventory management*

We monitor level of inventory maintained by our distributors on a regular basis. Our sales representatives maintain frequent telephone or email communications with each of our Categories A, B and C distributors, review their monthly inventory reports and visit their warehouses on a regular basis. We visit our Category A and B distributors’ warehouses at least on a monthly basis, and those for Category C distributors at least every three months to ensure that they keep optimal stock level and our products are sold to end customers within the shelf life. We generally expect our distributors to maintain stock sufficient for five to 20 days of supply. In the event a distributor maintains stock of more than 20 days of supply, the relevant sales representatives will assist such distributor in marketing and promotional activities and suggest smaller-sized orders to be placed for the succeeding periods to minimize excess inventory. Due to our effective management of inventory at the distributors’ level, our increased sales to distributors during the Track Record Period primarily reflected increased sales to end consumers instead of accumulation of inventories at the distributors’ level.

- *Logistics*

Our distributors are generally responsible for arranging delivery of our products from our warehouse facilities in Huzhou, Zhejiang Province or designated logistics centers nearby to their warehouses or customers directly. We recognize our sales to our distributors when the products are dispatched from our warehouses and the title to these products is passed to them without recourse.

- *Termination*

Our distribution agreement may be terminated if, among other things, (i) the distributor fails to meet its annual sales target or its monthly sales target for three consecutive months, or (ii) the distributor repeatedly breaches other terms in the distribution agreement, such as violating our pricing policy or selling outside its designated distribution area without our prior consent. For the eight months

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ended August 31, 2013, we terminated distribution agreements with two Category B distributors and five Category C distributors who failed to meet their respective sales targets. These distributors subsequently procured our products through other Category A distributors during the Track Record Period. We did not terminate any distribution agreement due to distributors’ failure to meet their respective sales targets in 2010, 2011 or 2012. This also constituted part of our efforts to optimize our distributor structure by focusing our operating resources on selected Category A distributors instead of smaller distributors.

- *Anti-cannibalization measures*

We take the following measures to avoid competition among our distributors: (i) when selecting our distributors, we take into consideration their respective geographic coverage as well as distribution channels, including sales to sub-distributors, retailers and catering service providers in order to ensure that their target markets do not overlap in general; (ii) we specify in the distribution agreements designated distribution areas and distribution channels, with an aim to engage distributors whose distribution areas and distribution channels complement each other. Without our prior approval, distributors are not allowed to sell our products outside of their designated distribution areas; and (iii) we monitor our distributors and their retailers to ensure that our pricing and inventory policies are complied with. We also visit the retailers and warehouses of our distributors on a regular basis, and require them to submit retail prices stipulated by retailers for our products for approval, and to submit monthly inventory reports.

Distribution arrangement with Zhong Wei

During the Track Record Period and prior to the disposal of it in December 2012, we entered into distribution agreements with Zhong Wei which were renewed annually. Pursuant to the distribution agreements, terms of which were substantially identical with those of our standard distribution agreements entered into with independent third party distributors other than the designated distribution areas and selling prices, Zhong Wei was authorized to distribute our products across China on a non-exclusive basis, whereas independent third-party distributors were generally only permitted to distribute our products within their respective designated distribution areas. During the same period, our sales to Zhong Wei were generally marked up 10% to 15% on a cost-plus basis and the selling prices were generally lower than those at which our products were sold to third-party distributors. The selling prices of our cooking wine products to Zhong Wei in 2011 were 28% to 36% lower than the selling prices of these products to independent third-party distributors during the same period. We granted credit terms of 45 days to Zhong Wei, who settled the trade payables by bank transfers or cash. Zhong Wei was responsible for all of the marketing and promotional activities for our products.

In 2010, we primarily sold our products to Zhong Wei, and then Zhong Wei sold the products through its distribution network. In 2011, we began increasingly selling our products directly to third party distributors, and as a result, our sales to Zhong Wei as a proportion of total sales declined significantly in 2011 and further in 2012. Since the disposal of Zhong Wei, we continued to sell our products to Zhong Wei, which is now one of our Category D distributors, on the same pricing and credit terms as our sales to other Category D distributors. See “— The Development of Our Business Model” for more details.

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Changes in composition of distributors

The following table sets forth the changes in the number of our distributors during the Track Record Period:

	Category A distributors:				Category B distributors:				Category C distributors:				Category D distributors:				Total:			
	For the year ended		For the eight months ended August 31,	For the year ended December 31,	For the year ended		For the eight months ended August 31,	For the year ended		For the year ended	For the eight months ended August 31,	For the year ended		For the year ended	For the eight months ended August 31,	For the year ended	For the year ended			
	December 31,	2010			2011	2012		2013	2010			2011	2012					2013	2010 ⁽³⁾	2011 ⁽⁴⁾
Distributors at the beginning of the period	—	—	9	7	—	—	11	—	—	—	40	17	—	—	230	392	1	1	290	427
Addition of new distributors	—	9	—	—	—	11	—	—	40	—	—	2	—	230	177	25	—	289	177	27
Termination of existing distributors ⁽¹⁾	—	—	—	—	—	—	—	—	—	—	—	—	—	—	28	181	—	—	28	181
Consolidation by other distributors ⁽²⁾	—	—	—	1	—	—	2	—	—	—	—	3	—	—	12	53	—	—	12	59
Movement among categories due to downgrade ⁽⁵⁾	—	—	(2)	—	—	—	(4)	—	—	(23)	—	3	—	—	25	1	—	—	—	—
Distributors at the end of the period	—	9	7	6	—	11	—	5	—	40	17	19	—	230	392	184	1	290	427	214
% of total sales of the period	—	70.7%	74.2%	83.3%	—	13.5%	12.2%	7.8%	—	8.6%	2.6%	2.3%	—	6.8%	7.4%	3.5%	94.5%	99.6%	96.4%	96.9%

(1) Representing distributors who transacted with us during the prior period but did not transact with us during a given period.

(2) Representing distributors who (a) became sub-distributors of our other distributors or (b) merged with our other distributors during a given period.

(3) Our only distributor in 2010, Zhong Wei, had 279 distributors as of December 31, 2010.

(4) Including Zhong Wei, which had 360 distributors as of December 31, 2011.

(5) We evaluate the performance of our distributors and adjust their respective categorization semi-annually, which resulted in a net decrease in number of Category A distributors in 2012, Category B distributors in the eight months ended August 31, 2013 and Category C distributors in 2012 as well as a net increase in number of Category C distributors in the eight months ended August 31, 2013 and Category D distributors in 2012 and the eight months ended August 31, 2013. See “— Selection and categorization of distributors”.

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We have historically relied on Zhong Wei, which acted as our centralized sales and distribution channel, to sell our products. This arrangement enabled us to take advantage of Zhong Wei’s established distribution channels to maximize sales of our products at our initial development stage when we were still trying to ramp up our own sales force and distribution network. In 2010, substantially all of our products were distributed through Zhong Wei. Since late 2010, we have taken steps to gradually change our distribution model by establishing direct distribution relationship with third party distributors. As a result, the total number of our distributors rapidly increased from one at the beginning of 2011 to 290 at the end of 2011. However, 41.4% of our products in terms of sales revenue were still distributed through Zhong Wei in 2011. During 2012, we further expanded our distribution network nationwide and substantially all of our products were sold directly to distributors.

The fluctuation in the number of our distributors during the Track Record Period is a reflection of our efforts to reduce our reliance on Zhongwei and establish direct relationship with third party distributors. This naturally involved a certain number of terminations and additions of third party distributors as we reviewed and assessed existing and new third party distributors and optimized our distribution structure to suit our requirements in the most efficient and cost effective manner.

During the eight months ended August 31, 2013, we terminated a total of 181 Category D distributors located in regions that are already covered by our Category A, B and C distributors, primarily due to our continuous optimization of distributor structure to focus on Category A distributors and to support and manage these distributors in a more cost-effective manner. The reduced number of our distributors also reflected the industry practice that smaller scale distributors prefer to transact with condiment producers with a wide array of condiment products to reduce sourcing costs while we have been increasingly focused on cooking wine products. These Category D distributors accounted for an aggregate of approximately 3.5% of our total sales revenue for the eight months ended August 31, 2013. In addition, 59 distributors, including one Category A distributor, two Category B distributors, three Category C distributors and 53 Category D distributors, accounting for an aggregate of approximate 13.7% of our total sales revenue for 2012, either became sub-distributors of our other distributors or merged with our other distributors in the eight months ended August 31, 2013. The total number of our distributors was 214 as of August 31, 2013.

For the eight months ended August 31, 2013, sales to our Categories A, B, C and D distributors amounted to RMB269.1 million, RMB25.2 million, RMB7.3 million and RMB11.3 million, respectively, accounting for 83.3%, 7.8%, 2.3% and 3.5% of our total revenue, respectively. We focus our sales and marketing efforts on Category A distributors, which we expect will continue to contribute a substantial majority of our revenue in the foreseeable future.

We had no ownership or managerial control over any of our distributors or their sub-distributors as of the Latest Practicable Date, nor were any of them operated by our ex-employees or operated using our brand name. We have at least three years of business relationship with our five largest distributors (all of which are our Category A distributors), either directly or through Zhong Wei, and have maintained stable working relationship with our Categories A, B and C distributors during the Track Record Period.

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Direct sales

In addition to the sale and distribution of products through distributors, we sell a small percentage of products directly to retailers mainly in markets where our distributors currently do not have a presence or due to our historical business relationship with certain hypermarkets and supermarkets. Direct sales operate largely as our temporary sales channel to complement our distribution network and support distributors in their further expansion of the market. We expect to engage distributors to cover these direct retail sales channels once appropriate business opportunities arise.

We approach and obtain sales orders directly from the above retailers through our sales and marketing department. We typically enter into framework sale and purchase agreements with these customers. These agreements are generally for a term of one year, which is renewable on an annual basis and is terminable by either party upon the occurrence of certain specified events, such as when a party is prevented from performing its obligations due to force majeure, when a party is bankrupt or insolvent, or when our products fail to generate anticipated demand. We generally grant a credit term ranging from 30 to 60 days to these customers who settle payments in RMB by way of bank remittance.

Customers

For each of the years ended December 31, 2011, 2012 and the eight months ended August 31, 2013, sales to our five largest customers (other than Zhong Wei), all of which were distributors, accounted for approximately 21.3%, 64.0% and 74.2%, respectively, of our total revenue, and sales to our largest customer (other than Zhong Wei) accounted for approximately 5.1%, 15.3% and 23.5%, respectively, of our total revenue. See “— Wholesale distribution” for more details on our distributor concentration during the Track Record Period.

Except for Zhong Wei, so far as our Directors are aware, none of our Directors or executive officers of our Company or its subsidiaries, their respective associates or any shareholders of our Company holding more than 5% of the issued share capital of our Company immediately following the completion of the [●], had any interests in any of our five largest customers during the Track Record Period.

Marketing and promotion

Our distributors are responsible for developing the sales network and initiating various promotional activities to promote our products and enhance our brand awareness in their designated distribution areas. We have adopted such an approach to leverage their established sales channels and resources. In addition to monitoring the marketing activities of our distributors and retailers, our sales representatives also assist them to promote our products through various promotional activities such as free gift with purchase.

We have launched a long-term television advertising campaign at prime time on China Central Television Channel One which has a nationwide coverage since 2011. We also attend investment fairs and product promotion fairs, such as China Food & Drinks Fair (全國糖酒商品交易會), as well as hold press conferences to introduce our newly-launched products and to promote our products. Prior to the end of 2011, our then marketing campaigns were centered around the rich flavor and aroma our cooking wine products delivered to dishes. Further, we have begun to produce our naturally-brewed cooking wine product, Chef’s Huadiao, on trial basis since early 2011 for investment fairs and product promotion

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fairs, and officially launched this product in July 2011. In November 2011, Well-aged Cooking Wine, another naturally-brewed cooking wine product, was launched. We subsequently commenced manufacturing all of our cooking wine products using the naturally-brewed method in December 2011. As our customer base expands and loyalty increases, we also benefit from word-of-mouth referrals by our existing retail end consumers throughout China, particularly given Chinese consumers’ rising concern over nutrition and food safety.

During the transitional period at the end of 2011 and in early 2012 when we started marketing our cooking wine products as naturally-brewed, certain of our previously distributed cooking wine products manufactured involving blending of alcohol were available on the market, although we believe those were of relatively small quantities as (i) we had informed our distributors and supermarket chains who carried our products in the second half of 2011 of such proposed transition in production methods, and as an incentive, offered them our naturally-brewed products at the same prices as their predecessors for the entire month of December 2011, and (ii) we had been monitoring the inventory levels of our distributors in advance to our transition to ensure they did not carry excessive quantities of the cooking wine products we were about to discontinue. Alcohol was clearly labeled as one of the ingredients for our previous cooking wine products manufactured involving blending of alcohol and the concept of naturally-brewed products had never been used on their labels. In addition, we had since January 2012 increased the prices of our cooking wine products and the suggested retail prices for our naturally-brewed cooking wine products were higher than those for their predecessors, which helped differentiate our naturally-brewed cooking wine products from their predecessors. Therefore, the Directors are of the view that during the transitional period when both types of our cooking wine products were available on the market, customers were able to identify the differences between these products based on their respective pricing and labeling without confusion. Our PRC Legal Advisers are of the opinion that we have been in compliance with the laws and regulations relating to the sales and marketing of our products, including advertising, promotion, trade description and product labeling laws, during the Track Record Period and up to the Latest Practicable Date, as confirmed by the confirmation letters issued by the Wuxing District, Huzhou City Administration for Industry and Commerce (湖州市工商行政管理局吳興分局) and the Wuxing District, Huzhou City Administration of Quality and Technology Supervision (湖州市質量技術監督局吳興區分局).

Pricing policy

In setting our pricing policy, we take into account current market trends, production costs, consumers’ acceptable price range, the target consumer groups, our competitors’ prices and the economic condition of the relevant regions. We believe our pricing policy allows our distributors to retain a reasonable profit margin and has helped to nurture mutually beneficial and long-term working relationships between us and our distributors.

We provide guidelines on suggested retail prices to retailers, which is consistent with market practice in the food and condiment industry in China. Our PRC Legal Advisers are of the view that there is little likelihood that our pricing policy will be considered an act of monopoly by the competent government authorities as provided in the Anti-Monopoly Law of the People’s Republic of China because: (i) the condiment industry is a fully competitive market at both brand and product levels, and our pricing policy is not so influential as to exclude or restrict market competition; and (ii) our pricing policy is aimed at ensuring our distributors and retailers are able to obtain reasonable profits and incentivizing them to provide valuable and high-quality distribution/retail services to our Group. We

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believe that our pricing policy is conducive to developing a healthy competition and creating an orderly, regulated selling environment for our distributors and retailers, while allowing our distributors and retailers to effectively avoid, to some extent, vicious competition such as sales of our cooking wine products at a price below the original purchase price.

Marketing department

Our marketing department is in charge of managing our distributors and direct retailers. Specifically, our marketing department is responsible for:

- (i) collecting information on market developments in consumer needs and preferences through research and consumer feedback;
- (ii) setting and reviewing pricing policy as well as our distribution code of conduct including inventory management policy; and
- (iii) monitoring the activities of our distributors and direct retailers in relation to their (a) annual and monthly sales performance; (b) order and payment history; (c) inventory management through reviewing monthly inventory reports and on-site visits to inspect their inventory levels; and (d) other general compliance with our policies including their operation within their designated distribution areas.

Our marketing department also maintains a service hotline to answer customer enquiries. As of the Latest Practicable Date, we have not received any material customer complaint, and we plan to adopt a uniform protocol for customer enquiries and complaints in the future for our marketing department to handle customer enquiries and complaints, and to minimize any potential adverse publicity.

Seasonality

Sales of our products are subject to seasonality. Historically, we have experienced higher sales of our cooking wine and other seasoning products in the third and fourth quarters of each year, in anticipation of the traditional Chinese festival and holiday seasons with more social gatherings when more meat- and seafood-based dishes are served, such as Lunar Chinese New Year, which typically falls in the first quarter of the year.

RAW MATERIALS AND SUPPLIERS

Our major raw materials include rice, soy beans, wheat and packaging materials. We have also been sourcing Zhong Wei branded paste and pickled vegetables from Zhong Wei to supplement our product offering since 2011. Rice is the primary raw material for the production of our cooking wine and vinegar products which we source from farmers in the surrounding areas as well as selected grain trading companies. During the Track Record Period, our average purchase price of rice was RMB2.6, RMB2.9, RMB3.8 and RMB4.0 per kilogram for 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively. Our raw materials also include soy beans, which are for the production of soy sauce, and wheat, which is an element of the fermentation starter for producing cooking wine. We also source packaging materials, including glass bottles, plastic bags, wrapping paper, cardboard boxes and product labels.

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The procurement of raw materials and production planning are based on historical and anticipated orders from our customers. We adopt a frequent procurement strategy with short refill cycles from suppliers, and usually maintain an inventory level for raw materials sufficient to meet five days’ production requirements, depending on the type of raw material involved. Our sourcing and procurement functions are performed by our purchasing and warehousing department, which works with our production department and sales and marketing department to formulate procurement plans with reference to historical trends and sales projections. We place a strong emphasis on sourcing high-quality raw materials. Please refer to “— Quality Control — Stringent Raw Material Screening and Testing” for more information with respect to our inspection of raw materials.

Our raw materials are generally available from numerous suppliers. We minimize our reliance on any single source of supply for our raw materials by maintaining alternative sources. During the Track Record Period, we had not experienced any significant shortage of raw materials that affected our normal operations.

In general, we enter into framework supply agreements with our major suppliers for a term of one year with an estimated volume. We specify in each purchase order the type of raw materials, quantity, delivery timeline and other details. Payment terms granted by our suppliers vary depending on a number of factors including our relationship with the suppliers and size of orders. Our suppliers have generally extended us credit terms ranging from 30 to 90 days. We usually settle our payables by bank transfers.

During the Track Record Period, we entered into framework supply agreements with Zhong Wei, terms of which were substantially identical to our standard framework supply agreements with third party suppliers, except for purchase prices. Pursuant to these agreements, we procured raw materials, packaging materials and finished products from Zhong Wei with a payment term of 90 days. Raw materials we purchased from Zhong Wei were generally marked up 10% to 15% by Zhong Wei on the cost at which Zhong Wei purchased raw materials from independent third party suppliers. In 2010, 2011 and 2012, we purchased rice, the primary raw material for base wine, from Zhong Wei in the amount of RMB0.2 million, RMB33.1 million and RMB3.6 million, respectively, and the average purchase price of rice from Zhong Wei during the same periods was approximately 15%, 11% and 10% higher than the average purchase price of rice from independent third-party suppliers, respectively. In addition, we purchased spices and packaging materials from Zhong Wei in an aggregate amount of RMB1.0 million, RMB0.8 million and RMB3.1 million, respectively, the average purchase price of which were generally 6% to 13% higher than the average purchase price from independent third-party suppliers. Our Directors are of the view that the purchase of raw materials from Zhong Wei was on normal commercial terms as the purchase price reflected our reliance on Zhong Wei’s reputation and extensive procurement platform at that time, and was necessary to compensate Zhong Wei for its procurement and quality control efforts. See “— The Development of Our Business Model” for more details on our historical procurement arrangements with Zhong Wei. Since the disposal of Zhong Wei to an independent third party in December 2012, our procurement of raw materials from Zhong Wei has ceased. However, we continue to purchase popular Zhong Wei branded paste and pickled vegetables from Zhong Wei under a standard framework supply agreement to diversify our product offering.

During the Track Record Period and prior to December 2011, in order to complement our stock of base wine, we purchased naturally-brewed yellow rice wine from Ruoxiachun, a manufacturer of yellow rice wine and Chinese white wine. We entered into standard framework supply agreements with Ruoxiachun in 2010 and 2011. To ensure the quality and stated Wine Year of yellow-rice wine sourced

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from Ruoxiachun, (i) we specified in the framework supply agreement that yellow-rice wine supplied to us should be naturally-brewed without any added alcohol, using manufacturing methods approved by us, meeting the relevant national food safety standards and industrial standards, as well as our own specifications including minimum ABV levels; (ii) we conducted spot checks at Ruoxiachun’s production facilities to ensure that no alcohol was added in its manufacturing process, (iii) along with each delivery, Ruoxiachun was required to provide us with business license, food hygiene license, product quality reports issued by relevant supervisory authorities, product test reports as well as supporting documents for the stated Wine Year, including warehousing slips stating the time when the delivered batch was warehoused for aging; (iv) our quality control department, led by employees experienced in the manufacturing of yellow rice wine products, including Mr. WAN Peiyao who was a sommelier of PRC then and had, in December 2012, passed the test for first-class sommelier of PRC (國家一級品酒師) which required (a) at least 19 years of relevant experience, (b) at least three years of relevant experience after passing the test for second-class sommelier of PRC (國家二級品酒師) or (c) at least ten years of relevant experience after obtaining relevant academic accreditation, carried out sampling tests on the quality of each batch of yellow rice wine delivered to us for physical and chemical properties, such as appearance and chemical content, before the batch is accepted and stored for future use; and (v) we followed standard quality control procedures for our semi-finished products before the sourced yellow rice wine is used in our production. See “— Quality Control — end-to-end control throughout the production process”. Along with our strategic move to focus on cooking wine products in late 2010 and to better control product quality, we expanded our own base wine production and our purchase of yellow rice wine from Ruoxiachun decreased from approximately RMB3.8 million in 2010 to RMB2.9 million in 2011, and was terminated in December 2011. The unit cost for our purchase of base wine from Ruoxiachun in 2010 and 2011 was approximately RMB1.49 per liter and RMB1.89 per liter (excluding 17% VAT), respectively. In addition to yellow rice wine, we also purchased finished cooking wine products and packaging materials from Ruoxiachun for a consideration of RMB5.0 million in 2010.

During the Track Record Period and prior to December 2011, we produced cooking wine products primarily by mixing naturally-brewed yellow rice wine and relatively small quantity of alcohol. We purchased alcohol from one third-party supplier for approximately RMB2.3 million and RMB3.9 million in 2010 and 2011, respectively. In light of China’s growing levels of consciousness on health and food safety as well as rising demand for natural food, we commenced production of cooking wine products using exclusively naturally-brewed yellow rice wine as base in December 2011 and ceased procuring alcohol for producing cooking wine thereafter.

For each of the years ended December 31, 2010, 2011 and 2012, purchases from our five largest suppliers accounted for approximately 60.7%, 59.1% and 29.6%, respectively, of our total purchases, and purchases from our largest supplier accounted for approximately 29.9%, 41.4% and 8.5%, respectively, of our total purchases. For the eight months ended August 31, 2012 and 2013, purchases from our five largest suppliers accounted for approximately 41.6% and 50.9%, respectively, of our total purchases, and purchases from our largest supplier accounted for approximately 13.0% and 35.5% respectively, of our total purchases.

Other than Zhong Wei, so far as our Directors are aware, none of our Directors or chief executive officer of our Company or its subsidiaries, their respective associates or any shareholders of our Company, holding more than 5% of the issued share capital of our Company immediately following completion of the [●], has any interests in any of our five largest suppliers during the Track Record Period.

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PRODUCTION PROCESS AND FACILITIES

Production process

Cooking wine products

The relevant PRC industrial standards provide that cooking wine products can be chemically produced or naturally brewed. See “Industry Overview — The PRC Cooking Wine Market — Cooking Wine Manufacturing Methods in China” and “Regulatory Overview — Food Safety — Industrial Standards for Condiment Products”. Prior to December 2011, our cooking wine products were mainly produced using primarily a mixture of naturally-brewed yellow rice wine and relatively small quantity of alcohol. We officially introduced the concept of naturally-brewed cooking wine into our business in December 2011 and since then all of our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base without adding any alcohol. We use naturally-brewed yellow rice wine as base wine and adopt modern manufacturing techniques combined with traditional brewing methods in our production process. Our PRC Legal Advisers are of the opinion that we have been in compliance with the PRC industrial standards applicable to cooking wine products during the Track Record Period and up to the Latest Practicable Date. See “— Quality Control”.

- *Raw materials*

For the production of cooking wine products, the primary raw material we use is rice. We carry out tests on the quality of each batch of raw materials delivered to us, including testing for both physical and chemical properties, such as appearance, hygiene standards and chemical and impurity content based on relevant national and industrial standards as well as our internal specifications, before we accept and store them for use at a later stage. As part of our quality control measures, our suppliers are generally required to provide us with business licenses, food hygiene licenses, product quality report from the relevant supervisory authorities and test report for every batch of raw materials delivered.

- *Soaking and steaming*

The rice is soaked in water to increase its moisture content and boiled in an automated steam machine at high temperature. The boiled rice is then blended in a fermentation container.

- *Primary fermentation*

The fermentation of yellow rice wine takes place in cool weather, generally from every October to next May each year. It is initiated by introducing fermentation starter of a specified proportion to the boiled rice to form a mash. Our recipe of fermentation starter comprises wheat and a complex mix of over 40 varieties of traditional Chinese herbs. The yeasts and molds contained in the fermentation starter consume sugar contained in the cooked rice, which is then converted into alcohol and carbon dioxide. Yeasts and molds break down protein in the mash and produce peptides, esters, alcohol and amino acids. The mash is raked throughout the primary fermentation process to lower the temperature, providing favorable fermentation environment. The primary fermentation typically lasts for three to five days depending on weather condition.

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- *Secondary fermentation*

Depending on the progress of the primary fermentation, the fermented mash is pumped into a stainless steel fermentation tank for further fermentation at specified temperature for approximately 25 to 30 days. During the secondary fermentation process, the remaining sugar in the mash is converted into alcohol, producing more varieties of peptides, esters and amino acids.

- *Filtration and sterilization*

The mash is pressed using a filtration machine made of stainless steel. During the pressing process, the mash is evenly strained and base wine is extracted from the mash. We recycle and sell the by-products generated from this filtration process to independent third parties that use them for livestock feed and fertilizers. The filtered base wine is then sterilized by being heated to a critical temperature for a specified amount of time to kill micro-organisms and remaining yeasts.

Depending on weather conditions, it typically takes 30 to 35 days in aggregate to complete the above production steps, followed by an aging process.

- *Aging*

The base wine is pumped into sealed earthen jars for an aging process. During the aging process, alcohol combines with acids to form esters, which further enhance flavor and aroma of the base wine. The flavor and aroma of the base wine improves with age.

- *Blending and seasoning*

Vintage base wine aged for different Wine Years, which functions to deliver desirable scent to our cooking wine products, is blended with mixer base wine and water to adjust the ABV, sweetness and acidity. During the Track Record Period, we increased the amount of mixer base wine used in our different cooking wine products, in line with our official introduction of the concept of naturally-brewed cooking wine to our business in December 2011. Therefore, the overall amount of vintage wine used during the Track Record Period decreased. See “— Production facilities and capacity — Stock of base wine”. Like vintage base wine, mixer base wine also contributes to the overall aroma and scent of the cooking wine products and were more readily available since our production facilities were expanded in 2011. As confirmed by the China Wine Association, Yellow Rice Wine Branch, (i) there are no applicable industry or regulatory standards on the proportion of vintage base wine; and (ii) through the process of blending base wine of different Wine Years, it is possible to achieve similar scent and aroma given the base used is naturally-brewed yellow wine without adding alcohol, notwithstanding the change in proportion of mixer base wine and vintage base wine.

Salt and up to 15 varieties of spices, such as pepper, cinnamon, cloves, aniseed, ginger and tangerine peel, are further added to produce various cooking wine products. The blended and seasoned wine is tested for bacterial content as well as physical and chemical properties, such as acidity, ABV, sweetness and amino acid nitrogen, before they could be packaged.

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Our higher end cooking wine products generally have higher ABV, higher concentration of base wine content and less water compared to lower end cooking wine products. In addition, our higher end cooking wine products generally have higher concentration of well-aged vintage base wine with longer weighted average Wine Years.

- *Packaging and pasteurization*

The wine is filtered to remove impurities and then tested for bacterial content, physical and chemical properties and packaged in an automated and enclosed environment. The wine is then pasteurized at specified temperatures to reduce the presence of micro-organisms and improve the quality consistency.

- *Quality inspection*

The finished cooking wine products are tested again for content, quality, color, aroma, flavor and bacteria level in accordance with industry standards as well as our internal quality control standards.

- *Warehousing and distribution*

The finished cooking wine products are stored at our warehouses at room temperature and subsequently dispatched.

Soy sauce products

Our production facilities for soy sauce products are separated from those for cooking wine products. We currently adopt the high-salt liquid-state fermentation technique in the production of soy sauce products. The typical production process of our soy sauce products includes procurement of raw materials, steaming and roasting, mold production, liquid-state fermentation, pressing, pasteurization, quality inspection and packaging, and typically lasts for three to six months.

Vinegar products

We employ the same production facilities as those for cooking wine products to produce our vinegar products and the production process for vinegar products is similar to that for cooking wine products. The fermentation of our vinegar products is generally conducted every May when the climate is not suitable for the fermentation of base wine. To minimize cross-contamination, we have standard procedures where we sanitize thoroughly the wine production facilities before we commence the production process for our vinegar products. It typically takes five months to complete the entire production process of our vinegar products.

Other products

We have separate production facilities for fermented bean curd products. The typical production process of our fermented bean curd products includes procurement of raw materials, soaking, grinding, boiling, filtration, fermentation, quality inspection and packaging, which typically takes six months to complete. Our Rose Fermented Bean Curd (玫瑰腐乳) products are fermented using soy beans, our naturally-brewed yellow rice wine, rose petals and other ingredients, and possess a signature rose fragrance and flavor. Generally, the production process requires six months to complete.

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Production facilities and capacity

Production facilities

As of the Latest Practicable Date, we had four production facilities located in Huzhou, Zhejiang Province where we produce our finished products and semi-finished products. The following table sets forth the location, size and products of our production facilities as of the Latest Practicable Date:

<u>Location of production facility</u>	<u>Approximate plant area</u> (sq.m.)	<u>Principal products</u>
Balidian, Wuxing District, Huzhou City, Zhejiang Province	57,271	● Base wine ● Soy sauce ● Vinegar ● Fermented bean curd
Dayunsi Village, Lincheng Town, Huzhou City, Zhejiang Province	32,164	● Finished cooking wine ● Base wine
Taifuhejiagang, Changxing County, Huzhou City, Zhejiang Province	20,000	● Base wine
Xilong Village, Xilong Town, Anji County, Huzhou City, Zhejiang Province	10,216	● Base wine

As of the Latest Practicable Date, we had two bottling lines for finished cooking wine products, and two bottling lines for soy sauce and vinegar products. Our fermented bean curd products are bottled manually after reaching the appropriate fermentation stage. We have obtained various National Industrial Production Permits (全國工業產品生產許可證) in respect of the cooking wine, soy sauce, vinegar and other seasoning products we produce. To ensure top performance of our facilities, we generally conduct systematic maintenance of our equipment and machineries every four months. Our equipment and machineries are repaired from time to time on an as-needed basis. During the Track Record Period, we did not experience any material interruption in our production.

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Stock of base wine

Our cooking wine products are manufactured by blending vintage base wine of different ages with mixer base wine, salt, spices and water. Our production department normally formulates an annual production schedule for base wine before we commence our production process each year. The following table sets forth the changes in our stock of base wine in earthen jars, production and sales volume of cooking wine products during the Track Record Period:

	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013
	Liters '000	Liters '000	Liters '000	Liters '000
Volume at the beginning of period				
Less than 2 Wine Years	—	761	10,781	13,009
2 to 5 Wine Years	540	540	1,270	8,977
5 to 10 Wine Years	2,351	2,351	2,116	1,693
10 to 20 Wine Years ⁽¹⁾	3,217	3,217	2,783	2,226
Over 20 Wine Years ⁽¹⁾	4,889	4,889	4,333	3,466
Total	10,997	11,758	21,283	29,371
Newly produced during the period⁽²⁾	761	13,906	32,906	47,986
Newly procured from third party suppliers				
Less than 2 Wine Years	—	—	—	—
2 to 5 Wine Years	1,635	1,262	—	—
5 to 10 Wine Years	558	—	—	—
10 to 20 Wine Years	—	—	—	—
Over 20 Wine Years	—	—	—	—
Total	2,193	1,262	—	—
Used during the period				
Less than 2 Wine Years	—	3,886	20,678	20,716
2 to 5 Wine Years	1,635	532	2,293	735
5 to 10 Wine Years	558	235	423	120
10 to 20 Wine Years	—	434	557	155
Over 20 Wine Years	—	556	867	230
Total	2,193	5,643	24,818	21,956

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	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013
	Liters '000	Liters '000	Liters '000	Liters '000
Movement among different age groups⁽³⁾				
Less than 2 Wine Years	—	—	(10,000)	(1,000)
2 to 5 Wine Years	—	—	10,000	1,000
5 to 10 Wine Years	—	—	—	—
10 to 20 Wine Years	—	—	—	—
Over 20 Wine Years	—	—	—	—
Volume at the end of the period				
Less than 2 Wine Years	761	10,781	13,009	40,279
2 to 5 Wine Years	540	1,270	8,977	8,241
5 to 10 Wine Years	2,351	2,116	1,693	1,573
10 to 20 Wine Years	3,217	2,783	2,226	2,072
Over 20 Wine Years	4,889	4,333	3,466	3,236
Total	11,758	21,283	29,371	55,401
Production volume of cooking wine products and usage of base wine⁽⁴⁾				
Premium				
Production volume of cooking wine	—	447	4,944	4,146
Volume of base wine used to produce a thousand liters of cooking wine	—	0.91	0.92	0.93
Volume of vintage base wine used to produce a thousand liters of cooking wine	—	0.91	0.21	0.06
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	—	0.71	0.87
High-end				
Production volume of cooking wine	—	—	2,284	5,654
Volume of base wine used to produce a thousand liters of cooking wine	—	—	0.62	0.87
Volume of vintage base wine used to produce a thousand liters of cooking wine	—	—	0.15	0.06
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	—	0.47	0.81

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	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013
	Liters '000	Liters '000	Liters '000	Liters '000
Medium-range				
Production volume of cooking wine	1,535	8,378	19,462	13,425
Volume of base wine used to produce a thousand liters of cooking wine	0.36	0.37	0.41	0.85
Volume of vintage base wine used to produce a thousand liters of cooking wine	0.36	0.07	0.09	0.04
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	0.30	0.32	0.81
Mass-market				
Production volume of cooking wine	4,708	7,520	28,985	2,529
Volume of base wine used to produce a thousand liters of cooking wine	0.35	0.29	0.37	0.68
Volume of vintage base wine used to produce a thousand liters of cooking wine	0.35	0.10	0.03	0.04
Volume of mixer base wine used to produce a thousand liters of cooking wine	—	0.19	0.34	0.64
Sales volume of cooking wine products				
Premium	—	446	4,880	3,896
High-end	—	—	2,271	5,542
Medium-range	1,488	7,354	18,960	14,812
Mass-market	4,686	7,365	28,114	3,420
Total	6,174	15,165	54,225	27,671

- (1) Including the remaining portion of base wine contributed by Mr. Chen. Mr. Chen contributed approximately 5.3 million liters of base wine with 10 to 20 Wine Years and approximately 6.0 million liters of base wine of over 20 Wine Years in December 2008. A portion of such contributed base wine was used in 2009. The foregoing contribution constituted all of Mr. Chen's home stock, and was contributed to help Huzhou Lao Heng He's production of cooking wine. Mr. Chen made such contribution for nil consideration when he made his decision to expand Lao Heng He's cooking wine business.

The fair value of Mr. Chen's donation has been reflected in the opening capital reserves as of January 1, 2010, and was accounted for in the opening cost of inventories. According to China Wine Association, Yellow Rice Wine Branch, yellow rice wine was normally traded at approximately RMB0.44 to RMB0.89 per liter in 2008 and 2009, however, there were no public markets for yellow rice wine and thus no benchmark prices of yellow rice wine were readily available in 2008. According to the relevant accounting standards, in the absence of observable market price, current replacement cost method was applied to assess the fair value of the yellow rice wine donated by Mr. Chen. Based on the current replacement costs, namely, the production costs of rice wine newly produced in early 2009, the unit cost ascribed to these base wine contributed by Mr. Chen was approximately RMB0.62 per liter. Taking into account the unit production cost of the rice wine and the total volume of Mr. Chen's donation, the fair value of Mr. Chen was RMB7.0 million.

Further, in 2008 and 2009, the market for long-aged yellow rice wine was still illiquid and the long-aged yellow rice wine was not traded at a significant premium to newly-produced yellow rice wine. The reasons are: (a) long-aged yellow rice wine is rarely used for direct consumption like Chinese Baijiu as its taste deteriorates with age despite its increasing aroma;

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(b) it was only until 2009 when the concept of long-aged yellow rice was widely advertised and that long-aged yellow rice wine became an investment tool in the same way as Shaoxing-produced branded long-aged yellow rice wine is treated by the market currently with a national public online trading market eventually being introduced in 2011. Before such involvement, long-aged yellow rice wine was only regarded as a type of base wine; (c) furthermore, in 2008 and 2009, a number of small yellow rice wine producers experienced serious operational difficulties as a result of the financial crisis, and the transaction prices, which had been determined based on the historical cost of production (which included significantly lower historical raw material costs) and storage plus a reasonable profit, were under pressure. That had eventually been overturned by the introduction and promotion of long-aged yellow rice wine in the market in Shaoxing City by leading yellow rice wine producers. Currently, market prices of yellow rice wine of similar vintage as our base wine are significantly higher than the carrying amount of our base wine.

As the result of the foregoing contribution, Mr. Chen did not retain any home stock of base wine and therefore no base wine was contributed to our Company by Mr. Chen during the Track Record Period. Mr. Chen does not plan to further contribute any base wine to our Company after the [●], as we have established stable base wine production capabilities. Mr. Chen obtained the aforementioned base wine through decades of accumulation in his base wine home stock and such contributed base wine was of our requisite aging and quality requirements. Mr. Chen started accumulating naturally-brewed base wine as early as 1990, when he started his career in the condiment business.

- (2) Newly produced base wine is aged less than two Wine Years.
- (3) Representing movement of certain amount of base wine of two Wine Years into the category of “2 to 5 Wine Years” in 2012 and the eight months ended August 31, 2013 due to the aging process.
- (4) The generally increased amount of base wine usage across different cooking wine product lines during the Track Record Period mainly reflects our official introduction of the concept of naturally-brewed cooking wine to our business in December 2011, which led to our manufacturing of cooking wine products using 100% naturally-brewed yellow rice wine as base without adding any alcohol since then.

The overall decreased proportion of usage of vintage base wine during the Track Record Period was due to the increased proportion of usage of mixer base wine. Like vintage base wine, mixer base wine also contributes to the overall aroma and scent of the cooking wine products and were more readily available since our production facilities were expanded in 2011. As confirmed by the China Wine Association, Yellow Rice Wine Branch, (i) there are no applicable industry or regulatory standards on the proportion of vintage base wine; and (ii) through the process of blending base wine of different Wine Years, it is possible to achieve similar scent and aroma given the base used is naturally-brewed yellow wine without adding alcohol, notwithstanding the change in proportion of mixer base wine and vintage base wine.

Warehouse and storage space

The stock of base wine is subject to availability of warehouse storage space. As of the Latest Practicable Date, we owned ten warehouses with a total gross floor area of approximately 55,171.6 sq.m., which are located in the four production facilities described in “— Production facilities”. In addition, we leased eight warehouses and land plots with a total gross floor area of approximately 109,440.3 sq.m. Our warehouses are currently fully occupied for stock of base wine and as our cooking wine products involve an aging process that requires substantial storage space, we plan to lease more warehouses in the surrounding areas going forward to accommodate the continued increases in customer demand and we believe such space is readily available in the surrounding areas.

Bottling capacity

We manufacture finished cooking wine products upon receiving orders from our distributors and principal customers and typically maintain only a small quantity of safety inventory of finished cooking wine products, with an effort to maximize the value of our base wine as the flavor and aroma of the base wine improve with age. As a result, the utilization rate for bottling lines of our cooking wine products is relatively low.

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The following table sets forth a summary of our bottling capacity, bottling volume and utilization rate for our two finished cooking wine bottling lines in Dayunsi Village, Lincheng Town, Huzhou City, Zhejiang Province:

	For the year ended December 31,			For the eight months ended August 31, 2013
	2010	2011	2012	
Bottling capacity (liters '000) ⁽¹⁾	8,400.0	26,000.0	93,000.0	62,000.0
Bottling volume (liters '000)	6,243.1	16,345.2	55,674.4	25,585.7
Utilization rate (%) ⁽²⁾	74.3	62.9	59.9	41.3

(1) Referring to the production capacity for all series of our finished cooking wine products, including bottled and bagged products. Assuming operating eight hours per shift, two shifts per day in 2010 and 2011, three shifts per day in 2012 and onward, 250 days per year. The bottling capacity for the eight months ended August 31, 2013 is calculated on a pro-rata basis.

(2) Utilization rate is derived by dividing the bottling volume by the bottling capacity during the same period.

Production Expansion Plan

We plan to expand our production capacity through additional production facilities at our headquarters in Wuxing District, Huzhou City, Zhejiang Province. The addition of these facilities is expected to allow us to increase our stock of base wine to approximately 169 million liters by 2014 through increased production. The table below sets forth the details of our expansion plans:

Expansion plan	Estimated gross floor area sq.m.	Estimated cost RMB million	Expected completion time
Purchase of three million earthen jars	N/A	45.0	N/A
Purchase of one hundred steel fermentation tanks	N/A	40.0	N/A
One fermentation workshop with ancillary equipment	8,000	34.6	12 months
One warehouse for semi-finished products	5,000	6.0	12 months
One filtration workshop with ancillary equipment	1,500	4.8	12 months
One sterilization workshop with ancillary equipment	800	2.0	12 months
One warehouse for raw materials	1,000	1.2	12 months
Total	16,300	133.6	

As our business grows, we expect to continue to expand our existing production facilities or establish additional production facilities in the nearby area. For more information of our capital expenditures during the Track Record Period, please see “Financial Information — Liquidity and Capital Resources — Cash Flows — Cash flow from investing activities”.

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RESEARCH AND DEVELOPMENT

Our research and development efforts focus on the following areas:

- **Standardization of production process**

Our research and development team works closely with our production department in designing implementation manuals detailing repeatable, concise and standardized instructions throughout the production process. We believe that standardizing our traditional production techniques delivers products that are stable and consistent in quality and helps to scale up our operations and enhance production efficiency.

- **New product development**

We continuously develop and test innovative products to be launched when appropriate opportunities arise. We are currently in the process of developing our Tai Soy Sauce (太油), which is expected to be launched in early 2014 and primarily targets the high-end segment of the health-conscious customer base. Fermented using the traditional low-salt solid-state fermentation technique, our Tai Soy Sauce (太油) is rich in taste and nutrients, such as amino acids.

- **Product improvement**

Through the continuous efforts of our research and development team, we have successfully developed and obtained patents for four inventions in relation to the manufacturing method of cooking wine, yellow rice wine and soy sauce products in order to improve the taste, aroma and nutritional contents of our products. For example, we have obtained the patent for the manufacturing process of oligopeptide yellow rice wine (低聚肽黄酒) in 2013, which enables us to produce yellow rice wine with richer flavor and higher nutritional content. We are in the process of registering four invention patents in relation to the production techniques of cooking wine, soy sauce and fermented bean curd products. We have also registered 21 design patents in the PRC in respect of our product packaging. For more information related to our intellectual property rights, please refer to “— Intellectual Property.” We believe that our possession of the above advanced know-how as well as our strong research and development capabilities differentiates us from our competitors in terms of quality of our products.

We undertake the majority of our research and product development activities in-house. We also pursue cooperation with universities and academic institutions to conduct researches to develop and optimize modern manufacturing techniques.

QUALITY CONTROL

We believe our success is built on our commitment in producing high-quality products. As of the Latest Practicable Date, our quality control department comprised seven employees, all of whom were degree holders or had received tertiary education in disciplines mainly related to food science and technology and quality inspection. The primary responsibilities of our quality control department include the implementation of quality control procedures in the entire production process, from sampling tests of raw materials, continuous production quality control to testing of finished products. In addition, our quality control team ensures that our products comply with the relevant PRC laws and regulations,

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national and industry standards as well as our own quality control standards. In particular, in relation to our cooking wine products, we are required to adhere to the SB/T 10416-2007 Standard and the QB/T 2745-2005 Standard, the applicable industrial standards for cooking wine products in the PRC. See “Regulatory Overview — Food Safety — Industrial Standards for Condiment Products”. Our PRC Legal Advisers are of the opinion that we have been in compliance with such standards during the Track Record Period and up to the Latest Practicable Date based on (i) the compliance certificates issued by the competent government authorities confirming that all of our products have been in compliance with the relevant national and industrial standards with respect to product quality; (ii) the quality inspection reports during the Track Record Period provided by third-party inspection authorities confirming that our cooking wine products are in compliance with the relevant regulatory and industrial standards; and (iii) an interview with the China Wine Association, Yellow Rice Wine Branch (中國酒業協會黃酒分會) and a confirmation letter issued by China Wine Association, Yellow Rice Wine Branch clarifying certain industry norm in the PRC cooking wine market, the applicable industry standards for cooking wine products as well as our manufacturing methods of naturally-brewed cooking wine products. We adopt our quality control system that involves the following measures and procedures:

- **Stringent raw material screening and testing**

We carry out sampling tests on the quality of each batch of raw materials delivered to us, including testing for both physical and chemical properties, such as appearance, hygiene standards and chemical content, before we accept and store them for later use. Our quality control department sets various quality standards for different raw materials according to the applicable PRC laws and regulations on food quality and hygiene, and updates such standards from time to time. We have implemented policies in relation to the storage of raw materials, including the shelf life, storage temperature and humidity requirements for raw materials that are easily perishable.

- **End-to-end control throughout the production process**

We strictly follow the relevant industry standards throughout our production process. For example, in relation to the manufacturing of our cooking wine products, we adhere to the SB/T 10416-2007 Standard and the QB/T 2745-2005 Standard, the applicable industrial standards for cooking wine products in the PRC. Throughout the production process, quality control points are established at which staff from the quality control department is assigned to conduct quality control and hygiene inspections. Our quality control department is responsible for ensuring that: (a) our products are consistent in taste, size, weight and appearance, and (b) our products meet the applicable quality and hygiene standards under the SB/T 10416-2007 Standard, the QB/T 2745-2005 Standard and specifications of our Group, which includes:

- (i) Work-in-process. We test the mash under the fermentation process for acidity, ABV, sweetness and amino acid nitrogen on a sampling basis;
- (ii) Semi-finished products. We sample test the aged base wine for acidity, ABV, sweetness, amino acid nitrogen, non-sugar solids and bacterial content from time to time; and
- (iii) Finished products. We conduct final quality testing on the finished products for bacterial level and physical and chemical content, such as labeling and packaging, acidity, ABV, sweetness, amino acid nitrogen on a sampling basis.

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In addition, we submit our products to external laboratories and central, provincial and local quality supervision and inspection authorities for quality inspections in accordance with relevant national and industry standards, on a regular basis:

- (i) Quality inspections requested by governmental authorities. We are required by PRC central, provincial and local quality supervision, inspection and quarantine authorities, such as the General Administration of Quality Supervision, Inspection and Quarantine of PRC (國家質量監督檢驗檢疫總局) to submit random samples of our products to designated third-party quality inspection authorities for testing and inspection according to their sample inspection requests from time to time. These third-party inspection authorities include China National Product Quality Supervision Inspection Center of Aquatic and Processed Food (國家水產品及加工食品質量監督檢驗中心), Zhejiang Test Academy of Quality and Technical Supervision (浙江省質量技術監督檢測研究院) and the Quality Supervision and Inspection Institution of Huzhou, Zhejiang Province (湖州市質量監督檢測所). We generally submit our products to such inspection authorities on a quarterly basis; and
- (ii) Quality inspections initiated by us. As an additional quality control measure, we voluntarily submit different types of products to external laboratories, such as Zhejiang Gongzheng Inspection Center Co., Ltd. (浙江公正檢驗中心有限公司), formally the Quality Inspection Institution of Zhejiang Province (浙江省質量監督檢驗站), for testing and inspection at least on a quarterly basis.

- **Sanitation control**

Our production personnel are required to follow strict dress code in the workshop by wearing production uniforms, working caps and shoes. We have stringent control over access to our production facilities to ensure that our production process is not tempered with by unauthorized persons.

In recognition of our quality control system, we have received various awards and certifications, including:

- the HACCP certification, which demonstrates that all our products are suitable for human consumption and free from physical, chemical, and biological hazards. The Hazard Analysis And Critical Control Point, also known as HACCP, is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished products. We plan to renew such qualification upon its expiration in February 2016; and
- the ISO9001 certification, which demonstrates that we have an effective quality management system. It is a set of standards and guidelines relating to quality management system, and represents an international consensus on good quality management practices. ISO9001 is maintained by the International Organization for Standardization and is administered by accreditation and certification bodies. We plan to renew such qualification upon its expiration in February 2016.

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AWARDS AND CERTIFICATIONS

We have received various awards and certifications which have helped increase the brand recognition of our products. Some of our key awards and certifications include the following:

Year of award/ certification	Awards/certifications	Key issuing institutions/authorities ⁽¹⁾
2013	National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業)	Ministry of Agriculture of the People’s Republic of China (中華人民共和國農業部)
2012	Chef’s Huadiao (廚用花雕) awarded with the golden award of the China International Condiments & Food Additives Expo (中國(國際)調味品及食品配料博覽會金獎)	China International Condiments & Food Additives Expo (中國(國際)調味品及食品配料博覽會)
2012	Cooking wine products awarded with “2012 Best Selling Products in China Condiment Industry” (“2012年中國調味品產業最暢銷單品”)	Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會)
2012	“Lao Heng He” (“老恒和”) brand awarded with “Consumers’ Favorite and Safest Condiment Brand of 2012” (“2012消費者最喜愛、最放心調味品品牌”)	China International Condiments & Food Additives Expo (中國(國際)調味品及食品配料博覽會) and chihe.sohu.com (搜狐吃喝頻道)
2012	“Lao Heng He” (“老恒和”) brand awarded with “2012 Well-known Cooking Wine Brand in China Condiment Industry” (2012年中國調味品產業料酒著名品牌) and “2012 Most Influential Brand in China Condiment Industry” (“2012年中國調味品產業最具渠道影響力品牌”)	Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會)
2012	Our Group recognized as “Enterprise with Most Growth Potential in China Condiment Industry of 2012” (“2012年中國調味品產業最具成長力企業”)	Distributor Committee of China Condiment Industry Association (中國調味品協會經銷商分會)
2012	Vinegar products awarded “Name Brand of Zhejiang Province” (“浙江名牌產品”)	Name Brand Strategy Promotion Committee of Zhejiang Bureau of Quality and Technical Supervision (浙江質量技術監督局名牌戰略推進委員會)

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Year of award/ certification	Awards/certifications	Key issuing institutions/authorities ⁽¹⁾
2011	Cooking wine products awarded with “Premium Consumer Product of 2010” (“2010消費金品”)	The Shanghai Chamber of Commerce (上海市商業聯合會), the Shanghai Franchise Association (上海連鎖經營協會), the Shanghai Trademark Association (上海市商標協會) and the Business Information Center of Shanghai (上海商情資訊中心)
2010	Cooking wine products awarded “Leading Cooking Wine Brand in China” (“中國料酒產業領導品牌”)	China Condiment Industry Association (中國調味品協會)
2010	Our Group awarded with “Honorary Host of the Professional Chef Committee of the China Cuisine Association (“中國烹飪協會名廚專業委員會榮譽主任單位”)	The Professional Chef Committee of the China Cuisine Association (中國烹飪協會名廚專業委員會)
	Cooking Yellow Rice Wine (烹飪黃酒) and Rose Rice Vinegar (玫瑰米醋) were certified as “Designated Products for the Master Chef Committee of the China Cuisine Association (“中國烹飪協會名廚專業委員會專用產品”)	

(1) To the best knowledge of our Directors after making all reasonable enquiries, the issuing institutions/authorities are independent third parties.

INTELLECTUAL PROPERTY

Intellectual Property Owned or under Application

Our Group has registered four invention patents in relation to the manufacturing method of cooking wine, yellow rice wine and soy sauce products. In addition, we are in the process of registering four additional invention patents in relation to the production techniques of cooking wine, Tai Soy Sauce (太油) and fermented bean curd products. We have also registered 21 design patents in the PRC in respect of our product packaging. We have registered the “Lao Heng He” (“老恒和”) trademark in Hong Kong. We have registered domain names for all of our websites, including our primary website, www.hzlaohenghe.com.

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Intellectual Property from Our Ultimate Controlling Shareholder

Pursuant to the Exclusive Recipes Licensing Agreement entered into in January 2013, our ultimate Controlling Shareholder granted us an exclusive right to use his trade-secret cooking wine recipes for free in the manufacturing of our products, including the recipe of fermentation starter, one of the primary contributors to the rich nutrition and flavor of our cooking wine products, and the recipe of spices. Mr. Chen further entered into a Recipes Transfer Agreement with us in August 2013, transferring these recipes to us for nominal consideration, and the transfer is to become effective on [●]. See “Connected Transactions — Exempted Continuing Connected Transactions”. We believe that these recipes are inherited by our ultimate Controlling Shareholder from his ancestor family. No one other than our ultimate Controlling Shareholder has the full access to such recipes. See “Risk Factors — Risks Relating to Our Business and Industry — Loss of service of our Chairman and other key personnel or any failure to attract and retain necessary talents may materially adversely affect our business, financial condition and results of operations”. All of our production personnel and senior management that have direct access to segments of such recipes have signed confidentiality agreements containing non-compete provisions with us.

Intellectual Property Licensed from Independent Third Parties

We have the exclusive rights to use “Lao Heng He” (“老恒和”) trademarks, licensed from Zhong Wei, an independent third party. Pursuant to the Exclusive Registered Trademark License Agreement entered into in January 2013, as amended by the Supplemental Agreement to the Exclusive Registered Trademark License Agreement dated January 2013, we have the exclusive rights to use “Lao Heng He” (“老恒和”) brands and logos, all of which are registered trademarks in the PRC, as long as Zhong Wei remains the legal owner of such trademarks. We paid Zhong Wei a nominal license fee for the exclusive use of the trademarks. Zhong Wei waived its right to use the trademarks in its own business. We entered into a Registered Trademark Transfer Agreement with Zhong Wei in March 2013, and are currently in the process of transferring the above trademarks from Zhong Wei to Huzhou Lao Heng He Wine, one of our wholly-owned subsidiaries in the PRC, with a nominal consideration of RMB1. We expect such transfer to be completed by mid 2014 and our PRC Legal Advisers have advised us that there is no substantive legal impediment for the completion of such trademark transfer. As we enjoy the exclusive rights to use “Lao Heng He” (“老恒和”) brands and logos pursuant to the Exclusive Registered Trademark License Agreement, as amended, and Zhong Wei waived its right to use the trademarks in its own business, we believe that our business operations and financial conditions would not be materially and adversely affected even if the trademark transfer cannot be consummated as scheduled.

Our trademarks and trade names are subject to infringement of third parties. We have in the past experienced limited instances of counterfeiting and imitation of our products, involving third-party cooking wine manufacturers imitating our patented product packaging designs. However, such incidents were of a small scale and we have not taken any legal actions against these third parties. Although such incidents have not resulted in any material adverse effect on our business operations or financial conditions, we have engaged a PRC law firm, which has been designated to bring legal actions against potential infringements of our intellectual property rights that we believe may have a material adverse effect on our business and reputation. See also “Risk Factors — Our success depends to a large extent on our intellectual property rights and failure to protect such intellectual property rights or counterfeiting of our brand name may materially adversely affect our reputation and our ability to compete”.

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During the Track Record Period, our Group was not engaged in or threatened with any claim for infringement of any intellectual property rights which may have a material adverse effect on our business, financial condition and results of operations, either as claimant or as respondent.

EMPLOYEES

We strive to recruit employees who share our commitment to provide our customers with high-quality condiment products. We offer competitive remuneration packages to attract and retain talented and experienced employees.

As of December 31, 2010, 2011, 2012 and August 31, 2013, we had 79, 97, 241 and 234 employees (including our full-time employees and contract workers), respectively, of which 72, 48, 52 and 46 were contract workers, respectively. As the fermentation of our base wine can only be conducted in cool weather conditions, generally from October to May in the next year, we engage a number of temporary contract workers during such periods to assist in the production process.

The table below sets out a breakdown of our full-time employees by function as of the Latest Practicable Date:

Function	Number of Employees
Production	145
Sales and marketing	15
Management and administration	11
Quality control, research and development and others	17
Total	188

For each of the years ended December 31, 2010, 2011, 2012 and the eight months ended August 31, 2013, our total labor costs were approximately RMB0.8 million, RMB3.1 million, RMB10.1 million and RMB7.8 million, respectively. Our total labor costs accounted for 3.6%, 4.9%, 7.0% and 6.0% of our total cost of sales over the same period, respectively.

Each of our employee is required to execute a standard employment contract which complies with the relevant PRC laws and regulations. Depending on the seniority and duties of an employee, the term of an employment contract varies. Other standard contractual terms include remuneration, job duties, provision of social security insurance and confidentiality clauses. We have entered into confidentiality agreements which contain non-compete provisions with all of our production personnel and senior management who have direct access to our know-how and trade secrets.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their position. In addition, our full-time employees may, based on the performance and contribution of the individual staff to our Company, be entitled to annual discretionary bonuses. Performance appraisals are conducted annually to ensure that our employees receive feedback on their performance.

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In addition, we have designed various training programs for employees based on department and rank. We provide in-house training to our production personnel to enhance their knowledge of our products, production methods, production and workplace safety. We provide internal trainings for our sales representatives to enhance their marketing skills. We have also established an apprentice system among our production personnel to ensure that traditional production methods are passed on. Our management team will also undergo various trainings relevant to their area of work.

During the Track Record Period, we did not experience any difficulty in recruiting suitable staff for our operations nor did we experience any strikes, labor disputes or industrial actions which may have a material adverse effect on our business, financial condition and results of operations.

WORKPLACE SAFETY

We are subject to various relevant PRC laws and regulations relating to workplace safety. For further details on the laws and regulations relating to production safety applicable to us, please refer to the section headed “Regulatory Overview”. Our production department is mainly responsible for monitoring our compliance with workplace safety related laws and regulations. We have also adopted a handbook on workplace safety which provides our in-house workplace safety rules. All of our employees are obliged to follow such rules. In addition, we provide in-house training to our employees to strengthen their awareness and knowledge on workplace safety from time to time.

Our Directors have confirmed that during the Track Record Period, we were not involved in any accident causing death or serious bodily injury in the course of our operations. Based on the letters of confirmation dated August 31, 2013 from the Wuxing District, Huzhou City Work Place Safety Supervision Bureau and Changxing County Work Place Safety Supervision Bureau, respectively, our PRC Legal Advisers have advised us that we complied with the relevant PRC laws and regulations on workplace safety during the Track Record Period.

LABOR LAWS AND SOCIAL INSURANCE

Pursuant to the relevant PRC laws and regulations, we participate in various social insurance schemes (including pension scheme, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident funds) for our employees. As advised by our PRC Legal Advisers, each of our subsidiaries in the PRC has complied with and will continue to comply with the applicable laws and regulations and the requirement of the local social security insurance bureaus to make relevant contributions in the future.

INSURANCE

We primarily maintain property insurance with respect to our inventories, including a majority of our base wine and semi-finished vinegar products, based on our estimates of the volume of such inventories as of the date we purchased the insurance policies. Such insurance covers risk of natural disasters and certain accidents such as fire and explosion. For each of the years ended December 31, 2010, 2011, 2012 and the eight months ended August 31, 2013, we incurred expenses for such insurance policies in the amounts of nil, RMB1,000, RMB41,000 and RMB82,000, respectively. We believe that our Group’s insurance coverage for our inventory is sufficient and in line with industry practice in the PRC.

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We do not maintain product liability insurance coverage with respect to our product sales, which is in line with common practice in the PRC food and condiment industry. We rely on our stringent quality control measures to minimize our product liability risks, and we have not experienced any product liability claims since our inception.

During the Track Record Period, no insurance claims have been made by us.

PROPERTIES

Owned land and buildings

As of the Latest Practicable Date, we owned four parcels of land (with an aggregate area of approximately 126,992.0 sq.m.) and 18 buildings (with an aggregate gross floor area of approximately 89,435.1 sq.m.) mainly used as our production facilities, warehouses and offices. Our PRC Legal Advisers have advised us that we have valid land and building title to all of these properties.

Leased properties

As of the Latest Practicable Date, we leased eight properties (with an aggregate gross floor area of approximately 109,440.3 sq.m.) mainly used as our warehousing facilities. As of the Latest Practicable Date, we had not registered the leases in respect of five of the commercial properties leased by us with an aggregate gross floor area of approximately 68,709 sq.m., which are required to be registered and accounted for approximately 62.8% of the aggregate gross floor area of our leased properties. See “— Legal Proceedings and Compliance — Registration of leases”.

See “Risk Factors — Risks Relating to Our Business and Industry — We have not registered our leased properties and may be required to seek alternative locations” and the sub-section headed “Legal Proceedings and Compliance — Compliance” in this section for further details on the potential legal consequences for the lack of registration of the above leases. Save as disclosed above, we have obtained all the necessary land use rights and building ownership certificates for all of our owned and leased properties. Please refer to Appendix IV for further details of our properties.

ENVIRONMENTAL MATTERS

Our operations are subject to certain environmental laws and regulations, the implementation of which involves regular inspection by local environmental protection authorities. See “Regulatory Overview — Environmental Protection”. Our operations generate low levels of waste water. We have installed environmental protection facilities to treat waste materials. We have procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. We are also constantly seeking to improve our environmental protection measures, for example by (a) selling by-products generated from our fermentation process to independent third parties as livestock feed and fertilizers, (b) recycling our used packaging materials, and (c) reducing waste water through the installation of water treatment facilities at our production facilities. We have implemented an effective environmental management system, evidenced by our ISO 14001 certification. Our Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

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Our PRC Legal Advisers have advised that our Group’s operations have complied with all applicable PRC environmental laws and regulations in all material respects.

COMPETITION

The PRC condiment market has become increasingly competitive in recent years. The cooking wine market in China is led by a small number of major players, with the rest of the market highly fragmented. According to the Euromonitor Report, there were more than 1,000 cooking wine manufacturers in China which were mainly small- to medium-sized ones competing at a regional level. According to the Euromonitor Report, the top five market players, namely us, Beijing Wang Zhi He Food Group Co., Ltd (王致和集團), Beijing Lao Cai Chen Food Co., Ltd (北京市老才臣食品有限公司), Hengshun Vinegar-industry Co., Ltd (江蘇恒順醋業股份有限公司) and Chengdu Julong Food Co., Ltd (成都巨龍生物科技有限公司), in aggregate, accounted for approximately 28.1% and 14.0% of the total cooking wine market share in China by retail sales value and retail sales volume, respectively, in 2012. The increasing competition pressurizes the market participants, especially small- and medium-sized manufacturers, to invest in new product development, marketing and branding, and channel management in order to remain competitive and gain more market share.

We believe that as consumers have become more aware of quality and safety of consumable products, following various contamination and food safety scandals in recent years, competition in the PRC condiment industry is likely to shift from pricing to quality and brand reputation. Further, as the PRC Government has tightened and is likely to continue to issue stringent food quality laws and regulations and strengthen its supervision and enforcement over environment protection, this is likely to create pressure on some of the cooking wine manufacturers in China, especially small- to medium-sized cooking wine manufacturers. In addition, as competition in the cooking wine industry has escalated to the national level and there is a rising trend of convergence in consumer taste, competition amongst cooking wine producers has expanded nationwide. As a result, the barriers to entry have grown. In particular, it is generally more difficult for new market players to enter into the naturally-brewed cooking wine business. The naturally-brewing method requires an abundant reserve of yellow rice wine as well as an aging process, making the production of naturally-brewed cooking wine a business that goes through a relatively lengthy process to reach production of scale.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

During the Track Record Period, we were not involved in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial condition or results of operations. As of the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against our Group which could be expected to have a material adverse effect on our financial condition or results of operations.

Compliance

Save as disclosed below, our PRC Legal Advisers have advised us that we have obtained all material licenses, permits or certificates required for the operation of our business and that we complied with all relevant PRC laws, rules and regulations that are applicable to our business during the Track Record Period in all material respects.

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Registration of leases

We have leased eight commercial properties in total. Pursuant to the Administration of the Measures for Administration of Lease of Commercial Properties 《商品房屋租賃管理辦法》 promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on December 1, 2010, which became effective on February 1, 2011 and repealed the Administration of the Measures for Administration of Lease of Property in Urban Areas 《城市房屋租賃管理辦法》 which was promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on May 9, 1995, registration of the leases of commercial properties are required. As of the Latest Practicable Date, we had not registered the leases in respect of five of the commercial properties leased by us with an aggregate gross floor area of approximately 68,709 sq.m., which were mainly used as our warehousing facilities. We were unable to register four leases as the relevant landlords could not provide the building ownership certificates and unable to register the other one lease as no registration system has been established by the local authority.

Our PRC Legal Advisers have advised us that the failure to register these leases will not affect the legality, validity or enforceability of such leases. Pursuant to the Administration of the Measures for Administration of Lease of Commercial Properties 《商品房屋租賃管理辦法》, a fine may be imposed on the parties to a lease for non-registration. For an entity, the fine will range from RMB1,000 to RMB10,000 per incident and for an individual, the fine will not exceed RMB1,000 per incident. Accordingly, our PRC Legal Advisers have advised us that we may be subject to fines of up to RMB10,000 per incident for the non-registration of these leases.

As of the Latest Practicable Date, we have not been fined by any regulatory authorities for non-registration of our lease agreements, nor were we subject to any material claims in connection with such non-registration. Our Directors are of the view that our business, financial condition and results of operation will not be materially affected by any possible fines imposed on us or other consequences resulting from the non-registration of our leases, as (i) we can find comparable properties to relocate our operations and such properties are readily available in the surrounding area, (ii) we do not anticipate any material difficulties in relocating our operations or any material losses in relocating our stock of base wine, and (iii) the estimated total costs and expenses for relocating our operations at these leased properties will not be material.

The relevant landlords have provided their written confirmation letters acknowledging their right to lease the properties and undertaking to indemnify us for losses arising from the lack of building ownership certificates and non-registration of these leased properties. In addition, our Controlling Shareholders have executed a deed of indemnity in favor of our Group whereby he will indemnify each member of our Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of, directly or indirectly or in connection with, the non-registration of these leased properties.

Advances to Third Parties

During the Track Record Period and prior to December 2011, in order to complement our stock of base wine, we purchased naturally-brewed yellow rice wine from Ruoxiachun, a manufacturer of yellow rice wine and Chinese white wine and an independent third party. To maintain a good business relationship with Ruoxiachun, we made advances to Ruoxiachun in 2010 and 2011 for its working

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capital needs. Such advances were unsecured, interest-free and had no fixed repayment terms, with a balance of RMB9.2 million, RMB25.0 million and RMB4.0 million as of December 31, 2010, 2011 and 2012, respectively. Such advances were repaid in full in February 2013.

According to the General Lending Provisions (貸款通則) promulgated by the PBOC in 1996 (the “General Lending Provisions”), the PBOC may impose fines equivalent to one to five times of the income generated (being interests charged) from loan advancing activities between enterprises. However, as our advances to Ruoxiachun was interest free, we did not generate any income from such advances, and accordingly, as advised by our PRC legal advisers, it is unlikely that we will be subject to any fines or penalties in respect of our advances to Ruoxiachun. The General Lending Provisions do not impose any other penalties or punishment on enterprises which make such advances. Therefore, we do not expect such advances to have any material adverse impact on our financial results going forward. Save for the advances to Ruoxiachun, we have not made any other similar advances, and we do not intend to make any such advances in the future.

Bill financing

Background

Historically, Mr. Chen, our ultimate Controlling Shareholder, centralized the funding requirements for his businesses. During the three financial years ended December 31, 2012, due to restrictions on loan financing, it was common to obtain funds from commercial banks through bill financing arrangements. Against the background of macro-economic restrictions, we believed that such bill financing activities were prevalent at the relevant times and was an alternative form of financing that was allowed under the umbrella of a pre-determined credit limit under relevant local regulatory policies. Given their relatively strong credit standing and cash flow, Lao Heng He and Zhong Wei, which were both controlled by Mr. Chen during the relevant periods, facilitated the financing activities of Mr. Chen’s other investments, such as real estate, through certain bill financing arrangements. Please refer to “History, Reorganization and Group Structure — Corporate and Business Development History” for further details.

During the three financial years ended December 31, 2012, Lao Heng He and Zhong Wei had credit arrangements with certain domestic municipal, provincial and national commercial banks in the PRC, including the Bank of China Wuxing Branch (中國銀行吳興支行), Bank of Communications Huzhou Branch (交通銀行湖州分行), Agricultural Bank of China Huzhou Zhili Branch (中國農業銀行湖州織里支行), Bank of Jiaxing Huzhou Branch (嘉興銀行湖州分行), Industrial and Commercial Bank of China Zhili Branch (中國工商銀行織里支行), China Merchants Bank Huzhou Branch (招商銀行湖州支行), China Zheshang Bank Huzhou Branch (浙商銀行湖州分行), SPD Bank Huzhou Branch (上海浦東發展銀行湖州支行) and Wuxing Agriculture Cooperation Bank (吳興農村合作銀行) (collectively, the “Endorsing Banks”), respectively, pursuant to which such banks agreed to provide credit within stipulated limits with one-year term. Within the stipulated credit limits with the Endorsing Banks, Lao Heng He or Zhong Wei (the “Note Issuing Party”) were able to issue bank acceptance notes as payments for their purchases of goods, on the basis of the Note Issuing Party making initial deposits with the Endorsing Banks, in varying amounts based on the face amount of the bank acceptance notes to be issued by the Note Issuing Party. At any time prior to the maturity date, the bank acceptance notes could be presented by Zhong Wei or Lao Heng He as the supplier of the goods (the “Supplier”) to other commercial banks in the PRC (the “Discounting Banks”) for discounting and payment. The Supplier would obtain an amount equal to the face amount of the bank acceptance notes deducting discounting

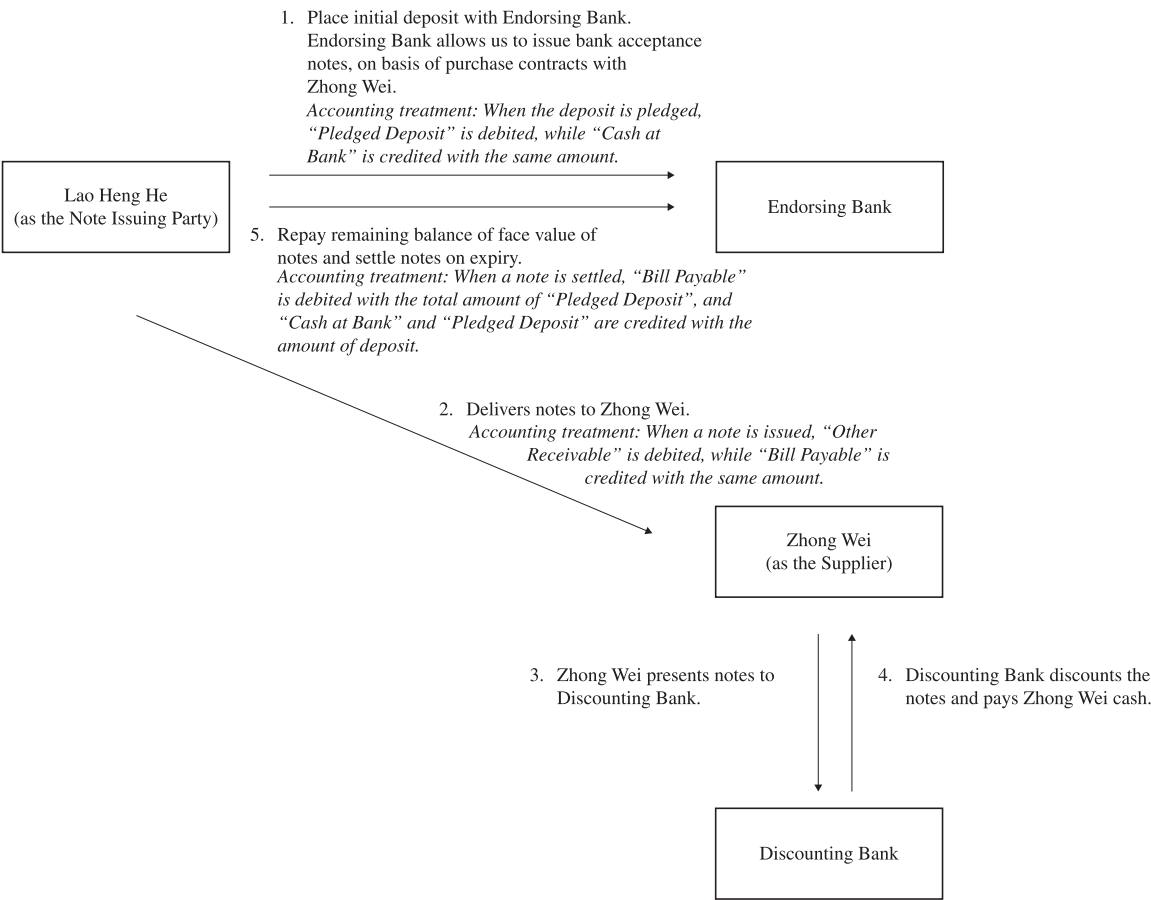
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charges. The Note Issuing Party was required to repay the remaining balance of the face value of the issued bank acceptance notes to the Endorsing Banks for settlement on or before the maturity of the relevant bank acceptance notes.

In situations where Zhong Wei was the Supplier, Zhong Wei remitted the proceeds to Mr. Chen’s other investments directly, while in situations where Lao Heng He was the Supplier, Lao Heng He remitted the proceeds to Zhong Wei which remitted the proceeds to Mr. Chen’s other investments subsequently. Accordingly, none of the proceeds from the bill financing was retained by us.

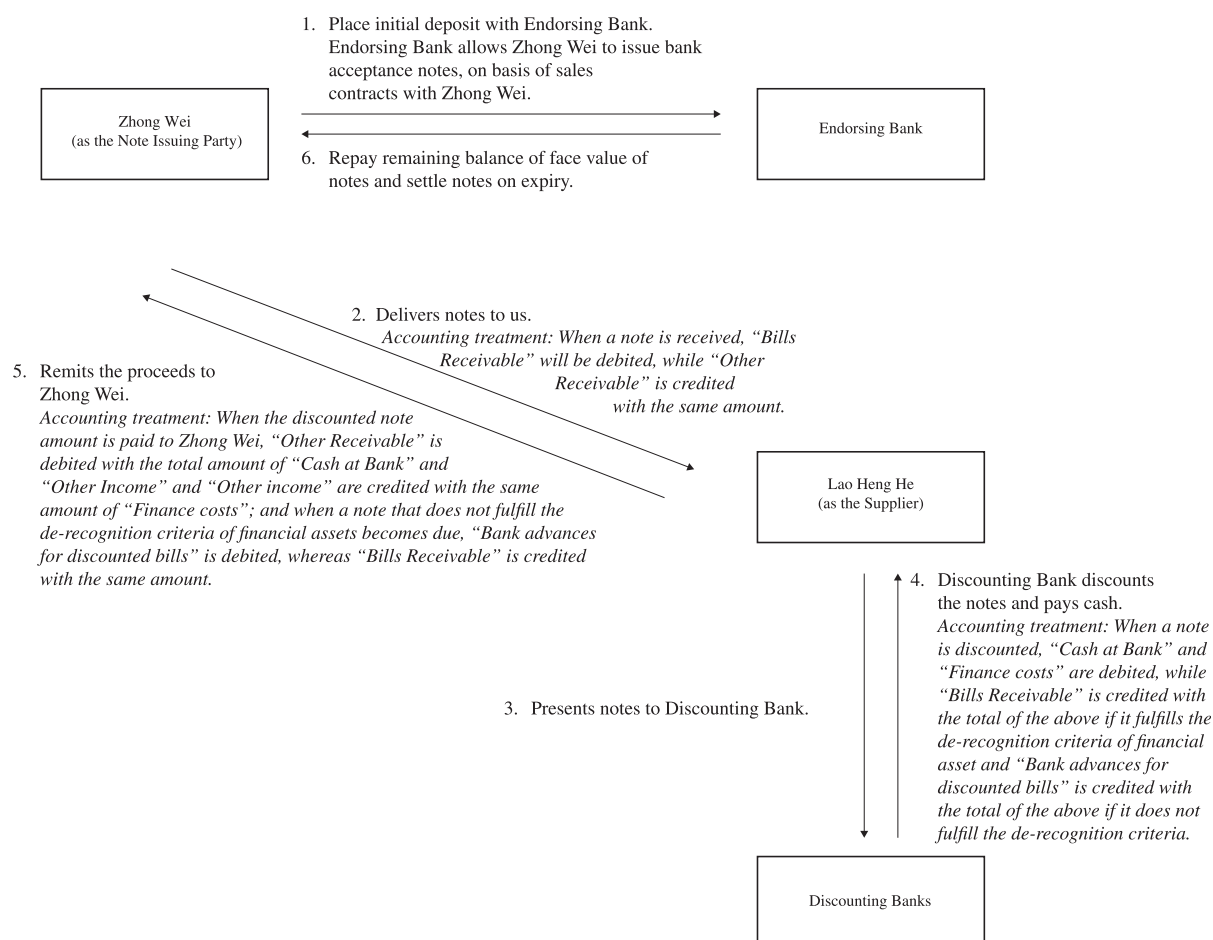
The diagram below illustrates the details of flow of the bank acceptance notes and our relevant accounting treatment at each step:

Notes issued by Lao Heng He:



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Notes issued by Zhong Wei:



Excess Financing and the Effect on our Financial Position

In order to obtain sufficient bill financing (within the credit limits stipulated by the Endorsing Banks and supported by the initial deposits made) to fund Mr. Chen’s other investments, the sales amounts contemplated in the sales and purchase contracts were greater than the actual transaction amounts between our Group and Zhong Wei (the “Excess Financing”).

During the three financial years ended December 31, 2012, the aggregate amount of the bank acceptance notes issued by us to Zhong Wei was approximately RMB18.0 million, RMB38.0 million and RMB9.5 million, respectively, whereas the aggregate amount of related actual purchases from Zhong Wei was approximately RMB14.5 million, RMB48.8 million and RMB19.8 million, respectively. As such, the amount of the Excess Financing, being the difference between the aggregate amounts of such bank acceptance notes issued and the aggregate amount of related actual purchases, was approximately RMB3.5 million in 2010. As the actual amount of purchases from Zhong Wei in 2011 and 2012 exceeded the amount of bank acceptance notes issued by us, our Directors are of the view that there was no Excess Financing in 2011 and 2012.

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During the three financial years ended December 31, 2012, the aggregate amount of the bank acceptance notes issued by Zhong Wei (where Lao Heng He was the Supplier), was approximately RMB119.9 million, RMB219.8 million and RMB65.3 million, respectively, whereas the aggregate amount of related actual sales by Lao Heng He to Zhong Wei was approximately RMB36.0 million, RMB55.5 million and RMB6.8 million, respectively (including VAT). As such, the amount of the Excess Financing, being the difference between the aggregate amount of such bank acceptance notes issued by Zhong Wei and the aggregate amount of related actual sales to Zhong Wei, was approximately RMB83.9 million, RMB164.3 million and RMB58.5 million, respectively, during the same period.

In June 2012, Lao Heng He sought professional advice to review its business structure and practices as part of its evaluation of a possible listing. Lao Heng He was advised, as confirmed by our PRC Legal Advisers, that the Excess Financing was not in strict compliance with the PRC Negotiable Instruments Law (《中華人民共和國票據法》) (in particular, Article 10 which states that bank acceptance notes shall be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of the Administration of Negotiable Instruments (《票據管理實施辦法》), the Measures for Payment and Settlement of Accounts (《支付結算辦法》) and the Notice of the People’s Bank of China on Certain Improvements to the Negotiable Instruments Systems (《中國人民銀行關於完善票據業務制度有關問題的通知》).

Upon receipt of such advice, our Directors understood that the Excess Financing activities constituted a breach of the relevant PRC laws and regulations and became fully aware of the consequences of the past non-compliance in connection with the Excess Financing and implemented policies and training steps to ensure that any bill financing activities will not take place again. We ceased to conduct bill financing activities in August 2012. In addition, in December 2012, Mr. Chen sold his entire interest in Zhong Wei to an independent third party, as a part of his overall strategy to streamline his investments, including disposing of his real estate investments, and to focus on our Group’s business.

There was no overall net impact on our operating results or cash flow as a result of the bill financing because (i) in respect of the costs related to the bank acceptance notes, Zhong Wei would pay for the cost or reimburse us for the cost of discounting the bank acceptance notes earlier than at maturity, save for certain transaction costs which were negligible, and therefore, we only incurred minimal cost in respect of such Excess Financing, and (ii) none of the proceeds from the bill financing were retained or used by our Group, and we did not recognise any revenue beyond the actual sales. Please refer to “Financial Information — Financial Impact of Separation from Zhong Wei” for further details on the financial effects of the Excess Financing.

Confirmations from the relevant regulators, Endorsing Banks and our Directors

We, together with our PRC Legal Advisers, initiated meetings and consulted with the Huzhou branch of the PBOC, the Huzhou branch of the CBRC and the Finance Office of Huzhou Municipal People’s Government (《湖州市金融工作辦公室》) (“Huzhou Finance Office”) regarding our Excess Financing.

The PBOC is the regulatory body for promulgating decrees and rules that related to its responsibilities. Our PRC Legal Advisers have advised us that, according to the provisions under the PRC Negotiable Instruments Law (《中華人民共和國票據法》), the Measures for the Implementation of the Administration of Negotiable Instrument (《票據管理實施辦法》), the Measures for Payment and

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Settlement (《支付結算辦法》) and the Notice of the People's Bank of China on Certain Improvements of the Negotiable Instruments Systems (中國人民銀行關於完善票據業務制度有關問題的通知), the PBOC is the authority responsible for monitoring bill financing transactions in the PRC. Since Lao Heng He was incorporated in Huzhou city, the Huzhou branch of the PBOC is the appropriate government agency to consult regarding our Excess Financing. However, there is no express provision in the relevant laws, rules and regulations which impose administrative or criminal liability for non-compliant bill financing transactions.

The CBRC is the regulatory body responsible for the supervision and regulation of banking institutes of the PRC and it is empowered to impose penalties on banking institutes which are in breach of relevant laws and regulations. Since Lao Heng He was incorporated in Huzhou city, the Huzhou branch of the CBRC is the appropriate government agency to consult regarding this matter.

Huzhou Finance Office is a government agency responsible for the (1) implementation of the laws, regulations and policies in relation to local financial activities, and (2) coordination of financial administrations by working with the Huzhou Branch of the PBOC, the Huzhou Branch of the CBRC and other financial institutions in Huzhou, and (3) verification of matters of the companies in Huzhou. As advised by our PRC Legal Advisers, the Huzhou branch of the PBOC, the Huzhou branch of the CBRC and Huzhou Finance Office are the competent and appropriate government authorities to consult with regard to the Excess Financing and to issue the relevant confirmation.

We received Huzhou Finance Office's written confirmation, dated March 15, 2013, confirming that, based on the discussion among the Huzhou branch of the PBOC, the Huzhou Branch of the CBRC and Huzhou Finance Office, the Excess Financing did not constitute a material breach of law and no administrative penalty or any other measures would be imposed on or taken against the parties involved in the Excess Financing. As such, our PRC Legal Advisers have advised us that it is unlikely that any administrative or criminal liability will be imposed on us in connection with the Excess Financing.

As of the Latest Practicable Date, we have not received any notice of formal investigation or inquiry regarding the Excess Financing from these government agencies.

We, together with our PRC Legal Advisers, have also met with the branch presidents and/or customer relation managers of the Endorsing Banks and obtained such banks' confirmations that in connection with our business activities with them during the three financial years ended December 31, 2012, (i) all our bill financing has been fully settled and were made in full and on time; (ii) we had not defrauded them; (iii) they did not incur any losses as a result of our bill financing with them; (iv) they will not take any legal action against us, our shareholders, Directors and senior management in connection with our bill financing; and (v) such bill financing will not affect any future credit facilities granted to us.

To the best of their knowledge, our Directors confirm that the parties involved in the Excess Financing understood that the sales amounts contemplated in the sales and purchase contracts under such bill financing transactions were greater than the actual transaction amounts between our Group and Zhong Wei, and such bill financing transactions did not involve any fraudulent activities with the intention to defraud any party or to deceive for any money.

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Opinion from our PRC Legal Advisers

To obtain an assessment of the potential legal implications of such Excess Financing for us, our Directors and senior management, we have sought legal advice from our PRC Legal Advisers.

According to our PRC Legal Advisers, such Excess Financing was not in compliance with Article 10 of the PRC Negotiable Instruments law which requires that the issuance of a bank acceptance note shall reflect the real transaction relationship and debtor-creditor relationship. However, as the bank acceptance notes issued by us or Zhong Wei in connection with the Excess Financing were not conducted with the intention of illegal possession, Lao Heng He and Zhong Wei paid all amounts due to the Endorsing Banks in full and on time and all bank acceptance notes involved in the Excess Financing were fully settled by February 2013, therefore our PRC Legal Advisers are of the view that such Excess Financing does not constitute criminal fraudulent activities stipulated under relevant PRC criminal laws.

Our PRC Legal Advisers have further advised that there are no specific provisions in the PRC Negotiable Instruments law, nor are there any express rules promulgated by the PBOC or the CBRC imposing definitive administrative penalties on enterprises in respect of such Excess Financing. In addition, pursuant to the Huzhou finance office’s confirmation, based on the discussion among the Huzhou Branch of PBOC, the Huzhou branch of the CBRC and Huzhou Finance Office such Excess Financing did not constitute a material breach of law and no administrative penalty or any other measures would be imposed or taken against the parties involved.

Our PRC Legal Advisers have advised us that as all the relevant bills have been fully repaid and the Endorsing Banks have not incurred any losses, we will not have any liability under any civil claims arising from such Excess Financing, nor will our Directors and senior management be personally liable for any civil claims.

Strengthening our internal control measures

We ceased to conduct bill financing activities and decided not to issue any bills or accept any bills as of August 2012. All the relevant bank acceptance bills have been fully settled in February 2013. Since the cessation of the bill financing activities, we have undertaken the following measures to ensure that any bill financing activities will not occur in the future:

- In August 2012, we notified all our employees and management involved in finance and audit functions that such bill financing activities are strictly prohibited and that no one is allowed to approve such transactions and have implemented a policy that employees and management entering into or approving bill financing activities will be subject to various disciplinary actions, including financial and legal responsibilities;
- In August 2012, we implemented internal guidelines and policies for approving, reporting and monitoring all financing transactions, including requiring Directors and senior management to review, check and verify all financial transactions before approving any financing transactions. The officer responsible for the management of our financing activities is Mr. SHENG Mingjian, our vice general manager (please refer to “Directors and Senior Management” for details of his experiences and qualifications);

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- Established an audit committee (which was approved pursuant to our Directors’ resolution dated December 17, 2013) comprising our three independent non-executive Directors to review and supervise our internal control systems;
- Engaged an independent consulting firm in July 2012, which is an international accounting firm experienced in providing advisory services and had provided advice in respect of internal control and risk management, to assess our bill financing activities;
- Our Directors and senior management attended training on the relevant PRC regulations on bill financing on August 22, 2012, which was provided by our external consultant, a certified public accountant and certified tax agent. We conducted, and will also conduct, regular internal training to our employees and management on our compliance policy and engage external professionals, including our Hong Kong Legal Advisers and PRC Legal Advisers, to conduct training on our ongoing compliance and obligations under the relevant rules and all other Hong Kong and PRC regulations regularly to ensure awareness and compliance of the policies.

Our Directors are of the view that such measures will help us prevent bill financing activities in the future and there is no risk of us entering into any bill financing transactions in the future. As such bill financing activities did not have any net impact on our operating results or cash flow during the three financial years ended December 31, 2012, our Directors are of the view that cessation of such bill financing activities will not affect our future financial results and performance or operation.

Internal control review

Based on our independent consulting firm’s review of our internal controls over the procedures for bills financing, they noted the following:

- Obtained and reviewed the minutes of our internal meeting held in connection with our bill financing activities, and reviewed our revised bills management policy and noted that it prohibits the use of commercial bills and bank guaranteed bills;
- Checked that the relevant personnel in our Group are aware of the revised bills management policy (票據管理制度) and that the relevant personnel were aware of such revised policy; and
- Checked the relevant accounting ledgers from August 21, 2012 to August 31, 2013 and noted that no new bills transactions were noted during the period.

As of August 31, 2013, based on our independent consulting firm’s checks of the relevant accounting ledgers and enquiries from August 21, 2012 to August 31, 2013, and based on the confirmation provided by us, no further findings in relation to our bill financing policies were noted by our independent consulting firm. The internal control assessment was conducted on a factual basis, and no assurance or opinion on internal controls was expressed by our independent consulting firm.

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Involvement of our Director

The Excess Financing were approved by Mr. Chen, our Director. None of our other Directors or senior management was involved in the Excess Financing. Mr. Chen confirmed that he was at the relevant times unaware that Excess Financing was not in strict compliance with relevant PRC laws and regulations when he approved of such arrangements.

Our Directors (save for Mr. Chen) are of the view that the Excess Financing does not affect Mr. Chen’s character, experience and integrity on the following bases: (a) the advice of our PRC Legal Advisers that no fraudulent activities were involved in obtaining the Excess Financing and such Excess Financing did not constitute fraud under the PRC Negotiable Instruments Law; (b) the confirmation from the Endorsing Banks that the Excess Financing did not constitute fraud and they will not take any action against us, our shareholders, Directors or senior management as a result of the Excess Financing; (c) the confirmation from the Huzhou Finance Office, which was given based on its discussions with the Huzhou branch of the PBOC and the Huzhou branch of the CBRC, that no administrative punishment or any other measure would be imposed on or taken against the relevant parties in connection with the Excess Financing; (d) as at the Latest Practicable Date, to the best of our knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Chen in the PRC and Hong Kong in connection with the Excess Financing; and (e) the confirmation from Mr. Chen that he was at the relevant times unaware that Excess Financing was not in strict compliance with relevant PRC laws and regulations when he approved of such arrangements.

Indemnity from our Controlling Shareholders

Our Controlling Shareholders have undertaken to fully indemnify us from all possible liabilities and losses arising from the Excess Financing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from the Controlling Shareholders and his associates.

Management Independence

Our management and operational decisions are made by our Board and senior management. The Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Chen, our ultimate Controlling Shareholder is one of the executive Directors of the Company. All of our executive Directors and senior management are full time officers and employees of our Group, and their expertise lies in the condiment industry. Each of the executive Directors has also entered into a service contract with our Company for a term of three years.

Our Board meets regularly to consider major matters affecting the operations of the Group. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the ultimate Controlling Shareholder as Chairman and Chief Executive Officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests.

In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors, including Mr. Chen, or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant Board meeting. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only.

Save for Mr. Chen, all our senior management members are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and have served our Group for a significant length of time during which period they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

Operational Independence

Save for certain continuing connected transactions with the ultimate Controlling Shareholder, particulars of which are set out in the section headed “Connected Transactions”, all our operating subsidiaries hold all relevant licenses and patents that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipments, facilities, premises and employees to operate our business independently. We also have independent access to suppliers and customers and an independent management team to handle our day-to-day operations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We are led by a management team with extensive experience and technical expertise in the condiment industry. Most of our senior management team has been serving our Group since 2006. Please refer to “Directors and Senior Management” for further details.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. As of the Latest Practicable Date, (i) we did not have any outstanding loans or borrowings from our Controlling Shareholders or any of his associates; and (ii) no bank borrowings were guaranteed by our ultimate Controlling Shareholder. Our Directors confirm that we will not rely on our Controlling Shareholders for financing as we expect that our working capital will be funded by our operating income and bank borrowings.

Our Group has its own financial management system and the ability to operate independently of the Controlling Shareholder from a financial perspective.

Based on the above, our Directors believe that we are able to maintain financial independence from the Controlling Shareholder.

NON-COMPETITION UNDERTAKING

Mr. Chen and Key Shine (the “**Covenanters**”) have entered into a deed of non-competition (the “**Non-competition Deed**”) in favor of our Company, pursuant to which each of the Covenanters has irrevocably, jointly and severally undertaken to our Company that he or it would not, and that his or its associates (except any member of our Group) would not, during the restricted period set out below, directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business (the “**Restricted Business**”) which is or may be in competition with our existing core business.

Such non-competition undertaking does not apply in relation to:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business which has first been offered or made available to our Company, and our Company, after review and approval by our Directors or Shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which any Covenanter (or his or its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those made available to our Company; or
- (b) any interests in the shares or equity interests of any member of the Group; or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) interests in the shares of a company whose shares are listed on a recognized stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by the Covenanters and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenanters and/or their respective associates are not entitled to appoint a majority of the directors of that company.

The “restricted period” stated in the Non-competition Deed refers to the period during which (i) [●]; (ii) the relevant Covenanters and/or their respective associates, individually or jointly, are entitled to exercise or control the exercise of no less than 30% of the voting power at general meetings of our Company; and (iii) any Covenanter remains as a director of any member of our Group.

The Covenanters have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity (the “**New Opportunity**”) in the PRC relating to the Restricted Business identified by or offered to any of them, is first referred to us in the following manner:

- (a) the Covenanters are required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the “**Offer Notice**”) to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and
- (b) the Covenanters will be entitled to pursue the New Opportunity only if (i) they have received a notice from us declining the New Opportunity, or (ii) they have not received such notice from us within fifteen (15) Business Days (which may be extended for a reasonable period of time as and if requested by our Board committee comprising only independent non-executive Directors (the “**Independent Board Committee**”)) from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Covenanters, they will refer the New Opportunity as so revised to us in the manner set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from our Independent Board Committee as to whether (i) such New Opportunity would constitute competition with our core business, (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity, and (iii) to pursue or decline the New Opportunity. Such opinions and decisions (together with their bases) from our Independent Board Committee will be disclosed in our annual reports.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity. Our Independent Board Committee will also review, on an annual basis, the compliance with the Non-competition Deed by the Covenanters, the results of which will be disclosed in our annual reports. In any event, our Independent Board Committee may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

The Covenanters have further undertaken to:

- (a) procure that all relevant information relating to the implementation of the Non-competition Deed in their possession and/or the possession of any of their respective associates be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our advisers to have access to such of their respective financial and corporate records as may be necessary for us to determine whether the non-competition undertakings in the Non-competition Deed have been complied with by the Covenanters and their respective associates;
- (c) provide us, within twenty (20) Business Days from the receipt of our written request, with a written confirmation in respect of their compliance and that of their respective associates with the non-competition undertakings in the Non-competition Deed and consent to the inclusion of such confirmation in our annual reports; and
- (d) provide all information necessary for the annual review by our Independent Board Committee and the enforcement of the Non-competition Deed.

The Covenanters (for themselves and on behalf of their respective associates (except for any member of our Group)) have also acknowledged that we may be required by applicable laws, regulations, rules of stock exchange(s) on which we may be listed and relevant regulatory bodies, to disclose, from time to time, information on any New Opportunity, including but not limited to disclosure in public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity and have agreed to such disclosure to the extent necessary to comply with any such requirement.

None of our Directors is engaged in any business which competes or is likely to compete, either directly or indirectly, with our business.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Upon [●], the transactions set forth below will continue following the [●] Date, thereby constituting continuing connected transactions (as such terms are defined under the relevant rules) of our Company under Chapter 14A of the relevant rules.

Relationship between our Group and our connected persons

The relevant connected persons with whom certain members of our Group have entered into continuing connected transactions with are as follows:

(i) *Our ultimate Controlling Shareholder*

Mr. Chen is an executive Director of our Company and substantial shareholder of our Company and is therefore, a connected person of our Company by virtue of Rule 14A.11(1) of the relevant rules.

(ii) *Huzhou Weiyuan*

The sole director and controlling shareholder of Huzhou Weiyuan is Mr. CHEN Weidong, the elder brother of Mr. Chen. Huzhou Weiyuan is therefore, a connected person of our Company by virtue of Rule 14A.11(4) of the relevant rules.

Exempted Continuing Connected Transaction

Upon [●], the following connected transactions will continue, thereby constituting continuing connected transactions. However, they will be exempted from the reporting, annual review, announcement and independent Shareholders’ approval requirements stipulated under the relevant rules because each of the continuing connected transaction is conducted on normal commercial terms where each of the percentage ratios (as defined in the relevant rules) (other than the profits ratio as defined in the relevant rules) is, on an annual basis, less than 0.1% or less than 5% and the annual consideration is less than HK\$1 million.

(i) *Exclusive Recipes Licensing Agreement and Recipes Transfer Agreement with Mr. Chen*

Pursuant to an Exclusive Recipes Licensing Agreement dated January 1, 2013 and entered into between Mr. Chen and Lao Heng He, Mr. Chen agreed to grant Lao Heng He and its subsidiaries and any future newly set up subsidiaries (“**Lao Heng He Entities**”) an exclusive right to use his trade-secret cooking wine recipes (the “**Recipes**”) for free in the manufacturing of some of our products. The Exclusive Recipes Licensing Agreement will remain in force from the date of the agreement until all Lao Heng He Entities cease operation. The Recipes can be used in the manufacturing, product improvements and product sales of our products. Mr. Chen will not license the Recipes to any other third parties so long as this Exclusive Recipes Licensing Agreement is in force. If, during the use of the Recipes, Lao Heng He Entities improve the Recipes, they have the right to continue to use the improved Recipes in accordance with the Exclusive Recipes Licensing Agreement, but ownership of the improved Recipes will remain with Mr. Chen. The Directors consider that the Exclusive Recipes Licensing Agreement is favourable to our Company, and it is in the interests of our Company and our Shareholders as a whole.

CONNECTED TRANSACTIONS

To support our efforts in completing the [●], on August 23, 2013, Mr. Chen entered into a Recipes Transfer Agreement with Lao Heng He to transfer the Recipes to Lao Heng He for nominal consideration (the “**Recipes Transfer**”). After the Recipes Transfer, and in order to maintain confidentiality (i) the Recipes will be placed in the care of the chairman of the board of directors of Lao Heng He, a position currently held by Mr. Chen; and (ii) when Mr. Chen ceases to be the chairman of the board of directors of Lao Heng He, he is required to deliver the Recipes to the incoming chairman of Lao Heng He that replaces him. The Recipes Transfer is to become effective on the [●] Date.

(ii) *Tenancy agreement with Huzhou Weiyuan regarding a warehouse*

Pursuant to a tenancy agreement dated March 1, 2012 and entered into between Lao Heng He as the tenant and Huzhou Weiyuan as the landlord, Huzhou Weiyuan agreed to lease to Lao Heng He a commercial warehouse located at Balidian Food Industrial Park, Huzhou City, Zhejiang Province, PRC from March 1, 2012 to December 1, 2017 at an annual rental of RMB15,000. The annual rental payable is below market level based on the rentals of commercial warehouses of similar size around the same area. The Directors consider that the rental payable by Lao Heng He is more favorable than the prevailing market rate and such tenancy agreement is on normal commercial terms and is in the interests of our Company and our Shareholders as a whole. DTZ Debenham Tie Leung Limited has reviewed the current market conditions and is of the opinion that the current market rent of “Property No. 3” (as disclosed in Appendix IV — Property Valuation of this document), which is a warehouse leased from Huzhou Weiyuan, a connected party of the Group, is about RMB98,500 per annum.

The Directors’ Views

In the view of the Directors (including the independent non-executive Directors), it is in the interests of our Group to continue with the connected transactions described in this section after the [●], and that the transactions are conducted on normal commercial terms, are entered into in the ordinary and usual course of business of our Group, the terms are in the interests of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of 7 Directors, comprising 3 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. The functions and duties of the Board include convening shareholders’ meetings, reporting on the Board’s work at these meetings, implementing resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for any increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

<u>Name</u>	<u>Age</u>	<u>Position and description of role</u>	<u>Date appointed as Director</u>
<i>Executive Director</i>			
CHEN Weizhong	42	Chairman of the Board, executive Director and Chief Executive Officer (responsible for overall strategic planning)	May 13, 2013
SHENG Mingjian	39	Executive Director and Vice General Manager (responsible for Group’s financing activities and overall business operations)	December 17, 2013
WANG Chao	36	Executive Director and Managing Director of Sales & Marketing (responsible for Group’s sales and marketing)	December 17, 2013
<i>Non-Executive Director</i>			
ZHANG Bihong	38	Non-executive Director (responsible for implementation of various internal control measures)	December 17, 2013
<i>Independent non-executive Director</i>			
SHEN Zhenchang	67	Independent non-executive Director (Chairman of our Remuneration Committee)	December 17, 2013
LEI Jiasu	58	Independent non-executive Director (Chairman of our Nomination Committee)	December 17, 2013
MA Chaosong	41	Independent non-executive Director (Chairman of our Audit Committee)	December 17, 2013

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. CHEN Weizhong (陳衛忠), aged 42, is the chairman of the Board and the founder and chief executive officer of our Group. He is primarily responsible for our Group’s overall strategic planning, recipes use and control, distribution network expansion and overall business operations. He has over 20 years of experience in the condiment industry in the PRC and possesses unique information regarding the research, development and intellectual property related to our products, including the trade-secret recipes of fermentation starter and cooking wine spices.

Mr. Chen started his career in the condiment industry as early as 1990 and has accumulated extensive experience in the condiment industry since then, especially in production, research and development, and sales and marketing. Before founding our Group in 2005, he was the chairman and general manager of Zhong Wei from 1995 to 2012. Mr. Chen completed a business administration advance class at Zhejiang University (浙江大學工商管理高級研修班) in 2008.

Mr. Chen has been a member of the China Condiment Industrial Association (中國調味品協會) since 2008. He is also the chairman of the Huzhou Rice Wine Industrial Association (湖州黃酒協會) since 2012.

Over the past three years, Mr. Chen was not a director of any listed company.

Mr. SHENG Mingjian (盛明健), aged 39, is our vice general manager. Mr. Sheng is primarily responsible for the management of our Group’s financing activities and assisting Mr. Chen to manage the overall business operations. He has more than 10 years of experience in the condiment industry, and has extensive management experience in capital and business operations. Before joining our Group in 2006, he was the general manager of Zhong Wei from 2001 to 2006.

Over the past three years, Mr. Sheng was not a director of any listed company.

Mr. WANG Chao (王超), aged 36, is our director of sales and marketing. Mr. Wang is primarily responsible for our Group’s sales and marketing. He has 14 years of experience in the condiment industry. Mr. Wang joined Huzhou Lao Heng He Brewing Factory (湖州老恒和釀造廠) (Lao Heng He’s predecessor) in 1998 where he worked in various departments, including business operation department and finance department. Since 2006, Mr. Wang worked in management positions in Lao Heng He’s customer service centre and sales and marketing department. Mr. Wang graduated from Zhejiang Electronic Polytechnic School (浙江省電子工業學校), a technical middle school in 1998.

Over the past three years, Mr. Wang was not a director of any listed company.

Non-executive Directors

Mr. ZHANG Bihong (張弼弘), aged 38, is our non-executive Director. Mr. Zhang has more than 18 years of experience in the areas of auditing, tax, asset valuation and financial management. He is currently a certified tax agent in China (issued by China Certified Tax Agents Association on June 2, 2000). Mr. Zhang was responsible for overseeing the implementation of various internal control measures.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group in 2012, Mr. Zhang served as the director and chief financial officer of Tianli Agritech, Inc. (豐澤科技發展有限公司); a company listed on NASDAQ (Stock Code: OINK), from 2010 to 2011. He was a partner of Beijing Zhong Cheng Xin An Rui Accounting Firm (北京中誠信安瑞會計師事務所) from 2008 to 2009. Mr. Zhang was the senior manager at BDO-Reanda Xin Public Accountants (利安達會計師事務所) from 2005 to 2008 and served as a senior manager at Inner Mongolia Zhong Tian Hua Zheng Accounting Firm (內蒙古中天華會計師事務所) from 1995 to 2005. Mr. Zhang graduated from Inner Mongolia Agricultural College (內蒙古林學院) in 1995 with a diploma in economics (accounting).

Mr. Zhang has been our non-executive Director since December 17, 2013.

Independent Non-executive Directors

Mr. SHEN Zhenchang (沈振昌), aged 67, is our independent non-executive Director. Mr. Shen has more than 40 years of experience in the cooking wine industry. From 1971 to 2006, Mr Shen worked with China Shaoxing Rice Wine Group (中國紹興黃酒集團有限公司) (previously known as Shaoxing City Rice Wine Corporation (紹興市釀酒總公司)). Before his retirement from the China Shaoxing Rice Wine Group in 2006, Mr. Shen was the director of its office of general affairs.

Mr. Shen is a member of the China Brewing Industry Association (rice wine branch) (中國釀酒工業協會黃酒分會), where he has been the deputy council director and secretary general since 2000.

Additionally, Mr. Shen currently serves as a member of National Wine Brewing Standard Technology Committee (全國釀酒標準化技術委員會), a judge at the reviewing committee of China Alcoholic Drinks Association Science Technology Award (中國酒業協會科學技術獎), and the deputy director of the editorial board of China Rice Wine magazine (《中國黃酒》).

Mr. Shen has been our independent non-executive Director since December 17, 2013.

Over the past three years, Mr. Shen was not a director of any listed companies.

Mr. MA Chaosong (馬朝松), aged 41, is our independent non-executive Director. Mr. Ma is a senior accountant (issued by the Beijing Senior Specialized Technique Qualification Evaluation Committee on January 6, 2006), certified public accountant (issued by the Chinese Institute of Certified Public Accountants on September 28, 1999), certified tax agent (issued by China Certified Tax Agents Association on May 11, 2012) and certified public valuer (issued by the Ministry of Finance of the PRC on April 24, 2012) in China. Since 2000 Mr. Ma has been the chairman of Beijing Xin Li Heng Tax Agency Co., Ltd. (北京信利恒稅務師事務所有限責任公司). He has more than 10 years of experience in auditing, accounting and taxation. In May 2011, Mr. Ma was appointed as an independent director of China National Complete Plant Import & Export Corp. Ltd. (中成進出口股份有限公司) (SZSE: 000151). From 1997 to 1999, Mr. Ma was a project manager at Zhong Ce Accounting Firm (中測會計師事務所).

In 1997, Mr. Ma graduated from the Research Institute of Fiscal Science, Ministry of Finance of the PRC (財政部財政科學研究所), with a master's degree in accounting. He graduated from Renmin University of China (中國人民大學) in 1994 with a bachelor's degree in accounting.

Mr. Ma has been our independent non-executive Director since December 17, 2013.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LEI Jiasu (雷家驩), aged 58, is our independent non-executive Director. Currently, Mr. Lei is the director of the Research Centre of Chinese Enterprise Growth and Economic Security in Beijing Tsinghua University (清華大學中國企業成長與經濟安全研究中心). Since 1996, he has been a lecturer in the School of Economics and Management of Beijing Tsinghua University (清華大學經濟管理學院). Between 1994 and 1996, he worked as a post-doctoral researcher in Beijing Tsinghua University. From 1983 to 1989, Mr. Lei taught as a lecturer in Xi'an Electronic and Technology University (西安電子科技大學).

In 2001, Mr. Lei was awarded the title of professor by Beijing Tsinghua University. He graduated as a doctoral research fellow from the School of Economics and Management of Beijing Tsinghua University (清華大學經濟管理學院) in 1993.

Mr. Lei has been our independent non-executive Director since December 17, 2013.

Over the past three years, Mr. Lei was not a director of any listed companies.

Save as disclosed herein, there are no other matters in respect of each of our directors that is required to be disclosed pursuant to relevant rules and there are no other material matters relating to our directors that need to be brought to the attention of our shareholders.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
WAN Peiyao	41	Director of production
ZHAO Yaqin	35	Financial controller

Mr. WAN Peiyao (萬培耀), aged 41, is our director of production. He is primarily responsible for the Group's production management. He has more than 10 years of experience in the condiment and cooking wine industry. Mr. Wan joined our Group in 2005, and has worked in various departments including workshop operation department, cooking wine production department and plant operation department. Prior to joining our Group, Mr. Wan was the plant manager and executive assistant to the general manager of Huzhou Ganchang Wine Company (湖州乾昌酒業有限公司) from 2000 to 2005. Mr. Wan passed the test for first-class sommelier of PRC (國家一級品酒師) in December 2012.

Mr. Wan graduated from Zhejiang University of Technology (浙江工業大學) with a bachelor's degree in Industrial Engineering (Biochemistry) in 1995.

Over the past three years, Mr. Wan was not a director of any listed companies.

DIRECTORS AND SENIOR MANAGEMENT

Ms. ZHAO Yaqin (趙雅琴), aged 35, is our financial controller. Ms. Zhao is responsible for the Group’s financing, account and tax matters. She has more than 10 years of experience in the areas of financial management, accounting practices and tax arrangements. She joined our Group in 2005 as manager of our finance department and became our financial controller in 2012. Prior to joining our Group, Ms. Zhao was the manager of finance department of Zhong Wei from 2003 to 2005.

Ms. Zhao received a diploma in accounting from the Central Radio and Television University (中央廣播電視大學) in 2006.

Over the past three years, Ms. Zhao was not a director of any listed companies.

COMPANY SECRETARY

Mr. AU Wai Keung (區偉強), aged 41, is our company secretary. Mr. Au has more than 15 years of experience in the area of accounting. Currently, Mr. Au is a director, a shareholder and the founder of Arion and Associates Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He also served as the company secretary of Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) (stock code: 1121) from 2011 to 2013. Mr. Au was a consultant at Kennic L.H. Lui & Co., Certified Public Accountants, (呂禮恒會計師事務所) from 2006 to 2007. He served as the financial controller of IEFTS China Limited (上海致渝計算器科技有限公司) from 2004 to 2006 and as the chief financial officer of Universal Technologies Holdings Limited (環球實業科技控股有限公司) (stock code: 1026), a company listed on the Main Board of the Stock Exchange, from 2001 to 2004.

Mr. Au received a bachelor’s degree of Social Science from the Chinese University of Hong Kong in 1993 and a master’s degree in Business Administration from the City University of Hong Kong in 1999. He is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales.

Mr. Au was appointed as the company secretary of our Company on December 17, 2013.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in relevant rules. The audit committee has three members, namely Mr. SHEN Zhenchang, Mr. LEI Jiasu and Mr. MA Chaosong. Mr. MA Chaosong, our independent non-executive Director, has been appointed as the chairman of the audit committee, and has the appropriate professional qualifications and accounting expertise required under the relevant rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in relevant rules. The remuneration committee has three members, namely Mr. SHEN Zhenchang, Mr. LEI Jiasu and Mr. MA Chaosong. Mr. SHEN Zhenchang, our independent non-executive Director, has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to review, determine and make recommendations to our Board on the policy and structure of the remuneration (including bonuses and other compensation) payable to our Directors and senior management and make recommendations on employee benefit arrangements.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in relevant rules. The nomination committee consists of three independent non-executive Directors, being Mr. SHEN Zhenchang, Mr. LEI Jiasu and Mr. MA Chaosong. Mr. LEI Jiasu, our independent non-executive Director, has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen has been the sole director of our Group for the years ended December 31, 2010, 2011 and 2012. No remuneration was paid to Mr. Chen for the years ended December 31, 2010 and 2011. For the year ended December 31, 2012 and the eight months ended August 31, 2013, the aggregate amount of remuneration Mr. Chen received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) was approximately RMB84,000 and RMB84,000, respectively.

The aggregate amount of fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind paid to our five highest paid individuals of our Company, including Directors, during each of the years ended December 31, 2010, 2011 and 2012 and the eight months ended August 31, 2013, were approximately RMB132,000, RMB150,000, RMB301,000 and RMB241,000, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ended December 31, 2013 is estimated to be approximately RMB0.12 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2010, 2011 and 2012 and the eight months ended August 31, 2013. Further, none of our Directors had waived any remuneration during the same period.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, no other payments had been made or were payable in respect of each of the three years ended December 31, 2010, 2011 and 2012 and the eight months ended August 31, 2013 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following [●], will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue:

Authorised share capital:

	<u>Nominal value</u>
	US\$
1,000,000,000 Shares	500,000

Issued and to be issued, fully paid or credited as fully paid:

10,000,000 Shares in issue as of the date of this document	5,000
365,000,000 Shares to be issued pursuant to the [●]	182,500

RANKING

The Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, as of and for the years ended December 31, 2010, 2011 and 2012 and as of and for the eight months ended August 31, 2013, as well as our unaudited consolidated financial information for the eight months ended August 31, 2012, included in the Accountants’ Report set out in Appendix I to this document. The Accountants’ Report has been prepared in accordance with IFRS. The following discussion and analysis and other parts of this document contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section “Risk Factors”.

OVERVIEW

We are the largest manufacturer of cooking wine in China, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume in 2012, respectively, according to the Euromonitor Report. We are committed to offering high-quality and healthy cooking wine and other condiment products, including soy sauce and vinegar. Our market leadership earned us the accolade of National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) in 2013.

We were the only one among the top three cooking wine producers in China in terms of retail sales value in 2012 that manufactured cooking wine products using exclusively the naturally-brewing method, according to the Euromonitor Report. We officially introduced the concept of naturally-brewed cooking wine into our business in December 2011 and since then all of our cooking wine products have been manufactured using naturally-brewed yellow rice wine as base without adding alcohol. We adhere to our traditional brewing methods and manufacture cooking wine products that are more nutritious and impart richer flavor and aroma to dishes compared to cooking wine products manufactured involving blending of alcohol. Such traditional methods are integrated into our advanced and patented manufacturing process, which enables us to achieve large-scale production with high and consistent quality. We also manufacture other condiment products using the naturally-brewing method. We believe we have established a strong reputation for manufacturing high-quality and naturally-brewed cooking wine and other condiment products, which allows us to price our products at a premium and tap into the fast growing condiment market in China.

We primarily sell our products to regional distributors who then sell to sub-distributors or directly to retailers and catering service providers downstream. We have established an extensive distribution network in China that enables us to effectively reach end consumers nationwide. We have been continuously expanding our nationwide distribution networks and enhancing our distributor structure to reduce the number of Category D distributors located in regions that are already covered by higher-category distributors and focus on supporting and managing these higher-category distributors. We had over 200 distributors throughout China as of the Latest Practicable Date, covering 30 provinces, centrally administered-municipalities and autonomous regions.

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We have four production facilities located in Huzhou, Zhejiang Province. As of August 31, 2013, we maintained a stock of approximately 55.4 million liters of base wine in earthen jars. As large-scale production of naturally-brewed cooking wine products requires an abundant stock of base wine and an aging process, we intend to establish additional production facilities in Huzhou and upgrade existing production facilities in order to scale up production of base wine and increase stock of base wine to approximately 169 million liters by 2014. We adopt and adhere to a strict quality control system from the sourcing of raw materials to processing, packaging and inventory storage, and have received various certifications, including the HACCP certification and ISO9001 certification.

We have achieved rapid growth in revenue and profit during the Track Record Period. For 2010, 2011 and 2012, we recorded a total revenue of RMB36.3 million, RMB109.5 million and RMB337.1 million, respectively, and net profit of RMB6.3 million, RMB20.2 million and RMB98.4 million, respectively. For the eight months ended August 31, 2012 and 2013, we recorded a total revenue of RMB188.3 million and RMB322.9 million, respectively, and net profit of RMB55.8 million and RMB96.0 million, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that principal factors affecting our results of operations include the following. See also “— Financial Impact of Separation from Zhong Wei” below.

- *Sales volume and pricing of our products.* Our results of operations are directly affected by our sales volume and the average selling prices of our products. Sales volume of our cooking wine products increased significantly during the Track Record Period, primarily reflecting increasing demand for our products, which we believe was affected by factors such as (i) increasing recognition of our “Lao Heng He” (“老恒和”) brand; (ii) growing consumer consciousness of food safety and preference for naturally-made products; and (iii) the rising disposable income level in the PRC. The average selling prices of our products, which generally increased during the Track Record Period, are affected by factors such as product mix and market demand for our products. During the Track Record Period, our sales volume and the average selling prices of our products were also affected by our historical relationship with Zhong Wei. See “— Financial Impact of Separation from Zhong Wei”.
- *Product mix.* Our product lines consist of cooking wine, soy sauce, vinegar and other products. In late 2010, we began streamlining our product offering to focus on cooking wine, and as a result of the rapid growth in the sales of our cooking wine products, our overall business experienced a period of rapid growth in revenue and net profit during the Track Record Period. We have developed four major categories of cooking wine products to target various consumer groups based on varying levels of income and consumption habits. Generally, our higher-end products command higher margins than our lower-end products. As a result, an increase in percentage of sales derived from our higher-end products would contribute to greater increases in revenue, average selling price, profit margin and net profit.
- *Cost of raw materials.* Our cost of sales primarily consists of cost of raw materials which primarily consist of rice and, secondarily, soy beans, wheat and packaging materials. In 2010, 2011, 2012 and for the eight months ended August 31, 2013, cost of rice represented 39.9%, 54.1%, 58.2% and 50.6%, respectively, of our cost of sales. In addition, the prices of rice and

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other raw materials such as packaging materials are subject to volatility caused by external conditions, such as market supply and demand, climate, environmental conditions, commodity price fluctuations, currency fluctuations, changes in governmental policies and natural disasters. In particular, the average purchase price of rice, our key raw material, has increased significantly in recent years. See “Industry Overview — The PRC Cooking Wine Market — Cooking Wine Manufacturing Methods in China”. We expect the prices of rice and our other raw materials in China to continue to rise, and such trend may have an impact on our profitability. Our cost of raw materials during the early years of the Track Record Period was also affected by procurement from Zhong Wei. See “— Financial Impact of Separation from Zhong Wei — Procurement” below.

- *Capacity.* Our actual production volume is affected by a combination of (i) the amount of base wine of the required vintage available that allows us to produce the desired volume of final cooking wine products; (ii) warehouse and storage space; and (iii) bottling capacity. For more information, see “Business — Production Process and Facilities — Production facilities and capacity”.
- *Seasonality.* Our results of operations are subject to seasonality. Historically, we have experienced higher sales of our cooking wine and other products in the third and fourth quarters of the year in anticipation of the increasing frequency of corporate, friend and family gatherings at year-end and prior to Chinese New Year holidays in the first quarter of the year. A comparison of our semi-annual operating results should take such factor into account.

FINANCIAL IMPACT OF SEPARATION FROM ZHONG WEI

Historically, Mr. Chen, our ultimate Controlling Shareholder, controlled a condiment business that consisted of Zhong Wei and our Group. Zhong Wei was founded in 1995, and had become a well-recognized manufacturer of condiment products focusing on pickled vegetables, soy sauce and other fermented condiment products. Zhong Wei had built an established network of sales channels focused on condiment products comprising a large number of distributors and direct customers, and enjoyed a stable supply of raw materials. In late 2010, we made a key strategic decision of focusing our resources on the manufacturing and sale of cooking wine. Since then, our cooking wine business has grown to become our largest business from which we derive a substantial majority of our revenue. In 2012, in light of the success of the cooking wine business, Mr. Chen began reorganizing his condiment businesses around our Group under the “Lao Heng He” (“老恒和”) brand. Zhong Wei was sold to an independent third party in December 2012 and has ceased to be our related party since then.

Because of the history of our Group, we engaged in significant related party transactions with Zhong Wei in 2010 that decreased and eventually ceased as our operations became increasingly well-established. Our historical financial information, however, should be read in light of such related party transactions for a better understanding of our period-to-period comparisons:

- *Sales.* In 2010, we primarily sold our products to Zhong Wei, which then sold our products through its distribution network. Our sales to Zhong Wei constituted 94.5% of our revenue generated from sales of goods in 2010. In 2011, we began increasingly selling our products directly to our distributors, and as a result, our sales to Zhong Wei, as a percentage of our total revenue, decreased to 41.4% for 2011, 1.5% for 2012 and further to 0.2% for the eight months ended August 31, 2013. See also “Business — The Development of Our Business

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Model”. In addition, we processed soy sauce products that were sold by Zhong Wei under its brand in 2010 and recognized a net processing income (i.e. gross profit) totaling RMB3.8 million. Such arrangement ceased in 2011.

- *Procurement.* During the Track Record Period, particularly in 2011, our rice supply, which is the largest component of our raw material supply, was partly purchased from Zhong Wei. We also purchased packaging materials from Zhong Wei. As our business became more successful, we increasingly purchased rice from third party suppliers directly. In addition, we also purchased certain popular Zhong Wei branded paste and pickled vegetable products from Zhong Wei to supplement our product offering. Because of these factors, procurement from Zhong Wei represented 29.9%, 41.4%, 8.5% and 3.8% of our total procurement in 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively.
- *Bill financing.* We entered into significant bill financing arrangements with Zhong Wei during the Track Record Period, which have ceased since August 2012. In respect of the costs related to the bank acceptance notes, Zhong Wei would pay for the costs or reimburse us for the cost of discounting the bank acceptance notes. The amount of the discounting costs, which totaled RMB1.7 million, RMB8.3 million and RMB3.6 million in 2010, 2011 and 2012, respectively, have been recognized both as “interest compensation” under “other income” and as “interest on bank acceptance bills” under “finance costs”, and as a result, have no impact on our consolidated income statement. On our consolidated statements of financial position, these unexpired bank acceptance notes were recognized as bills receivables under current assets in the amount of RMB40.3 million, RMB40.8 million and RMB15.4 million as of December 31, 2010, 2011 and 2012, respectively; and the same amounts were recognized as “bank advances for discounted bills” under “interest-bearing bank borrowings” under current liabilities as of the same respective dates. As of December 31, 2010, we had RMB23.0 million discounted but unexpired bank acceptance notes recognized as contingent liabilities. In addition, we also drew bank acceptance notes and transferred them to Zhong Wei. Zhong Wei then sold these bills prior to maturity at a discount and retained the proceeds. On our consolidated statements of financial position, these bills are recognized as bills payables, and totaled RMB16.0 million as of December 31, 2010 and RMB47.0 million as of December 31, 2011. See “Business — Legal Proceedings and Compliance — Bill financing”.
- *Purchase of assets.* In December 2012, we purchased through a merger by absorption Huzhou Wu Xing Wu Cheng Wine Company, a spun-off company from Zhong Wei and wholly owned by Mr. Chen, whose assets primarily consisted of manufacturing facilities, production equipment, land use rights and office building. Such transaction contributed to increases in our property, plant and equipment and prepaid land lease payments from December 31, 2011 to December 31, 2012.

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BASIS OF PRESENTATION

Our Company is a holding company incorporated as an exempted company with limited liability in the Cayman Islands on December 4, 2012. Pursuant to the Reorganization, our Company became the holding company of the companies now comprising our Group on March 15, 2013. See “History, Reorganization and Group Structure — Reorganization” for more information. The companies now comprising our Group were under the common control of Mr. Chen and his wife, Ms. XING Liyu, before and after the Reorganization. Accordingly, our financial information has been prepared on a consolidated basis by applying the principles of pooling-of-interests method and presents the consolidated results of our operations, cash flows and financial condition for the companies now comprising our Group as if our current group structure had been in existence throughout the Track Record Period or since the date when such companies first came under the control of Mr. Chen and Ms. XING Liyu, where there is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2010, 2011, 2012 and August 31, 2013 present the assets and liabilities of our subsidiaries using the existing book value from Mr. Chen and Ms. XING Liyu’s perspective. No adjustments are made to reflect fair value of these assets and liabilities, or recognize any new assets or liabilities as a result of the Reorganization. All intra-group transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES AND JUDGMENT AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in detail in Note 4 of the Accountants’ Report set out in Appendix I to this document. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require management’s most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgment than others in their application. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements and pose a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Judgment

In the process of applying our accounting policies, our management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Accountants’ Report set out in Appendix I to this document.

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Tax provision

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. We carefully evaluate the tax implications of transactions and make tax provisions accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in tax legislation and practices.

Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Deferred tax liabilities for withholding taxes

Deferred tax liabilities have not been established for income tax and withholding tax that would not be payable on certain undistributed earnings of the subsidiaries in Mainland China if the Directors consider that the timing of the reversal of the related temporary differences in relation to the undistributed earnings of the subsidiaries in China can be controlled and such temporary differences will not be reversed in the foreseeable future. For those undistributed earnings of the subsidiaries in Mainland China that are considered to be repatriated and distributed by way of dividends, the related deferred tax liability would have been recognized.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, we have to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the repair and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on our experience with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. Relevant carrying amounts of the property, plant and equipment were disclosed in Note 13 to the Accountants’ Report in Appendix I to this document.

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Impairment of trade and other receivables

The policy for provision for impairment losses of our Group is based on the evaluation of collectibility, the aged analysis of trade and other receivables and on our management’s judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves our management’s judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

Early retirement and retirement benefits

We had recognized the early retirement and retirement benefits as a liability. The initial recognition of early retirement and retirement benefits is measured at the best estimate of the expenditure required to settle early-retired and retired employees. When we determine the best estimate, we take into account headcount changes of early-retired and retired employees, effect on future expenditure arising from inflation of prices and other factors. When selecting proper discount rate, we take into account the average period of future payment for early retirement and retirement benefits and other factors. The difference between the actuarial assumptions and actual results will have impact on the relevant accounting estimation. Although the management considered that the above assumptions are reasonable, any changes in assumption may affect the amount of provision for early retirement and retirement benefits. The assumptions that we used in measuring the early retirement and retirement benefits are disclosed in Note 23 to the Accountants’ Report in Appendix I to this document.

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DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

The following table sets forth a summary of our consolidated income statements for the periods indicated. This information should be read together with our consolidated financial statements and related notes, which have been prepared in accordance with IFRS, and set out in Appendix I to this document. Our operating results in any period are not necessarily indicative of results that may be expected for any future period:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Revenue	36,297	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0
Cost of sales	(22,910)	(63.1)	(63,250)	(57.8)	(144,226)	(42.8)	(80,770)	(42.9)	(130,250)	(40.3)
Gross profit	13,387	36.9	46,242	42.2	192,899	57.2	107,557	57.1	192,612	59.7
Other income	2,034	5.6	10,514	9.6	5,051	1.5	4,162	2.2	3,016	0.9
Selling and distribution expenses	(1,339)	(3.7)	(16,283)	(14.9)	(24,104)	(7.1)	(15,130)	(8.0)	(15,045)	(4.7)
Administrative expenses	(970)	(2.7)	(988)	(0.9)	(22,899)	(6.8)	(10,151)	(5.4)	(40,003)	(12.4)
Other expenses	(1,094)	(3.0)	(59)	(0.1)	(35)	(0.0)	(1)	(0.0)	(9)	(0.0)
Finance costs	(3,597)	(9.9)	(11,752)	(10.7)	(15,463)	(4.6)	(9,746)	(5.2)	(11,477)	(3.6)
Profit before tax	8,421	23.2	27,674	25.3	135,449	40.2	76,691	40.7	129,094	40.0
Income tax expense	(2,139)	(5.9)	(7,460)	(6.8)	(37,011)	(11.0)	(20,916)	(11.1)	(33,098)	(10.3)
Profit for the year	<u>6,282</u>	<u>17.3</u>	<u>20,214</u>	<u>18.5</u>	<u>98,438</u>	<u>29.2</u>	<u>55,775</u>	<u>29.6</u>	<u>95,996</u>	<u>29.7</u>
Attributable to: Owners of the Company	<u>6,282</u>	<u>17.3</u>	<u>20,214</u>	<u>18.5</u>	<u>98,438</u>	<u>29.2</u>	<u>55,775</u>	<u>29.6</u>	<u>95,996</u>	<u>29.7</u>

Revenue

The following table sets forth the components of our revenue and their respective percentages for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Sales of goods	32,539	89.6	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0
Rendering of services	3,758	10.4	—	—	—	—	—	—	—	—
Total revenue	<u>36,297</u>	<u>100.0</u>	<u>109,492</u>	<u>100.0</u>	<u>337,125</u>	<u>100.0</u>	<u>188,327</u>	<u>100.0</u>	<u>322,862</u>	<u>100.0</u>

We primarily generate revenue from the sale of our cooking wine and other condiment products. In 2010, we processed soy sauce products that were sold by Zhong Wei under its brand and recognized a net processing income (i.e. net of cost) totaling RMB3.8 million. Such arrangement ceased in 2011. See also “— Financial Impact of Separation from Zhong Wei — Sales”.

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In 2009 and 2010, we processed soy sauce products for Zhong Wei under its brand. Net processing income recognized in 2010 for such services were RMB3.8 million. Pursuant to the soy sauce processing framework agreements we entered into with Zhong Wei in 2009 and 2010, respectively, we processed semi-finished soy sauce products from time to time in 2009 and 2010 to supplement Zhong Wei’s soy sauce production, in exchange for processing fees equaling approximately 11% of the selling price of the finished soy sauce products. Pursuant to the framework agreements, we processed semi-finished soy sauce products in accordance with relevant national food safety and hygiene standards, and were required to present business license, food hygiene license, product quality reports issued by relevant supervisory authorities and our own product test reports upon each delivery. Zhong Wei’s research and development center conducted sample tests based on relevant national standards before a batch was accepted and stored for future use.

Our Directors are of the view that such arrangement formed part of our ordinary course of business and was on normal commercial terms due to the following reasons: (i) this historical business arrangement reflected and was in line with our ultimate Controlling Shareholder’s then overall business objectives, when he implemented certain distribution arrangements between us and Zhong Wei, which were both owned by him, under which we primarily functioned as a manufacturing platform, and Zhong Wei as the centralized sales channel for our ultimate Controlling Shareholder’s overall condiment business, (ii) the processing services were consistent with our historical business model and operations, as the manufacturing of soy sauce products constituted a major component of our business prior to the evolvement of our business model in late 2010. Prior to such evolvement in our business model and cooking wine becoming our core business, we offered a wide range of condiment products without any dominant product category, and the manufacturing of soy sauce products represented a substantial component of our business operations. In 2010, revenue generated from our soy sauce products accounted for 29.9% of total revenue from sales of goods; (iii) at the time, Zhong Wei offered a range of condiment products under the “Zhong Wei” brand. Its major products were pickled vegetables, and soy sauce constituted only a small part of Zhong Wei’s business, thus its soy sauce production capacity was minimal. In order to fulfill orders that exceeded Zhong Wei’s minimal soy sauce production capacity, Zhong Wei engaged external soy sauce production plants to process soy sauce products since 2006 and sold these products under the “Zhong Wei” brand. Zhong Wei engaged us and Fuyang Jiuzhen Food Co., Ltd. (阜陽九珍食品有限公司) and Tianhaoyuan Brewery (Jiangsu) Co., Ltd. (天浩圓釀造(江蘇)有限公司), independent third parties based in Anhui Province and Jiangsu Province, respectively, to provide soy sauce processing services; and (iv) it is common industry practice for condiment manufacturers to provide processing or OEM-type services to other condiment manufactures. Since our soy sauce production capacity had gradually ramped up in late 2008, we had spare capacity to provide soy sauce processing services for Zhong Wei in addition to producing soy sauce products under our own brand, and given the common ownership, it was natural for us to provide soy sauce processing services for Zhong Wei when its soy sauce processing agreement with Tianhaoyuan Brewery (Jiangsu) Co., Ltd. (天浩圓釀造(江蘇)有限公司) ended in February 2009. We generated a reasonable margin from such processing arrangement in the form of processing fees of approximately 11% of the selling price of the finished soy sauce products. We believe that such markups was consistent with markups charged by other companies in the condiment industry at that time. As we also manufactured and sold soy sauce products under our own “Lao Heng He” brand, we had limited resources and therefore did not provide similar services to others. As was in our case, it is not common for a condiment manufacturer to provide processing or OEM-type services to multiple customers where production capacity is limited because of the time and resources required to customize and calibrate production processes to meet a customer’s taste, coloring and quality specifications. In late 2010, our ultimate Controlling Shareholder made a

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strategic move to develop us as a standalone core products-focused business, which resulted from his conviction to restore the family heritage in the Lao Heng He brand, and to focus our resources on the manufacturing and sale of cooking wine and to offer a limited range of condiment products, including soy sauce products, to supplement our cooking wine offering. In light of this shift in strategic focus, we ceased processing soy sauce products for Zhong Wei and utilized all of our soy sauce production capacity for the manufacturing of soy sauce products under our own brand. Going forward, we will consider providing similar processing services if the appropriate opportunities arise and to the extent our processing capacity permits. See “Business — The Development of Our Business Model”.

Revenue by product line

Our revenue generated from sales of goods represents the net invoiced value of goods sold, after allowances for returns and trade discounts, which were nil during the Track Record Period. The following table sets forth the components of our revenue generated from sales of goods by product line and their respective percentage for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Percentage of total revenue from sales of goods		Percentage of total revenue from sales of goods		Percentage of total revenue from sales of goods		Percentage of total revenue from sales of goods		Percentage of total revenue from sales of goods	
	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000 (unaudited)	%	Revenue RMB'000	%
Cooking wine products										
Premium	—	—	6,596	6.0	81,481	24.2	27,528	14.6	65,157	20.2
High-end	—	—	—	—	24,781	7.3	6,214	3.3	60,873	18.9
Medium-range	6,338	19.5	38,953	35.6	115,423	34.2	61,189	32.5	92,355	28.6
Mass-market	8,783	27.0	14,604	13.3	70,588	20.9	61,286	32.4	14,749	4.6
Subtotal	15,121	46.5	60,153	54.9	292,273	86.6	156,217	82.8	233,134	72.3
Soy sauce products	9,735	29.9	20,538	18.8	12,780	3.8	8,696	4.6	70,219	21.7
Vinegar products	3,770	11.6	13,865	12.7	9,291	2.8	6,163	3.3	3,478	1.1
Other products										
Paste and pickled vegetables	831	2.6	9,996	9.1	19,134	5.7	14,548	7.8	15,059	4.6
Others	3,082	9.4	4,940	4.5	3,647	1.1	2,703	1.5	972	0.3
Subtotal	3,913	12.0	14,936	13.6	22,781	6.8	17,251	9.3	16,031	4.9
Total revenue from sales of goods	32,539	100.0	109,492	100.0	337,125	100.0	188,327	100.0	322,862	100.0

In late 2010, we began focusing our resources on developing our cooking wine business, particularly the higher-end products. As a result, sales of cooking wine products as a percentage of our total revenue from sales of goods increased significantly during the Track Record Period. For a description of how we categorize premium, high-end, medium-range and mass-market cooking wine products, see “Business — Products — Cooking wine products”.

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Sales volume

The following table sets forth the sales volume of our principal products by product line for the periods indicated:

	For the year ended December 31,					For the eight months ended August 31,		
	2010	2011	2012	2010–2011	2011–2012	2012	2013	2012–2013
	Liters '000	Liters '000	Liters '000	% change	% change	Liters '000	Liters '000	% change
Cooking wine								
products								
Premium	—	446	4,880	—	994.2%	1,667	3,896	133.7%
High-end	—	—	2,271	—	—	576	5,542	862.2%
Medium-range	1,488	7,354	18,960	394.2%	157.8%	10,115	14,812	46.4%
Mass-market	4,686	7,365	28,114	57.2%	281.7%	24,645	3,420	(86.1)%
Subtotal	6,174	15,165	54,225	145.6%	257.6%	37,003	27,670	(25.2)%
Soy sauce								
products	2,911	5,918	2,944	103.3%	(50.3)%	1,979	6,692	238.2%
Vinegar								
products	1,386	3,398	2,615	145.2%	(23.0)%	1,798	667	(62.9)%

As we increasingly focused our resources on our cooking wine business, in particular, our premium and high-end cooking wine products, sales volume of our higher-end cooking wine products increased significantly during the Track Record Period, while sales volume of soy sauce and vinegar products decreased from 2011 to 2012. For the eight months ended August 31, 2013, the sales volume of our soy sauce products increased significantly compared to the same period in 2012, primarily reflecting (i) the addition to our distribution network one of the leading soy sauce distributors, which helps to deepen our market penetration, especially in eastern China; and (ii) an increasing demand for our soy sauce products with higher retail prices such as our Premium Flavored Soy Sauce (鮮上鮮醬油) due to the increasing recognition of our brand. See “Business — Products — Soy Sauce Products”. For the eight months ended August 31, 2013, the sales volume of our vinegar products decreased compared to the same period in 2012 primarily due to decreased production of our vinegar products, reflecting the change in our product mix and shifting of our business focus.

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Average selling price

The following table sets forth the average selling price of our principal products by product line for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	(RMB per liter)			(RMB per liter)	
Cooking wine products					
Premium	—	14.8	16.7	16.5	16.7
High-end	—	—	10.9	10.8	11.0
Medium-range	4.3	5.3	6.1	6.0	6.2
Mass-market	1.9	2.0	2.5	2.5	4.3
Soy sauce products	3.3	3.5	4.3	4.4	10.5
Vinegar products	2.7	4.1	3.6	3.4	5.2

The average selling price of each of our cooking wine product lines generally increased during the Track Record Period, primarily reflecting an increase in demand for these products and a decrease in the percentage of sales to Zhong Wei. See also “— Financial Impact of Separation from Zhong Wei — Sales”. The average selling price of our soy sauce products also increased significantly for the eight months ended August 31, 2013 compared to the same period in 2012, primarily reflecting an increase in demand of our soy sauce products with higher retail prices such as our Premium Flavored Soy Sauce (鮮上鮮醬油). Except for 2012, the average selling price of our vinegar products generally increased during the Track Record Period, reflecting rising demand for our vinegar products. The decline of average selling price of our vinegar products in 2012 was primarily due to decreased production of our Crab Vinegar (蟹醋) in 2012 as we focused on expanding our cooking wine businesses.

FINANCIAL INFORMATION

Cost of sales

The following table sets forth the components of our cost of sales for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials										
Rice	9,149	39.9	34,233	54.1	83,964	58.2	46,866	57.9	65,843	50.6
Packaging materials	5,415	23.6	15,354	24.3	35,467	24.6	20,023	24.8	31,342	24.1
Soy beans	1,491	6.5	3,171	5.0	2,807	1.9	1,593	2.0	16,864	12.9
Wheat	229	1.0	439	0.7	1,939	1.4	1,034	1.3	4,360	3.3
Others ⁽¹⁾	4,720	20.6	6,202	9.8	14,713	10.2	8,293	10.3	5,972	4.6
Subtotal	21,004	91.6	59,399	93.9	138,890	96.3	77,809	96.3	124,381	95.5
Manufacturing overhead	1,190	5.3	2,084	3.3	3,137	2.2	1,223	1.5	2,901	2.2
Salaries and benefits	716	3.1	1,767	2.8	2,199	1.5	1,739	2.2	2,968	2.3
Total	22,910	100.0	63,250	100.0	144,226	100.0	80,771	100.0	130,250	100.0

(1) Others include miscellaneous materials such as spices.

Our cost of sales mainly comprises cost of raw materials, including principally rice, packaging materials, soy beans and wheat. As the sale of cooking wine products increased as a percentage of our revenue during the Track Record Period, the cost of rice as a percentage of our raw material increased as well. For the eight months ended August 31, 2013, the cost of rice as a percentage of our raw materials decreased as compared to the same period in 2012 as we increased our purchase of soy beans during this period due to increased sales volume of soy sauce. Cost of packaging materials primarily includes the cost of glass bottles, plastic bags, wrapping paper, cardboard boxes and product labels. Manufacturing overhead primarily consists of rental and depreciation of property, plant and equipment related to production as well as water and electricity charges. Rental and depreciation of property, plant and equipment related to production remained relatively stable during the Track Record Period, which contributed to a general decrease in manufacturing overhead as a percentage of our cost of sales during the Track Record Period. Salaries and benefits in cost of sales relate to employees involved in production.

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Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margin of our principal products by product line for the periods indicated:

	For the year ended December 31,						For the eight months ended August 31,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Cooking wine products										
Premium	—	—	5,580	84.6	61,597	75.6	20,771	75.5	48,110	73.8
High-end	—	—	—	—	17,063	68.9	4,176	67.2	39,429	64.8
Medium-range	1,491	23.5	15,298	39.3	59,891	51.9	31,365	51.3	40,487	43.8
Mass-market	4,747	54.0	7,298	50.0	39,200	55.5	38,195	62.3	8,924	60.5
Subtotal	6,238	41.3	28,176	46.8	177,751	60.8	94,507	60.5	136,950	58.7
Soy sauce products	884	9.1	6,641	32.3	4,732	37.0	2,803	32.2	48,833	69.5
Vinegar products	1,226	32.5	5,240	37.8	5,153	55.5	4,737	76.9	2,041	58.7
Other products										
Paste and pickled vegetables	643	77.4	4,934	49.4	4,417	23.1	3,683	25.3	4,329	28.7
Others	638	20.7	1,251	25.3	846	23.2	1,827	67.6	459	47.2
Subtotal	1,281	32.7	6,185	41.4	5,263	23.1	5,510	31.9	4,788	29.9
Total	9,629	36.9 ⁽¹⁾	46,242	42.2	192,899	57.2	107,557	57.1	192,612	59.7

- (1) Excluding the RMB3.8 million in net processing income for rendering of processing services, our gross margin in 2010 would have been 29.6%. See “— Description of Certain Income Statement Items — Revenue”.

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The gross margin of our cooking wine products has historically been higher than that of other products in general. Accordingly, an increase in the percentage of sales from cooking wine products has contributed to an overall increase in our gross margin. Furthermore, we officially introduced the concept of naturally-brewed cooking wine to our manufacturing process and marketing campaign in December 2011. In line with our business strategy to focus on cooking wine products, we launched the product lines of our premium and high-end cooking wines in late 2011 and 2012, respectively. China’s growing levels of consciousness on health and food safety as well as rising disposable income and consumption growth also contributed to increasing sales of our premium and high-end cooking wine products. These products have a higher average selling price than our medium-range and mass-market products. The increase in gross margin of our cooking wine products from 46.8% in 2011 to 60.8% in 2012 was primarily due to increased sales of our premium and high-end cooking wine products and the increase in average selling price of all lines of cooking wine products. The percentage of sales derived from our premium cooking wine products increased from 6.0% in 2011 to 24.2% in 2012, while that of our high-end cooking wine products increased from nil in 2011 to 7.3% in 2012. In addition to the change in product mix, during the Track Record Period we increased our direct sales to distributors, which bore higher margins than sales to Zhong Wei. The slight decrease in gross margin of our cooking wine products from 60.5% for the eight months ended August 31, 2012 to 58.7% for the same period in 2013 was primarily due to increased cost of rice. The higher gross margin of our mass-market cooking wine products compared to medium-range products primarily reflected the lower cost of packaging materials of these products, which are generally packed in plastic bags rather than glass bottles. For more information on the gross profit margins of our cooking wine products, please refer to the section headed “— Results of Operations” below and the section headed “Summary — Summary Consolidated Financial Information — Our Financial Track Record — Gross and Net Profit”.

Our cooking wine products are produced by blending vintage base wine aged for different Wine Years, which functions to deliver the desirable aroma and taste, with mixer base wine to adjust the ABV, sweetness and acidity, adding salt, spices and water. The respective year of our cooking wine products, which we use to classify the different product categories, is determined by the weighted average Wine Years of vintage base wine. The vintage base wine generally accounts for 4% to 6% of total volume of a bottle of cooking wine, while the mixer base wine usually accounts for approximately 64% to 87% of total volume of a bottle of cooking wine for the eight months ended August 31, 2013. The generally decreased amount of vintage base wine usage since 2012 is primarily attributable to our strategic move to naturally-brewed cooking wine since December 2011, which no longer involves blending of alcohol. The overall increased concentration level of base wine in a bottle of cooking wine also meant that less amount of vintage base wine, whose major function is to deliver the desirable aroma and taste, is required. Because the sale of premium, high-end and medium-range cooking wine products is expected to continue to account for a substantial proportion of our total revenue and that the current stock of base wine is sufficient for the production of such sales, we will be able to sustain our gross profit margins.

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Other income and gains

During the Track Record Period, the category of “other income and gains” primarily consisted of the following:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income and gains					
Subsidy received	212	210	135	62	2,478
Rental income	—	—	—	—	318
Gain from sales of materials	6	1,205	725	563	161
Interest income	100	592	564	534	27
Interest compensation	1,677	8,266	3,614	2,998	—
Others	39	241	13	5	32
	<u>2,034</u>	<u>10,514</u>	<u>5,051</u>	<u>4,162</u>	<u>3,016</u>

- *Interest compensation.* During the Track Record Period, Zhong Wei drew bank acceptance bills, which it then transferred to us. We sold these bills back to the bank prior to maturity at a discount, and transferred the proceeds of such sale to Zhong Wei. Zhong Wei then repaid us the amount of the discount, which is categorized as “interest compensation”. The same amount has been recognized as an expense under the item of “finance costs”. See “— Finance Costs” below. Interest compensation represented interest compensated to us by Zhong Wei as finance costs from discounted bank acceptance bills, the proceeds from which were used to finance Zhong Wei, pursuant to the agreement between Zhong Wei and us. The amounts equal to “interest on bank acceptance bills” under “finance costs”, which were calculated based on the face value of the discounted bank acceptance bills and the discount rates, and amortized on a straight-line basis over the remaining period of the discounted bills. Our reporting accountants have reviewed the calculation of “interest compensation” and agreed with the relevant accounting treatment. Based on the above, our reporting accountants are of the view that the calculation was fair and reasonable. See “Business — Legal Proceedings and Compliance — Bill financing”.
- *Gain from sales of materials.* Sales of materials primarily consisted of sales of raw materials to Zhong Wei and third parties.
- *Subsidy received.* Subsidy received represented subsidy income received from local governments as incentives to encourage business development for certain of our subsidiaries in the PRC.

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- *Others.* In 2011, the “others” category within “other income and gains” primarily consisted of a write-back of trade receivable in the amount of RMB220,000. We wrote off this amount as impaired trade receivables before the Track Record Period in 2007 as we did not expect it to be collectible. In 2011, we had, in fact, been able to collect the impaired amount of RMB220,000, and therefore it had been written back and recognized as other income.

Selling and distribution expenses

The table below sets forth the components of our selling and distribution expenses for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Advertising expenses	1,092	14,022	14,063	9,618	8,710
Transportation expenses	68	1,277	5,387	3,282	3,401
Marketing expenses	—	190	2,238	1,129	1,974
Salaries and wages for sales employees	—	83	966	577	552
Travelling expenses	57	123	834	386	297
Others ⁽¹⁾	122	588	616	138	111
Total	1,339	16,283	24,104	15,130	15,045

(1) Others primarily include depreciation and other miscellaneous expenses.

Selling and distribution expenses primarily consist of advertising expenses, transportation expenses, marketing expenses, travelling expenses, and salaries and wages for our sales employees. In 2011, 2012 and for the eight months ended August 31, 2013, we incurred RMB11.2 million, RMB11.7 million and RMB8.2 million, respectively, for an advertising campaign on China Central Television. See “Business — Sales and Marketing” for more details.

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Administrative expenses

The table below sets forth the components of our administrative expenses for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
R & D expenses	—	—	12,191	5,765	23,120
Professional advisers expenses ⁽¹⁾	211	—	2,448	174	8,938
Staff remuneration	—	9	2,488	937	2,043
Depreciation	—	—	—	21	1,513
Bank charges	136	224	1,125	799	525
Rental	—	—	1,038	621	225
Other taxes	62	222	1,402	971	1,755
Travelling expenses	75	32	442	— ⁽²⁾	— ⁽²⁾
Office expenses	88	83	378	356	875
Entertainment expenses	102	54	248	— ⁽²⁾	— ⁽²⁾
Others ⁽³⁾	296	364	1,139	507	1,009
Total	970	988	22,899	10,151	40,003

- (1) Professional advisers expenses included fees paid to our reporting accountants. Our Group recorded service fees to our reporting accountants of RMB1.0 million and RMB1.7 million in 2012 and for the eight months ended August 31, 2013, respectively, which was recorded according to the progress of such services. Under accounting principles, it is not appropriate to record the reporting accountants' service fees in 2010 and 2011 retrospectively, as our Group had no obligation to record expenses and liabilities for a future event, and such service fees would not be incurred if they were not for [●]. Our auditor's remuneration was nil during the Track Record Period. Based on the interpretation of the relevant disclosure requirement on the audited financial statements, auditor's remuneration mainly refers to the fees paid to statutory auditors. Our PRC subsidiaries were not required to, and therefore did not, carry out any statutory audits during the Track Record Period, and as a result did not incur any auditor's remuneration during the Track Record Period. The local branches of the SAIC did not require our PRC subsidiaries to prepare audited financial statements, as the local branches of SAIC have discretion on the requirement to produce audited financial statements for the annual inspection of certain enterprises according to the “Notice of the State Administration for Industry and Commerce on Strengthening and Improving the Annual Inspection of Enterprises” issued in 2007 (《國家工商行政管理總局關於加強和改進企業年度檢驗工作的通知》). Instead, our PRC subsidiaries filed management accounts with the local authorities and duly passed each annual inspection during the Track Record Period. Our PRC legal advisors are of the view that our PRC subsidiaries have been in compliance with the relevant PRC laws and regulations on statutory audits during the Track Record Period. As advised by our PRC legal advisers, save as disclosed under “Business — Legal Proceedings and Compliance — Compliance”, we have obtained all material licenses, permits and certificates required for the operation of our business and have complied with all relevant PRC laws, rules and regulations that are applicable to our business during the Track Record Period. With respect to our non-PRC subsidiaries, our Company was incorporated in the Cayman Islands on December 4, 2012, and there are no statutory audit requirements for the Company under Cayman Islands law. Our Hong Kong subsidiary, Lao Heng He Group Limited, was incorporated on December 13, 2012 and has not reached the prescribed time preparing accounts under the Hong Kong Companies Ordinance. Please refer to Note 7 of the Accountants' Report set out in Appendix I to this document.
- (2) For the eight months ended August 31, 2012 and 2013, travelling expenses and entertainment expenses were included in the category of office expenses.
- (3) Others primarily consist of insurance expenses, motor vehicle expenses, communication expenses and other miscellaneous expenses.

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Administrative expenses primarily consist of research and development expenses, legal and other professional fees, salaries and benefits for our management and administrative staff, rental expenses, office expenses and other miscellaneous expenses. In 2012, our research and development expenses totalled RMB12.2 million, which primarily related to the research of our Tai Soy Sauce. For the eight months ended August 31, 2013, we had administrative expenses of RMB40.0 million, including (i) research and development expenses of RMB23.1 million for new fermentation and processing methods of base wine and soy sauce to improve their nutrition and flavor; and (ii) [●].

Other expenses

The category of “other expenses” during the Track Record Period primarily consisted of donations to charities.

Finance costs

Finance costs during the Track Record Period primarily consisted of (i) interest on bank acceptance bills, and (ii) interest on our bank loans. Interest on bank acceptance bills represented the discount on the bank acceptance bills that Zhong Wei drew to finance its operations. The amount of the discount has been fully repaid by Zhong Wei. The same amount has been recognized as an income under the item of “other income”. See “— Other income — Interest compensation” above.

Income tax

Under Cayman Islands law, we are not subject to any income tax in the Cayman Islands. We were not liable for income tax in Hong Kong as we did not have any assessable income arising in Hong Kong during the Track Record Period.

Our income tax comprises current tax and movements in deferred tax assets and liabilities. Our current tax includes PRC enterprise income tax payable by our PRC subsidiaries. Pursuant to the PRC enterprise income tax law, the PRC income tax rate for our PRC subsidiaries is 25% effective from January 1, 2008. Accordingly, the income tax provision of our Group in respect of our operations in the PRC was provided at the rate of 25% on the taxable profits for the year. We also made provisions for PRC withholding tax at 10% on the distributable profits of our PRC subsidiaries during the Track Record Period.

Pursuant to the EIT Laws, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign enterprises established in the PRC. For our Group, the applicable rate is 10%. A deferred tax liability should be recorded before the payment of such dividends. According to our dividend policy, we have provided for deferred withholding tax liabilities of RMB6.3 million based on 10% of the 30% of the distributable profits of our PRC subsidiaries in the Track Record Period (each of Lao Heng He and Lao Heng He Wine suffered accumulated losses as of December 31, 2010, thus no withholding tax was provided for in 2010, causing the effective tax rate in 2010 to be lower than that of 2011), which would be distributed to the Company in the following years.

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Our effective tax rate was 25.4%, 27.0% and 27.3% in 2010, 2011 and 2012, respectively, all of which were higher than 25%, the standard income tax rate for PRC enterprises, primarily due to the accrued withholding income tax expenses for the expected distributable dividends after [●]. The effective tax rate in 2010 was relatively lower, primarily because no provision for withholding income tax liabilities had been made in 2010. Our effective tax rate for the eight months ended August 31, 2013 was 25.6%, which is lower than 27.3% for the eight months ended August 31, 2012 primarily because we received a tax incentive on eligible research and development expenditure according to relevant tax preferential regulations and with local tax bureau’s approval. We are currently in the process of applying for the “New and Advanced Technology Enterprise” (高新技術企業) status, which, if approved, will provide certain tax benefits, including a reduced enterprise income tax rate of 15%. According to the Administrative Measures on Accreditation of New and Advanced Technology Enterprises (高新技術企業認定管理辦法), the provincial level authorities are responsible for the application assessment and accreditation within its administrative region. If the provincial level authorities deem that an applicant meets the relevant criteria of a New and Advanced Technology Enterprise, a public announcement will be made for 15 working days during which if no objection is raised, the application will be filed with the national level authorities for record purposes. After the filing procedures, a standardized “Certificate of New and Advanced Technology Enterprise” shall be issued to the applicant by the provincial level authorities. As of the Latest Practicable Date, the Company’s application has been filed with the national level authorities for record purposes. Based on the foregoing, our PRC Legal Advisers are of the view that subject to the filing procedure by the national level authorities, there is no substantive legal impediment for us in receiving the “New and Advanced Technology Enterprise” qualification.

RESULTS OF OPERATIONS

Eight months ended August 31, 2013 compared to eight months ended August 31, 2012

Revenue

Our revenue increased by 71.4% from RMB188.3 million for the eight months ended August 31, 2012 to RMB322.9 million for the eight months ended August 31, 2013, primarily reflecting an increase in the sales of our cooking wine products and soy sauce products. The sales of our vinegar and other products decreased for the eight months ended August 31, 2013 as compared to the same period in 2012.

Revenue from cooking wine products increased by 49.2% from RMB156.2 million for the eight months ended August 31, 2012 to RMB233.1 million for the eight months ended August 31, 2013, reflecting increases in all product lines except for our mass-market cooking wine products. The increase in sales volume for all cooking wine products except for our mass-market products primarily reflected an increase in demand for our higher-end products, which we believe in turn reflected factors such as (i) increasing recognition of our “Lao Heng He” (“老恒和”) brand; (ii) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products which we introduced to the market; (iii) rising disposable income level in the PRC, (iv) increase of sales of our high-end cooking wine products, such as our 15% ABV Cooking Wine (15度料酒) and Steamed Fish Cooking Wine (蒸魚

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料酒), which were launched in the first and second half of 2012, respectively; and (v) our deepening of market penetration. Our increased sales for the eight months ended August 31, 2013 were also attributable to our continuing efforts to develop higher-end cooking wine products. The increase in the average selling price of our cooking wine products primarily reflected a combined effect of (i) increased percentage of sales attributable to premium and higher-end products; and (ii) price increases in all product lines in response to increasing demand.

Revenue from our soy sauce products increased by 707.5% from RMB8.7 million for the eight months ended August 31, 2012 to RMB70.2 million for the eight months ended August 31, 2013. The increase in sales of our soy sauce products for the eight months ended August 31, 2013 as compared to the same period in 2012 primarily reflected an increase in sales volume and average selling prices for our soy sauce products due to (i) the addition to our distribution network one of the leading soy sauce distributors, which helps to deepen our market penetration, especially in eastern China market which had high purchasing power for condiment products; and (ii) an increasing demand for our soy sauce products with higher retail prices such as our Premium Flavored Soy Sauce (鮮上鮮醬油).

Our shift in focus to the cooking wine business affected our revenue for vinegar products, which decreased by 43.6% from RMB6.2 million for the eight months ended August 31, 2012 to RMB3.5 million for the eight months ended August 31, 2013, and our other products, which decreased by 7.1% from RMB17.3 million for the eight months ended August 31, 2012 to RMB16.0 million for the same period in 2013.

Cost of sales

Our cost of sales increased by 61.3% from RMB80.8 million for the eight months ended August 31, 2012 to RMB130.3 million for the eight months ended August 31, 2013, reflecting increases in all major cost of sales components. The increase in cost of sales primarily reflected increases in the cost of raw materials, particularly rice, soy beans and packaging materials. Cost of rice increased by 40.5% from RMB46.9 million to RMB65.8 million; cost of soy beans increased by 956.3% from RMB1.6 million to RMB16.9 million, and cost of packaging materials increased by 56.5% from RMB20.0 million to RMB31.3 million.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 79.1% from RMB107.6 million for the eight months ended August 31, 2012 to RMB192.6 million for the eight months ended August 31, 2013. Our gross profit margin increased from 57.1% for the eight months ended August 31, 2012 to 59.7% for the same period in 2013, primarily reflecting the combined effect of (i) an increase in gross profit margin of our soy sauce products from 32.2% for the eight months ended August 31, 2012 to 69.5% for the same period in 2013; and (ii) an increase in the percentage of sales derived from our soy sauce products with higher retail prices such as our Premium Flavored Soy Sauce (鮮上鮮醬油). The increase in gross margin of our soy sauce products for the eight months ended August 31, 2013 was primarily due to the increased sales of our soy sauce products with higher retail prices such as our Premium Flavored Soy Sauce (鮮上鮮醬油) and the increase in the average selling prices of our soy sauce products. The slight decrease in gross margin of our cooking wine products for the eight months ended August 31, 2013 as compared to the same period in 2012 was primarily due to increased cost of rice.

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Other income and gains

Other income and gains decreased by 27.5% from RMB4.2 million for the eight months ended August 31, 2012 to RMB3.0 million for the eight months ended August 31, 2013, primarily reflecting a decrease in interest compensation from RMB3.0 million for the eight months ended August 31, 2012 to nil for the same period in 2013 as we ceased bill financing activities in August 2012, partially offset by an increase of subsidy received from local government of RMB0.06 million for the eight months ended August 31, 2012 to RMB2.5 million for the same period in 2013. See also “— Description of Certain Income Statement Line Items — Other income”.

Selling and distribution expenses

Our selling and distribution expenses decreased slightly by 0.6% from RMB15.1 million for the eight months ended August 31, 2012 to RMB15.0 million for the eight months ended August 31, 2013. Our selling and distribution expenses as a percentage of our revenue decreased from 8.0% for the eight months ended August 31, 2012 to 4.7% for the eight months ended August 31, 2013, primarily reflecting the increase in our revenue for the eight months ended August 31, 2013.

Administrative expenses

Our administrative expenses increased significantly from RMB10.2 million for the eight months ended August 31, 2012 to RMB40.0 million for the eight months ended August 31, 2013. This increase mainly reflected (i) research and development expenses of RMB23.1 million for new fermentation and processing methods of base wine and soy sauce to improve their nutrition and flavor.

Finance costs

Our finance costs increased by 17.8% from RMB9.7 million for the eight months ended August 31, 2012 to RMB11.5 million for the eight months ended August 31, 2013. The increase in finance costs primarily reflected an increase in interest on bank loans from RMB6.7 million for the eight months ended August 31, 2012 to RMB11.5 million for the same period in 2013 as a result of an increase in the average balance of our bank loans in 2013.

Income tax expense

Our tax expense increased by 58.2% from RMB20.9 million for the eight months ended August 31, 2012 to RMB33.1 million for the eight months ended August 31, 2013, primarily reflecting an increase in our profit before tax. Our effective tax rate was 27.3% for the eight months ended August 31, 2012 and 25.6% for the same period in 2013.

Profit for the period

As a result of the foregoing, our net profit increased by 72.1% from RMB55.8 million for the eight months ended August 31, 2012 to RMB96.0 million for the same period in 2013.

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

Revenue

Our revenue increased by 207.9% from RMB109.5 million in 2011 to RMB337.1 million in 2012, primarily reflecting an increase in the sales of our cooking wine products. Sales of our soy sauce products and vinegar products decreased, partially offset by an increase in the sales of our other products.

Revenue from cooking wine products increased by 385.9% from RMB60.2 million in 2011 to RMB292.3 million in 2012, reflecting increases in all product lines, including premium products, which we launched in the second half of 2011, high-end products, which we launched in 2012, as well as medium-range and mass-market products. The increase in sales volume primarily reflected an increase in demand for our products, which we believe in turn reflected factors such as (i) increasing recognition of our “Lao Heng He” (“老恒和”) brand, particularly since the launch of our advertising campaign on China Central Television in 2011; (ii) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products; and (iii) rising disposable income level in the PRC; and an increase in supply of our products as a result of a significant increase in the bottling capacity following the commencement of production of our new bottling line in 2011. Our sales in 2012 were also positively affected by our continuing efforts to strengthen our distribution network by supporting existing Category A and other key distributors while expanding geographical coverage by engaging new distributors. The increase in the average selling price of our cooking wine products primarily reflected a combination of (i) increased percentage of sales directly to our distributors, which were generally priced higher than historical sales to Zhong Wei; (ii) increased percentage of sales attributable to premium and higher-end products; and (iii) price increases in all product lines in response to increasing demand.

Revenue from soy sauce products decreased by 37.8% from RMB20.5 million in 2011 to RMB12.8 million in 2012, primarily reflecting the combined effect of (i) our strategic shift in focus to the cooking wine business; and (ii) a gradual winding-down of soy sauce production using high-salt liquid-state fermentation technique in order to prepare for production of the ultra-premium Tai Soy Sauce product line. Our shift in focus to the cooking wine business also affected our revenue for vinegar products, which decreased by 33.0% from RMB13.9 million in 2011 to RMB9.3 million in 2012. Revenue from other products increased by 52.5% from RMB14.9 million in 2011 to RMB22.8 million in 2012, primarily reflecting an increase in sales of Zhong Wei branded paste and pickled vegetable products manufactured by Zhong Wei.

Cost of sales

Our cost of sales increased by 128.0% from RMB63.3 million in 2011 to RMB144.2 million in 2012, reflecting increases in all major cost of sales components. The increase in cost of sales primarily reflected increases in the cost of raw materials, particularly rice and packaging materials. Cost of rice increased by 145.3% from RMB34.2 million to RMB84.0 million, and cost of packaging materials increased by 131.0% from RMB15.4 million to RMB35.5 million.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 317.2% from RMB46.2 million in 2011 to RMB192.9 million in 2012. Our gross profit margin increased from 42.2% in 2011 to 57.2% in 2012, primarily reflecting the combined effect of (i) an increase in the percentage of sales derived from cooking wine products, which generally had higher gross margins than our other products; (ii) an increase in the percentage of sales derived from premium and higher-end cooking wine products, which generally bore higher margins than our lower-end cooking wine products; and (iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei. The increase in gross margin of our cooking wine products from 46.8% in 2011 to 60.8% in 2012 was primarily due to increased sales of our premium and high-end cooking wine products and the increase in average selling price of all lines of cooking wine products. The percentage of sales derived from our premium cooking wine products increased from 6.0% in 2011 to 24.2% in 2012, while that of our high-end cooking wine products increased from nil in 2011 to 7.3% in 2012 as we launched this product line in 2012.

Other income and gains

Other income and gains decreased by 52.0% from RMB10.5 million in 2011 to RMB5.1 million in 2012. This decrease primarily reflected a decrease in interest compensation from RMB8.3 million in 2011 to RMB3.6 million in 2012 and a decrease in subsidy received from RMB0.2 million in 2011 to RMB0.1 million in 2012. See also “— Description of Certain Income Statement Line Items — Other income”.

Selling and distribution expenses

Our selling and distribution expenses increased by 48.0% from RMB16.3 million in 2011 to RMB24.1 million in 2012. This increase primarily reflected an increase in transportation expenses and an increase in marketing expenses, resulting from the expansion of our business in 2012.

Administrative expenses

Our administrative expenses increased significantly from RMB0.99 million in 2011 to RMB22.9 million in 2012. This increase mainly reflected (i) research and development expenses of RMB12.2 million in 2012, which was primarily related to the development of our Tai Soy Sauce and we did not incur such expenses in 2011; and (ii) an increase of RMB2.5 million in salaries, wages, welfare and social insurance for our administrative personnel reflecting the expansion of our business in 2012.

Finance costs

Our finance costs increased by 31.6% from RMB11.8 million in 2011 to RMB15.5 million in 2012. The increase in finance costs primarily reflected an increase in interest on bank loans from RMB3.5 million in 2011 to RMB11.8 million in 2012 as a result of an increase in the average balance of our bank loans outstanding in 2012.

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Income tax expense

Our tax expense increased by 396.1% from RMB7.5 million in 2011 to RMB37.0 million in 2012, primarily reflecting an increase in our profit before tax. Our effective tax rate was relatively stable at 27.0% in 2011 and 27.3% in 2012.

Profit for the year

As a result of the foregoing, our net profit increased by 387.0% from RMB20.2 million in 2011 to RMB98.4 million in 2012.

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

Revenue

Our revenue increased by 201.7% from RMB36.3 million in 2010 to RMB109.5 million in 2011, primarily reflecting an increase in the sales of our cooking wine products. Sales in each of our other product lines, including soy sauce products, vinegar products and other products, also increased.

Revenue from cooking wine products increased by 297.8% from RMB15.1 million in 2010 to RMB60.2 million in 2011, primarily reflecting an increase in our medium-range products, coupled with an increase in our premium products, which we launched in the second half of 2011. The increase in sales volume primarily reflected an increase in demand for our products, which we believe in turn reflected factors such as (i) increasing recognition of our “Lao Heng He” (“老恒和”) brand, particularly since the launch of our advertising campaign on China Central Television in 2011; (ii) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products; and (iii) rising disposable income level in the PRC. The increase in the average selling price of our cooking wine products primarily reflected the combined effect of (i) increased percentage of sales directly to our distributors, which were generally priced higher than sales to Zhong Wei; (ii) increased percentage of sales attributable to premium products; and (iii) price increases in all product lines in response to increasing demand.

Cost of sales

Our cost of sales increased by 176.1% from RMB22.9 million in 2010 to RMB63.3 million in 2011, reflecting increases in all major cost of sales components. The increase in cost of sales primarily reflected increases in the cost of raw materials, particularly rice and packaging materials. Cost of rice increased by 274.2% from RMB9.1 million to RMB34.2 million, and cost of packaging materials increased by 183.5% from RMB5.4 million to RMB15.4 million.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 245.4% from RMB13.4 million in 2010 to RMB46.2 million in 2011. Our gross profit margin increased from 36.9% in 2010 to 42.2% in 2011, and excluding the RMB3.8 million in net processing income for rendering of processing services, our gross profit margin in 2010 would have been 29.6%. See “— Description of Certain Income Statement Items — Revenue”. The increase in our profit margin primarily reflected the combined effect of (i) an increase in the percentage of sales derived from cooking wine products, which generally had higher

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gross margins than our other products; (ii) an increase in the percentage of sales derived from premium cooking wine products, which generally bore higher margins than our lower-end cooking wine products; and (iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei.

Other income and gains

Other income and gains increased by 416.9% from RMB2.0 million in 2010 to RMB10.5 million in 2011. This increase primarily reflected an increase in interest compensation related to bill financing to Zhong Wei from RMB1.7 million in 2010 to RMB8.3 million in 2011 and, to a lesser extent, an increase in proceeds from sale of materials from RMB6,000 in 2010 to RMB1.2 million in 2011. See “— Description of Certain Income Statement Line Items — Other income — Interest compensation”.

Selling and distribution expenses

Our selling and distribution expenses increased from RMB1.3 million in 2010 to RMB16.3 million in 2011. This increase primarily reflected an increase in advertising expenses in 2011, particularly RMB11.2 million we spent on an advertising campaign on China Central Television.

Administrative expenses

Our administrative expenses remained relatively stable at RMB0.97 million in 2010 and RMB0.99 million in 2011.

Finance costs

Our finance costs increased by 226.7% from RMB3.6 million in 2010 to RMB11.8 million in 2011, primarily reflecting an increase in interest on bank acceptance bills from RMB1.7 million to RMB8.3 million. See “— Description of Certain Income Statement Line Items — Finance costs”. The increase in finance costs also reflected an increase in interest on bank loans from RMB1.9 million to RMB3.5 million, which in turn primarily reflected an increase in the average balance of our bank loans outstanding in 2011.

Income tax expense

Our tax expense increased by 248.8% from RMB2.1 million in 2010 to RMB7.5 million in 2011, primarily reflecting an increase in our profit before tax. Our effective tax rate was 25.4% in 2010 and 27.0% in 2011.

Profit for the year

As a result of the foregoing, our net profit increased by 221.8% from RMB6.3 million in 2010 to RMB20.2 million in 2011.

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DISCUSSION OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Net current assets/(liabilities)

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2010	2011	2012	August 31,	November 30,
	2013	2013			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Current assets					
Inventories	21,365	63,990	114,598	252,596	309,668
Trade and bills receivables	40,713	58,027	78,414	99,787	103,761
Prepayments, deposits and other receivables	32,675	56,617	127,548	41,878	37,300
Due from a director	1,653	1,653	23	—	—
Due from a related party	—	12,867	—	—	—
Time deposits	4,000	5,000	—	—	—
Pledged deposits	7,000	36,100	—	—	—
Cash and cash equivalents	998	10,430	2,231	40,225	31,075
Total current assets	<u>108,404</u>	<u>244,684</u>	<u>322,814</u>	<u>434,486</u>	<u>481,804</u>
Current liabilities					
Trade and bills payables	22,620	65,890	48,104	59,382	74,319
Other payables and accruals	2,736	31,914	34,394	37,003	42,466
Interest-bearing bank and other borrowings	68,240	146,310	206,400	243,000	233,000
Due to a related party	8,923	—	—	—	—
Due to the ultimate holding company	—	—	—	470	465
Tax payable	1,844	9,062	36,730	54,361	44,462
Total current liabilities	<u>104,363</u>	<u>253,176</u>	<u>325,628</u>	<u>394,216</u>	<u>394,712</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>4,041</u>	<u>(8,492)</u>	<u>(2,814)</u>	<u>40,270</u>	<u>87,092</u>

We had net current assets of RMB4.0 million as of December 31, 2010 and net current liabilities of RMB8.5 million as of December 31, 2011. This change was primarily due to (i) an increase of RMB78.1 million in our interest-bearing bank and other borrowings; (ii) an increase of RMB43.2 million in trade and bills payables; and (iii) an increase of RMB29.2 million in other payables and accruals. This change was partially offset by (a) an increase of RMB42.6 million in inventories; (b) an increase of RMB29.1 million in pledged deposits; and (c) an increase of RMB23.9 million in prepayments, deposits and other receivables.

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Our current liabilities decreased from RMB8.5 million as of December 31, 2011 to RMB2.8 million as of December 31, 2012. This decrease was primarily due to (i) an increase of RMB70.9 million in prepayments, deposits and other receivables; (ii) an increase of RMB50.6 million in inventories; and (iii) an increase of RMB20.4 million in trade and bills receivables. This decrease was partially offset by an increase of RMB60.1 million in our interest-bearing bank and other borrowings and an increase of RMB27.7 million in tax payable.

As of August 31, 2013, we had current assets of RMB40.3 million, while we had net current liabilities of RMB2.8 million as of December 31, 2012. This change was primarily due to (i) an increase of RMB138.0 million in inventories; and (ii) an increase in RMB38.0 million in cash and cash equivalents. This change was partially offset by (a) a decrease of RMB85.7 million in prepayments, deposits and other receivables and (b) an increase of RMB36.6 million in our interest-bearing bank and other borrowings.

An important factor contribution for our net current liabilities position in 2011 and 2012 was the increases in our interest-bearing bank and other borrowings during the Track Record Period. Since we began focusing our business on cooking wine products in late 2010, we have increased bank and other borrowings primarily to purchase rice, which is the principal raw material for our cooking wine products, and manufacturing equipment such as earthen jars. The increased purchase of rice enabled us to increase the production of base wine, which helped us (i) meet the increase in demand for our cooking wine products; (ii) focus on higher end cooking wine products; and (iii) offset risks of future increases in the price of rice.

Inventory

Our inventory is categorized into raw materials, work-in-progress for our products and finished products. Work-in-progress primarily represents the base wine in earthen jars for our cooking wine products. The following table sets forth the components of our inventory as of the dates indicated and turnover days for the periods indicated:

	As of and for the year ended December 31,			As of and for the eight months ended August 31,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Raw materials	9,206	3,697	6,353	21,012
Work-in-progress	10,803	57,271	101,894	228,573
Finished goods	1,356	3,022	6,351	3,011
Total	<u>21,365</u>	<u>63,990</u>	<u>114,598</u>	<u>252,596</u>
Turnover days of inventory ⁽¹⁾	271	246	226	343

(1) Turnover days of inventory represent average inventory divided by costs of sales for the relevant period and multiplied by 365 for each of the three years ended December 31 2010, 2011, 2012 and by 243 for the eight months ended August 31, 2013. Average inventory equals inventory at the beginning of the period plus inventory at the end of the period, divided by two.

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Our inventory increased from RMB21.4 million as of December 31, 2010 to RMB64.0 million as of December 31, 2011, RMB114.6 million as of December 31, 2012 and further increased to RMB252.6 million as of August 31, 2013, primarily reflecting increases in our work-in-progress, which in turn reflected increased production of base wine.

The decrease in inventory turnover days from 2010 to 2012 primarily reflected an increase in the usage of base wine, as we increasingly focused on the production of premium and higher-end cooking wine products. Premium and higher-end cooking wine products generally require higher concentration of base wine than lower-end products. See “Business — Production Process and Facilities — Production process — Cooking wine products”. In 2013, in light of the continuing increase in demand for our cooking wine products, and in anticipation of [●], we have expanded our operations by increasing production and storage area significantly. As a result, our stock of base wine in earthen jars increased from approximately 29.4 million liters as of December 31, 2012 to approximately 55.4 million liters as of August 31, 2013, and our inventory turnover days increased significantly from 226 days in 2012 to 343 days for the eight months ended August 31, 2013.

The increase in our inventory turnover days from 2012 to the eight months ended August 31, 2013 reflects our business model and strategy, in particular the production process of base wine, soy sauce, and vinegar products as well as the necessity to stock up base wine in advance to maintain sufficient aged base wine for producing cooking wine products. Our raw materials and finished goods as a percentage of inventory is relatively low, comprising only 11.1% and 9.5% of our inventory as of December 31, 2012 and August 31, 2013, respectively. A significant majority of our inventory is work-in-progress, consisting of primarily base wine in earthen jars for our cooking wine products. We substantially increased the production of base wine in order to keep pace with our expansion plan, so that we would not only have sufficient mixer base wine for near-term production, but also have enough vintage base wine for production in the longer term.

For the eight months ended August 31, 2013, the turnover days for our finished goods was approximately 9 days as we manufacture our finished goods according to purchase orders and maintain a safety inventory to meet the purchase orders for ten (10) days. The turnover days for our raw materials were also short because we tend to put our raw materials such as rice into manufacturing process relatively quickly. For the eight months ended August 31, 2013, the turnover days for our raw materials was approximately 12 days.⁽¹⁾ Our work-in-progress had long turnover days during the Track Record Period, primarily reflecting the nature of its composition and our business plan. Our work-in-progress primarily represents base wine in earthen jars for the production of our cooking wine products. Our base wine, in particular vintage base wine, requires a long aging process. As we were expanding our cooking wine business during the Track Record Period, we have substantially increased our production and stock of base wine. For the eight months ended August 31, 2013, to keep pace with the rapid expansion of our

(1) The calculation methods used for each sub-category of inventory was different from that of the overall inventory turnover days. Specifically, we calculated the turnover days for our finished goods, raw materials and work-in-progress as follows. Turnover days of finished goods represent average inventory of finished goods divided by costs of sales for the relevant period and multiplied by 243 for the eight months ended August 31, 2013. Turnover days of raw materials represent average inventory of raw materials divided by consumption of raw materials used for the relevant period and multiplied by 243 for the eight months ended August 31, 2013. Turnover days of work-in-progress represent average inventory of work-in-progress divided by production amounts of finished goods for the relevant period and multiplied by 243 for the eight months ended August 31, 2013.

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cooking wine business, we increased our production of base wine and as a result, the average turnover days for our work-in-progress, primarily base wine, increased to about 316 days.⁽¹⁾ Approximately 8% of our inventory as of August 31, 2013 had been subsequently used by September 30, 2013.

Our Directors believe that our production process of base wine is highly flexible and controllable, and we are able to quickly adjust our production volume of base wine (including procurement volume of rice and cost of sales) based on changes in our actual and expected sales and sales volume. This in turn will enable us to maintain our base wine inventory and inventory turnover days at our planned levels. In addition, there is currently a public trading market for rice wine products at the online trading platform of www.cn-huangjiu.com, in service since December 2011, which provides the public with updated pricing information on rice wine products based on vintage. Based on information on the trading platform, market prices of rice wine of similar vintage as our base wine have been historically significantly higher than the carrying amount of our base wine, the value of which is expected to continue to increase with the age. Accordingly, our Directors believe that, even in the unlikely scenario that we experience a significant liquidity shortage, we are able to sell our surplus base wine in a public market at a premium, or at least without significant losses and thereby effectively manage our total inventory and inventory turnover days.

Based on the foregoing, the Directors are of the view that our inventory turnover days are in line with industry norm.

Trade and bills receivables

The following table sets forth our trade and bills receivables as of the dates indicated and the turnover days of our trade receivables for the periods indicated:

	As of and for the year ended December 31,			As of and for the eight months ended August 31,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Trade receivables	373	17,227	63,014	99,787
Bills receivable	40,340	40,800	15,400	—
Total	40,713	58,027	78,414	99,787
Turnover days of trade receivables ⁽¹⁾	6	29	43	61

(1) Turnover days of trade receivables represent average trade receivables divided by revenue for the relevant period and multiplied by 365 for each of the three years ended December 31 2010, 2011, 2012 and by 243 for the eight months ended August 31, 2013. Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the period, divided by two.

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The following table sets forth an ageing analysis of our trade receivables outstanding as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	—	6,398	37,066	50,722
31 to 90 days	—	9,777	20,481	48,130
91 to 180 days	—	988	3,340	675
181 to 360 days	—	—	1,920	260
Over 1 year	373	64	207	—
	<u>373</u>	<u>17,227</u>	<u>63,014</u>	<u>99,787</u>

In 2010, we sold substantially all of our products to Zhong Wei, which immediately settled any outstanding payments. As a result, we had little trade receivables outstanding as of December 31, 2010. Since late 2010, we have increasingly sold directly to our third party distributors, and our sales to Zhong Wei only constituted 41.4%, 1.5% and 0.2% of our total revenue for 2011, 2012 and the eight months ended August 31, 2013, respectively. This change is reflected both in the increase in the turnover days of trade receivables in 2011, 2012 and the eight months ended August 31, 2013 as well as the increase in the amount of trade receivables outstanding as of the same dates. See also “— Financial Impact of Separation of Zhong Wei”. The increase in turnover days of trade receivables from 43 days in 2012 to 61 days in the eight months ended August 31, 2013 also reflected (i) an increase of sales attributable to Category A and Category B distributors as a percentage of total sales, as these distributors generally have longer credit terms than distributors in other categories, coupled with a decrease of sales attributable to Category D distributors as a percentage of total sales, as Category D distributors generally have to pay in full upon delivery; and (ii) the abovementioned impact of sales to Zhong Wei, which affected the beginning period balance of trade receivables for 2012, and accordingly the turnover days of trade receivables for 2012. During the Track Record Period, over 90% of our trade receivables was within credit terms and the age of above 95% of our receivables was within 180 days. Moreover, there was no default history record for our major customers. In assessing the recoverability of the trade receivables, we do not foresee any material impairment risk and no provision was made for the trade receivables during the Track Record Period. Approximately 95% of our trade receivables as of August 31, 2013 had been subsequently settled by November 30, 2013.

We primarily sell our products to distributors and secondarily to direct customers such as supermarket chains. Based on the category that they fall into, we generally offer our Categories A and B distributors credit terms of 30 to 90 days; and our Categories C and D distributors are generally not offered any credit terms and are required to pay upfront in full. Our direct sales customers generally have credit terms of 30 to 60 days.

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The bills receivable of RMB40.3 million, RMB40.8 million and RMB15.4 million as of December 31, 2010, 2011 and 2012 related to the banking financing Zhong Wei received through bank acceptance bills. See “— Financial Impact of Separation from Zhong Wei”. The same amounts have been recognized as “bank advances for discounted bills” under “interest-bearing bank borrowings” in current liabilities. See “— Indebtedness”.

Prepayments, deposits and other receivables

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	4,451	2,914	21,464	19,045
Deposits and other receivables	28,224	53,703	106,084	22,833
Total	<u>32,675</u>	<u>56,617</u>	<u>127,548</u>	<u>41,878</u>

Prepayments as of December 31, 2010 and 2011 primarily related to prepayments for our advertising campaign on China Central Television. Our prepayments as of December 31, 2012 and as of August 31, 2013 primarily related to those for our purchase of raw materials. Our deposits and other receivables during the Track Record Period primarily consisted of funds lent to Ruoxiachun, an independent third party, input value-added tax to be deducted and utility deposits.

During the Track Record Period and prior to December 2011, in order to complement our stock of base wine, we purchased naturally-brewed yellow rice wine from Ruoxiachun, a manufacturer of yellow rice wine and Chinese white wine. To maintain a good business relationship with Ruoxiachun, we made advances to it in 2010 and 2011 for its working capital needs. Such advances were unsecured, interest-free and had no fixed repayment terms, with a balance of RMB9.2 million, RMB25.0 million and RMB4.0 million outstanding as of December 31, 2010, 2011 and 2012, respectively. Such advances were repaid in full in 2013 and we do not plan to provide such advances in the future.

According to the General Lending Provisions (貸款通則) promulgated by the PBOC in 1996, the PBOC may impose fines equivalent to one to five times of the income generated (being interests charged) from loan advancing activities between enterprises. However, as our advances to Ruoxiachun was interest free, we did not generate any income from such advances, and accordingly, as advised by our PRC legal advisors, it is unlikely that we will be subject to any fines or penalties in respect of our advances to Ruoxiachun. Save for the advances to Ruoxiachun, we have not made any other similar advances, and we do not intend to make any such advances in the future.

Substantially all of the deposit and other receivables as of December 31, 2010 and 2011 consisted of funds advanced to a third party supplier. Deposits and other receivables as of December 31, 2012 primarily consisted of receivables from Zhong Wei, and such receivables from Zhong Wei had been subsequently settled by the end of April, 2013. Our deposits and other receivables as of August 31, 2013 primarily represented the input value-added tax to be deducted when the relevant finished goods are sold.

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Due from/to a related party

See “— Related Party Transactions” below for details.

Trade and bills payables

The following table sets forth an aging analysis of our trade and bills payables as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Within 3 months	4,679	14,971	33,373	42,694
3 to 6 months	1,353	2,334	7,283	8,749
Over 6 months	588	1,585	7,448	7,939
Trade payables	6,620	18,890	48,104	59,382
Bills payable	16,000	47,000	—	—
Total	22,620	65,890	48,104	59,382
Turnover days of trade payables ⁽¹⁾	80	44	63	49

- (1) Turnover days of trade payables represents average trade payables divided by purchases for the relevant period and multiplied by 365 for each of the three years ended December 31 2010, 2011, 2012 and by 243 for the eight months ended August 31, 2013. Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of the period, divided by two. Purchases equal cost of sales for the relevant period plus the difference between inventory at the end of the period and inventory at the beginning of the period.

Our trade payables mainly relate to the purchase of raw materials from our principal suppliers with credit terms of one to three months upon receipt of goods and invoices. The trade payables are non-interest-bearing and are normally settled on terms of one to three months.

Turnover days of trade payables decreased from 80 days in 2010 to 44 days in 2011, primarily due to increased grain procurement from farmers and grain supplier centers, which usually have shorter credit terms than Zhong Wei and packaging material suppliers. Turnover days of trade payables increased to 63 days in 2012 primarily due to our strengthened capability to negotiate for longer credit terms as the amount of our raw material procurement significantly increased. Turnover days of trade payables decreased to 49 days for the eight months ended August 31, 2013, primarily due to our decreased purchase of packaging materials from 41% of our total purchase for the year ended December 31, 2012 to 26% for the eight months ended August 31, 2013.

Our trade payables included a trading balance due to related parties of RMB3.5 million as of December 31, 2011, which were nil as of December 31, 2010, 2012 and as of August 31, 2013. The balance due to related parties primarily related to purchases of semi-finished goods and finished goods from Zhong Wei and its affiliate. See “— Related Party Transactions”.

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Bills payable in the amount of RMB16.0 million as of December 31, 2010 and RMB7.0 million as of December 31, 2011 represented balances due to Zhong Wei. See “— Financial Impact of Separation from Zhong Wei”. The bills are secured by time deposits amounting to RMB6.0 million and RMB21.0 million as of December 31, 2010 and 2011, respectively. We had no bills payable as of December 31, 2012 and as of August 31, 2013.

Our Directors confirm that we did not experience any material defaults in payment of trade and other payables during the Track Record Period.

Other payables and accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	19	1,464	6,518	—
Other payables	2,505	30,158	25,691	35,958
Accruals	212	292	2,185	1,045
Total	2,736	31,914	34,394	37,003

All these balances are non-interest-bearing and other payables have an average term of three months. Our other payables as of December 31, 2011 primarily consisted of RMB20.0 million in funds from a third party for working capital purposes. We repaid these funds in full in 2012. Our other payables as of December 31, 2012 and August 31, 2013 primarily consisted of (i) payables relating to the purchases of equipment as a result of the expansion of our operations; and (ii) value-added tax payable as our sales increased. Our other payables as of August 31, 2013 also consisted of funds borrowed from certain independent third parties in connection with the Reorganization. These funds were non-interest-bearing as the lenders were personal friends of our ultimate Controlling Shareholder.

Property, plant and equipment

Our amount related to property, plant and equipment increased from RMB4.7 million as of December 31, 2010 to RMB32.2 million as of December 31, 2011, to RMB131.5 million as of December 31, 2012 and further to RMB164.5 million as of August 31, 2013. The increase from December 31, 2010 to December 31, 2011 primarily reflected the construction of new facilities and purchases of equipment as we expanded our business. The increase from December 31, 2011 to December 31, 2012 primarily reflected the addition of office buildings, manufacturing facilities and production equipment as a result of our purchase of the assets of Huzhou Wu Xing Wu Cheng Wine Company as part of our Reorganization. See “History, Reorganization and Group Structure — Reorganization — Purchase of Zhong Wei’s Principal Assets through Merger”. The increase in our amount related to property, plant and equipment from December 31, 2012 to August 31, 2013 primarily related to the expansion of our existing facilities and the completion of our new facilities.

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Prepaid land lease payments

Our prepaid land lease payments decreased from RMB12.4 million as of December 31, 2010 to RMB12.2 million as of December 31, 2011, and increased to RMB23.8 million as of December 31, 2012 and remained stable at RMB23.4 million as of August 31, 2013. The increase from December 31, 2011 to December 31, 2012 primarily reflected the addition of manufacturing facilities as a result of our purchase of the assets of Huzhou Wu Xing Wu Cheng Wine Company as part of our Reorganization. See “History, Reorganization and Group Structure — Reorganization — Purchase of Zhong Wei’s Principal Assets through Merger”.

RELATED PARTY TRANSACTIONS

The following table sets forth significant related party transactions for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sale of products to:					
Zhong Wei (浙江中味釀造有限公司)	30,749	45,333	4,931	3,873	N/A
Sale of materials and work-in-progress to:					
Zhong Wei (浙江中味釀造有限公司)	—	2,113	859	731	N/A
Anji Zhong Wei (安吉中味食品有限公司)	517	371	467	463	N/A
Rendering of processing services to:					
Zhong Wei (浙江中味釀造有限公司)	3,758	—	—	—	N/A
Interest compensation from:					
Zhong Wei (浙江中味釀造有限公司)	1,677	8,266	3,614	2,998	N/A
Purchase of materials, work-in-progress and finished products from:					
Zhong Wei (浙江中味釀造有限公司)	12,354	41,695	16,930	4,797	N/A
Anji Zhong Wei (安吉中味食品有限公司)	544	909	3,016	3,016	N/A
Yilong Zhong Wei (儀隴縣中味食品有限公司)	7	3,231	4,701	319	N/A
Purchase of assets from:					
Zhong Wei (浙江中味釀造有限公司)	—	—	88,641	—	N/A
Properties and equipments rental fee paid to:					
Zhong Wei (浙江中味釀造有限公司)	500	500	1,275	850	N/A
Anji Zhong Wei (安吉中味食品有限公司)	—	—	40	—	N/A

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The following table sets forth provision of guarantees by our related parties for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans guaranteed by:				
Zhong Wei (浙江中味釀造有限公司)	5,000	—	—	—
CHEN Weizhong (陳衛忠) and XING Liyu (邢利玉)	15,000	75,000	103,000	74,000
Total	20,000	75,000	103,000	74,000

The following table sets forth amount due from/to a related party as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from:				
Zhong Wei (浙江中味釀造有限公司)	—	12,867	N/A	N/A
A director (CHEN Weizhong (陳衛忠))	1,653	1,653	23	—
	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to:				
Zhong Wei (浙江中味釀造有限公司)	8,923	—	N/A	N/A
Amount due to the ultimate holding company	—	—	—	470

Historically, our ultimate Controlling Shareholder, Mr. Chen, controlled two condiment businesses, namely Zhong Wei and our Group. Mr. Chen controlled Zhong Wei until he sold the business of Zhong Wei to an independent third party in December 2012. As a result, historically we engaged in a number of related party transactions with Zhong Wei. Specifically, until 2011 we primarily sold our products to Zhong Wei, which in turn sold our products through its distribution network. Our sales to Zhong Wei constituted 94.5% of our revenue generated from sales of goods in 2010. In 2011, we began increasingly selling our products directly to our distributors, and as a result, our sales to Zhong Wei constituted 41.4%, 1.5% and 0.2% of our total revenue for 2011, 2012 and the eight months ended August 31, 2013, respectively.

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We paid RMB0.5 million, RMB0.5 million and RMB1.3 million for the use of the plant facilities and office building of Zhong Wei for the years 2010, 2011 and 2012, respectively. We purchased these plant facilities in December 2012. During the year 2012, we purchased properties, equipment, motor vehicles, furniture and fixtures, and land use rights from Zhong Wei for RMB88.6 million. In 2012, we also paid RMB40,000 for using the warehouse facilities of Anji Zhong Wei, an affiliate of Zhong Wei.

As of December 31, 2012, certain of our buildings with a net carrying amount of approximately RMB17.1 million were pledged to secure banking loans granted to Zhong Wei. As of December 31, 2012, certain of our Group’s leasehold lands with a net carrying amount of approximately RMB10.4 million was pledged to secure banking loans granted to Zhong Wei. Both pledges were subsequently released in February 2013.

As of December 31, 2010, 2011 and 2012, we also had amounts due from our director, Mr. Chen, in the amount of RMB1.7 million, RMB1.7 million and RMB0.02 million, respectively. As of August 31, 2013 and November 30, 2013, our amount due to the ultimate holding company was RMB470,000 and RMB465,000, respectively.

Our Group used Mr. Chen’s trade-secret cooking wine recipes for no consideration during the Track Record Period. On January 1, 2013, Mr. Chen and Lao Heng He entered into the Exclusive Recipes Licensing Agreement, whereby Mr. Chen agreed to grant Lao Heng He and its existing and future subsidiaries an exclusive right to use Mr. Chen’s trade-secret cooking wine recipes for no consideration. On August 23, 2013, Mr. Chen and Lao Heng He entered into a Recipes Transfer Agreement, whereby Mr. Chen agreed to transfer to Lao Heng He his trade-secret cooking wine recipes for nominal consideration.

Mr. Chen has undertaken to indemnify our Group for all possible liabilities and losses in connection with the non-registration of our leased properties, bill financing, and taxation claims.

All of the above related party transactions have been discontinued and the related amounts have been settled as follows:

- *Guarantees of bank loans.* Mr. Chen’s and Ms. XING Liyu’s guarantees of bank loans have been released.
- *Zhong Wei-related amounts.* Zhong Wei was sold to an independent third party in December 2012. Accordingly, any amounts due from and to Zhong Wei will no longer be recognized as resulting from related party transactions. See “— Financial Impact of Separation from Zhong Wei”. These amounts were fully settled in May 2013.
- *Amount due from Mr. Chen.* The amount outstanding was subsequently settled in April 2013.

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LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through a combination of capital contribution from shareholders, cash flow from operations and short-term bank borrowings. We were able to repay our obligations under bank borrowings when they became due during the Track Record Period.

We are undergoing a period of rapid expansion. One of the most important aspects of our expansion strategy is the significant increase of base wine stock, because (i) the value of our base wine generally increases with time in storage, and (ii) we expect the price of rice to continue to increase which has been the general trend in recent years. To this end, we have incurred significant bank loans primarily to fund the purchase of rice and earthen jars for storage of base wine, which contributed to our net current liabilities (albeit relatively small) as of December 31, 2011 and 2012. See “— Discussion of Consolidated Statements of Financial Position Items—Net current assets/liabilities”. Our bank loans also contributed to relatively high gearing ratios as of December 31, 2011 and 2012 (although our relatively low total equity as of those dates also affected the ratios). See “— Key Financial Ratios”. Another impact of the rapid increase of base wine stock is the increase of work-in-progress inventory, which contributed to our relatively high inventory turnover days historically and a net cash outflow from operating activities for the eight months ended August 31, 2013. See “— Discussion of Consolidated Statements of Financial Position Items — Inventory” and “—Liquidity and Capital Resources — Cash Flows”.

Despite the foregoing, however, we believe that the current level of our working capital is sufficient for the foreseeable future for the following reasons:

- *Availability of additional credit.* As of November 30, 2013, the total credit facility granted to our Group amounted to approximately RMB293.0 million, of which RMB233.0 million had been utilized and RMB60.0 million were available for drawdown.
- *Flexibility in adjustment of growth strategy.* Unlike capital expenditures for property, plant and equipment, the pace of our expenditure on rice may be adjusted quickly to adapt to factors such as changes in our liquidity position.
- *Financial ratios.* Our current ratios historically have been relatively high at 103.9%, 96.6%, 99.1% and 110.2% as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. In addition, as discussed, although we had net current liabilities as of December 31, 2011 and 2012, the amounts were relatively low at RMB8.5 million and RMB2.8 million, respectively, compared to RMB244.7 million and RMB322.8 million, respectively, in total current assets as of those dates.
- *Continuing growth.* We expect continuing increasing sales at least in the short term, which we expect to contribute to our cash from operating activities.

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Cash Flows

The following table sets forth selected cash flow data from our consolidated cash flow statements as of and for the periods indicated:

	As of and for the year ended December 31,			As of and for the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash flow from/(used in)					
operating activities	21,818	12,829	59,710	27,065	(53,267)
Net cash flow from/(used in) in					
investing activities	(37,836)	(54,885)	(165,794)	(86,330)	49,266
Net cash flow from financing					
activities	16,130	65,588	83,785	53,544	41,993
Cash and cash equivalents at					
beginning					
of year	886	998	24,530	10,430	2,231
Effect of foreign exchange rate					
changes, net	—	—	—	—	2
Cash and cash equivalents at end of					
year	998	24,530	2,231	4,709	40,225

Cash flow from operating activities

Our net cash used in operating activities was RMB53.3 million for the eight months ended August 31, 2013, while we had net cash from operating activities of RMB27.1 million for the same period in 2012. Net cash used in operating activities for the eight months ended August 31, 2013 primarily consisted of (i) increase in inventories of RMB138.0 million, (ii) increase in trade receivables of RMB36.8 million, (iii) increase in prepayments, deposits and other receivables of RMB14.7 million, primarily reflecting increase in the amount of input value-added tax to be deducted when the relevant finished goods are sold and (iv) PRC tax paid of RMB13.6 million, partially offset by cash received from operations of RMB147.0 million. Net cash from operating activities for the eight months ended August 31, 2012 primarily consisted of (a) cash received from operations of RMB84.6 million, (b) increase in trade payables of RMB63.2 million and (c) increase in other payables and accruals of RMB6.2 million, partially offset by increase in trade receivables of RMB94.9 million, increase in inventories of RMB22.6 million and PRC tax paid of RMB4.6 million.

As we rapidly grow our business, we have been devoting our cash and other resources into expanding our operations. We had net cash outflow from operating activities for the eight months ended August 31, 2013 primarily due to the increase in inventories of RMB138.0 million. The increase in inventory was primarily due to an increase in raw materials and our work-in-progress. We increased our purchase of raw materials such as rice, packaging materials and soy beans during the eight months ended August 31, 2013 so as to expand production. The increase in our work-in-progress better enables

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us to produce sufficient cooking wine and other products to meet rising market demands for these products in the coming year and the future. As a result, we ramped up our operations during this period to produce sufficient base wine for aging and for producing cooking wines.

In 2012, our net cash generated from operating activities was RMB59.7 million. The net cash inflow was primarily due to cash received from operations of RMB149.6 million, an increase in trade payables of RMB29.2 million, and an increase in other payables and accruals of RMB2.5 million, partially offset by an increase in inventories of approximately RMB50.6 million, an increase in trade receivables of RMB45.8 million, an increase in prepayments, deposits and other receivables of RMB20.4 million, and payment for PRC tax of RMB5.1 million.

In 2011, our net cash generated from operating activities was RMB12.8 million. The net cash inflow was primarily due to cash received from operations of RMB31.1 million, an increase in trade payables of RMB12.3 million and an increase in other payables and accruals of approximately RMB29.2 million, partially offset by an increase in inventories of RMB42.6 million, an increase in trade receivables of RMB16.9 million, and a decrease in other long-term liabilities of RMB1.1 million.

In 2010, our net cash generated from operating activities was RMB21.8 million. The net cash inflow was primarily due to cash received from operations of RMB10.4 million, an increase in prepayments, deposits and other receivables of RMB19.9 million and an increase in other payables and accruals of RMB2.3 million, partially offset by an increase in inventories of RMB8.7 million and a decrease in other long-term liabilities of RMB1.9 million.

Cash flow from investing activities

Our net cash from investing activities was RMB49.3 million for the eight months ended August 31, 2013, as compared to net cash used in investing activities of RMB86.3 million for the same period in 2012. Net cash from investing activities for the eight months ended August 31, 2013 was attributable to a recovery of other receivables of RMB100.4 million primarily due from Zhong Wei, partially offset by purchases of property, plant and equipment of RMB39.1 million. Net cash used in investing activities for the eight months ended August 31, 2012 consisted of (i) an increase in amounts due from Zhong Wei of RMB69.9 million, (ii) an increase in prepayments, deposits and other receivables of RMB44.3 million and (iii) RMB10.7 million for purchases of property, plant and equipment, partially offset by a decrease in time deposits and pledged deposits of RMB38.6 million.

In 2010, 2011 and 2012, our net cash used in investing activities was RMB37.8 million, RMB54.9 million, RMB165.8 million, respectively. Our expenditures for investing activities in 2010, 2011 and 2012 primarily related to our expansion of production facilities and the related purchase of property, plant and equipment. See “Business — Production Process and Facilities” for details of our production facilities.

Cash flow from financing activities

Our net cash from financing activities was RMB42.0 million and RMB53.5 million for the eight months ended August 31, 2013 and 2012, respectively. Net cash from financing activities for the eight months ended August 31, 2013 consisted of (i) RMB222.8 million from new bank and other borrowings and (ii) RMB11.0 million from increase in other payables and accruals, partially offset by RMB180.8 million in repayments of bank and other borrowings and RMB11.5 million in interest paid. Net cash

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from financing activities for the eight months ended August 31, 2012 consisted of RMB118.0 million from new bank and other borrowings, partially offset by RMB62.5 million in repayments of bank and other borrowings and RMB9.7 million in interest paid.

In 2012, our net cash generated from financing activities was RMB83.8 million, primarily due to new bank loans of RMB303.0 million, offset by repayment of bank and other borrowings of RMB207.5 million and payment of interest of RMB14.5 million.

In 2011, our net cash generated from financing activities was RMB65.6 million, primarily due to new bank loans of RMB127.3 million, offset by repayment of bank and other borrowings of RMB49.7 million and payment of interest of RMB12.0 million.

In 2010, our net cash generated from financing activities was RMB16.1 million, primarily due to new bank loans of RMB34.9 million, partially offset by repayment of bank and other borrowings of RMB19.9 million.

INDEBTEDNESS

The following table sets forth our bank and other borrowings as of the dates indicated:

	As of December 31, 2010			As of December 31, 2011			As of December 31, 2012			As of August 31, 2013			As of November 30, 2013		
	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount
	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000
															(unaudited)
Current															
Bank borrowings — secured	4.43–8.53	2011	22,900	6.10–8.53	2012	100,510	5.88–8.53	2013	186,000	5.88–8.53	2013–2014	238,000	6.00–8.53	2013–2014	228,000
Other borrowings — secured	21.60	2011	5,000	21.60	2012	5,000	20.00	2013	5,000	19.20	2013	5,000	19.20	2014	5,000
Bank advances for discounted bills	N/A	2011	40,340	N/A	2012	40,800	N/A	2013	15,400	N/A	N/A	—	N/A	N/A	—
Total			<u>68,240</u>			<u>146,310</u>			<u>206,400</u>			<u>243,000</u>			<u>233,000</u>
Non-current															
Bank borrowings — secured			—			—	8.53	2014	10,000			—			—
Total			<u>68,240</u>			<u>146,310</u>			<u>216,400</u>			<u>243,000</u>			<u>233,000</u>

Our bank loans were secured by (i) the pledge of certain of our time deposits amounting to RMB1.0 million, RMB15.1 million, nil and nil as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively, (ii) the pledge of certain of our inventory with a net carrying amount of RMB34.4 million and RMB65.7 million as of December 31, 2012 and August 31, 2013, respectively and (iii) the guarantee of Zhong Wei, Mr. Chen and Xing Liyu, amounting to RMB20.0 million, RMB75.0 million, RMB103.0 million and RMB74.0 million as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. These guarantees have been fully released as of the date of this document. See “— Related Party Transactions”. All our bank borrowings are denominated in RMB. As of the Latest Practicable Date, the Directors confirm that we have been in full compliance with the relevant covenants and restrictions under the terms of the relevant bank facilities. Our bank borrowings are not subject to any material restrictive covenants. Our available facilities are committed facilities without any material restricted covenants or guarantees from parties outside the Group.

Bank advances for discounted bills related to the banking financing Zhong Wei received through bank acceptance bills. See “— Financial Impact of Separation from Zhong Wei” and “— Discussion of Consolidated Statements of Financial Positions Items — Trade and Bills Receivables”.

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We had RMB8.9 million, nil, nil and nil for amounts due to related parties as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively.

As of November 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, the total credit facility granted to our group amounted to approximately RMB293 million, of which RMB233 million had been utilized and RMB60.0 million was available for drawdown.

We have used the proceeds of bank and other borrowings to replenish our working capital and fund our capital expenditure. We have not encountered any material difficulty in obtaining external borrowings and did not experience any default or delay in the repayment of bank and other borrowings during the Track Record Period. Our other borrowings during the Track Record Period consisted of borrowings from a micro-lending company, whose interest rate was higher than those of bank borrowings but was in line with other micro-lending companies. We borrowed a principal amount of RMB5.0 million from the micro-lending company in response to the local government’s support for local businesses. We have been able to repay these borrowings when they became due and payable and we have no plans to borrow from this company.

As of the Latest Practicable Date, the Directors confirm that there are no external financing plans in the near future.

Except as disclosed in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loan from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding as of November 30, 2013 (being the latest practicable date for the purpose of this indebtedness statement). We confirm that there has not been any material change in the indebtedness since that date.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated:

	<u>As of December 31,</u>			<u>As of August 31,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Return on equity ⁽¹⁾	40.6%	56.7%	74.0%	N/A ⁽⁵⁾
Current ratio ⁽²⁾	103.9%	96.6%	99.1%	110.2%
Gearing ratio ⁽³⁾	441.5%	466.2%	162.6%	116.5%
Net debt to equity ratio ⁽⁴⁾	435.0%	437.0%	160.9%	98.0%
Net profit margin ⁽⁶⁾	17.3%	18.5%	29.2%	29.7%

(1) Profit attributable to owners of the Company for the period, divided by equity attributable to owners of the Company, then multiplied by 100%.

(2) Current assets divided by current liabilities.

(3) Total debt divided by total equity. Total debt is defined to include interest-bearing bank borrowings and payables incurred not in the ordinary course of business.

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- (4) Net debt divided by total equity. Net debt includes total debt net of cash and cash equivalents.
- (5) The profit attributable to owners of the Company used in calculating this ratio only consisted eight months results which is not comparable with those for the years ended December 31, 2010, 2011 and 2012.
- (6) Net profit after taxes divided by revenue for the relevant period and multiplied by 100%.

Our return on equity increased from 40.6% as of December 31, 2010 to 56.7% as of December 31, 2011. This increase was primarily due to the increase in profit attributable to owners of the Company for the year ended December 31, 2011 by 221.8%. Our return on equity further increased to 74.0% as of December 31, 2012, primarily due to the increase in profit attributable to owners of the Company for the year ended December 31, 2012 by 387.0%.

Our current ratio remained relatively stable during 2010, 2011 and 2012. The increase of our current ratio as of August 31, 2013 was primarily due to our increased current assets for the eight months ended August 31, 2013.

Our gearing ratio remained relatively stable as of December 31, 2010 and 2011, and then decreased to 162.6% as of December 31, 2012 and further decreased to 116.5% as of August 31, 2013, primarily reflecting an increase in total equity during the latter periods.

Our net debt to equity ratio remained relatively stable as of December 31, 2010 and 2011, and decreased to 160.9% as of December 31, 2012 and further decreased to 98.0% as of August 31, 2013, primarily reflecting an increase in total equity during the latter periods.

Our net profit margin increased during the Track Record Period, primarily reflecting an increase in our net profits. The increase in our net profit during the Track Record Period was primarily due to increases in our revenue and our gross margin. Our gross profit margin increased from 36.9% in 2010 to 42.2% in 2011 to 57.2% in 2012, and from 57.1% in the eight months ended August 31, 2012 to 59.7% in the eight months ended August 31, 2013, primarily reflecting a combination of:

- (i) our strategic move to concentrate our resources on cooking wine products and accordingly, an increase in the percentage of sales derived from cooking wine products, which generally had higher gross margins than our other products;
- (ii) an increase in the percentage of sales derived from premium and other higher-end cooking wine products as we gradually focused our product development efforts on such products, which generally bore higher margins than our lower-end cooking wine products; and
- (iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei.

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CAPITAL AND OTHER COMMITMENTS

We lease certain of our plants and machineries under operating lease arrangements. Leases for properties are negotiated for five years. The following table sets forth our total future minimum lease payments under non-cancellable operating leases falling due as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	500	500	317	317
In the second to fifth years, inclusive	500	—	840	810
	<u>1,000</u>	<u>500</u>	<u>1,157</u>	<u>1,127</u>

In addition to the operating lease commitments above, the following table sets forth our capital commitments at of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Capital commitments contracted but not provided for				
— Plant and machinery	15,000	4,960	—	7,700
— Advertising contracts	7,923	9,530	9,115	1,290
Total	<u>22,923</u>	<u>14,490</u>	<u>9,115</u>	<u>8,990</u>

Our capital commitments contracted but not provided for outstanding during the Track Record Period related to our advertising campaign on China Central Television and construction of plant and machinery.

WORKING CAPITAL CONFIRMATION

As of November 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, the total credit facility granted to our group amounted to approximately RMB293 million, of which RMB233 million had been utilized and RMB60.0 million was available for drawdown.

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CONTINGENT LIABILITIES

During the Track Record Period, we discounted bank acceptance bills to various third parties. The unexpired bank acceptance bills amounted to RMB23.0 million, nil, nil and nil as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. The bank acceptance bills were all due from a related party and expired by December 31, 2011.

Except as described above, we did not have any other material contingent liabilities or guarantees as of the Latest Practicable Date.

DISTRIBUTABLE RESERVES

As of the Latest Practicable Date, the Company did not have any distributable reserves.

PROFIT ESTIMATE

Estimated consolidated profit attributable to owners of
the Company for the year ended December 31, 2013⁽¹⁾⁽³⁾ not less than RMB152.0 million
(approximately HK\$192 million)

Notes:

- (1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix III to this document. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2013 based on the audited consolidated results for the eight months ended August 31, 2013, the unaudited consolidated results based on management accounts of our Group for the three months ended November 30, 2013 and an estimate of the consolidated results of our Group for the remaining one month ended December 31, 2013.
- (3) The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK\$ at the exchange rate of RMB0.7927 to HK\$1.00.

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CAPITAL EXPENDITURE

Our capital expenditures during the Track Record Period primarily related to expenditures on purchase of property, plant and equipment which were funded out of bank borrowings and cash flows from our operations. The table below sets forth the details of our capital expenditure to be incurred for 2014:

<u>Expansion plan</u>	<u>Estimated cost</u> <u>RMB million</u>
Purchase of three million earthen jars	45.0
Purchase of one hundred steel fermentation tanks	40.0
One fermentation workshop with ancillary equipment	34.6
One warehouse for semi-finished products	6.0
One filtration workshop with ancillary equipment	4.8
One sterilization workshop with ancillary equipment	2.0
One warehouse for raw materials	<u>1.2</u>
Total	<u><u>133.6</u></u>

We plan to finance future capital expenditures mainly through the [●], bank borrowings, as well as from cash flows generated from operations. As we expect to continue our business expansion, we may incur additional capital expenditures.

DIVIDEND POLICY

We have not declared any dividends in the years ended December 31, 2010, 2011 and 2012. Subject to below, we currently expect that approximately 20% to 30% of our net profits will be recommended for distribution in each fiscal year, commencing from the fiscal year ended December 31, 2013. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and any other factors that our Directors deem relevant.

We can give no assurance that any dividends will be paid. You should consider the risk factors affecting our Group contained in “Risk Factors” and the cautionary notice regarding forward-looking statements contained in “Forward-looking Statements”.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet transactions or arrangements as of the Latest Practicable Date.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from/to a related party and a director, and cash and cash equivalents. The main purpose of these financial instruments is to finance our operations. We have various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from our operations. The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk in the normal course of business.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our debt obligations. Our borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rates expose us to fair value interest rate risk. As of each of December 31, 2010, 2011, 2012 and August 31, 2013, most of our borrowings were at fixed rates. In addition, as most of our borrowings are short-term and due within one year, we obtain new borrowings each year. To the extent interest rates rise, our cost of refinancing will increase. The effective interest rates and terms of repayment of the interest-bearing bank borrowing of our Group’s borrowings are disclosed in note 21 in Appendix I to this document.

We currently do not use any interest rate swaps to hedge our exposure to interest rate risk.

Credit risk

The major concentration of credit risk arises from our exposure to a substantial amount of trade receivables, other receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents.

Trade receivables are typically unsecured and derived from revenue earned from customers in the PRC, which are exposed to credit risk. Our Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of trade and other receivables. In addition, the balance of trade receivables is monitored on an ongoing basis and our exposure to bad debts is not significant. Further quantitative data in respect of our exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 of the Accountants’ Report set out in Appendix I to this document.

FINANCIAL INFORMATION

An amount due from a director and an amount due from a related party are usually unsecured, interest-free and had no fixed terms of repayment. In evaluating the collectability of the related party balances, we consider many factors, including the repayment history and their credit worthiness. An allowance for doubtful accounts would be made if collection of the full amount is no longer probable. Further quantitative data in respect of our exposure to credit risk arising from an amount due from a director and an amount due from a related party are disclosed in note 32 of the Accountants’ Report set out in Appendix I to this document.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China. We have policies that limit our credit exposure to any financial institutions and the management believes these financial institutions are of high credit quality.

The carrying amounts of trade receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant credit risk.

Liquidity risk

Liquidity risk relates to the risk that we will not be able to meet obligations associated with our financial liabilities. We are exposed to liquidity risk in respect of settlement of trade payables and our financing obligations, and also in respect of our cash flow management.

Our policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and bank borrowings.

Please refer to Note 34 of the Accountants’ Report in Appendix I to this document for further details on the above risks, including the maturity profile of our financial liabilities as of the end of each reporting period.

RECENT DEVELOPMENT

Based on our unaudited management accounts, we continued to experience stable growth during the eleven months ended November 30, 2013. Our revenue and gross profit for the eleven months ended November 30, 2013 were RMB488.3 million and RMB285.8 million, respectively.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of the document, there has been no material adverse change in our financial and trading positions or prospects since August 31, 2013 and there is no event since August 31, 2013 which would materially affect the information shown in the “Accountants’ Report” set out in Appendix I to this document. As far as we are aware, there was no material change in the general conditions in the PRC condiment market that had affected or would affect our business operations or financial conditions materially and adversely.

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountants of the Company.

[Draft]

[16 January 2014]

The Directors
Honworld Group Limited

Dear Sirs,

We set out below our report on the financial information of Honworld Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the three years ended 31 December 2010, 2011 and 2012 and the eight months ended 31 August 2013 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 and 31 August 2013, and the statements of financial position of the Company as at 31 December 2012 and 31 August 2013, together with the notes thereto (the “Financial Information”), and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the eight months ended 31 August 2012 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the document of the Company dated [16 January 2014] (the “document”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2012. Pursuant to a group reorganisation (the “Reorganisation”) as set out in note 1 of Section II below, which was completed on 15 March 2013, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. As at the date of this report, no statutory financial statements have been prepared for the Company as there are no statutory audit requirements under the relevant laws and regulations in its jurisdiction of incorporation. The management accounts of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries or jurisdictions in which they were incorporated and/or established.

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ACCOUNTANTS’ REPORT

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 and the eight months ended 31 August 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with [●].

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2010, 2011 and 2012 and 31 August 2013, and of the state of affairs of the Company as at 31 December 2012 and 31 August 2013, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

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Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

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ACCOUNTANTS’ REPORT

(I) FINANCIAL INFORMATION

Consolidated income statements

	<i>Notes</i>	Year ended 31 December			Eight months ended 31 August	
		2010	2011	2012	2012	2013
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
REVENUE	6	36,297	109,492	337,125	188,327	322,862
Cost of sales		<u>(22,910)</u>	<u>(63,250)</u>	<u>(144,226)</u>	<u>(80,770)</u>	<u>(130,250)</u>
Gross profit		13,387	46,242	192,899	107,557	192,612
Other income and gains	6	2,034	10,514	5,051	4,162	3,016
Selling and distribution expenses		(1,339)	(16,283)	(24,104)	(15,130)	(15,045)
Administrative expenses		(970)	(988)	(22,899)	(10,151)	(40,003)
Other expenses		(1,094)	(59)	(35)	(1)	(9)
Finance costs	8	<u>(3,597)</u>	<u>(11,752)</u>	<u>(15,463)</u>	<u>(9,746)</u>	<u>(11,477)</u>
PROFIT BEFORE TAX	7	8,421	27,674	135,449	76,691	129,094
Income tax expense	11	<u>(2,139)</u>	<u>(7,460)</u>	<u>(37,011)</u>	<u>(20,916)</u>	<u>(33,098)</u>
PROFIT FOR THE YEAR/PERIOD		<u>6,282</u>	<u>20,214</u>	<u>98,438</u>	<u>55,775</u>	<u>95,996</u>
Attributable to:						
Owners of the Company		<u>6,282</u>	<u>20,214</u>	<u>98,438</u>	<u>55,775</u>	<u>95,996</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of comprehensive income

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
PROFIT FOR THE YEAR/PERIOD	<u>6,282</u>	<u>20,214</u>	<u>98,438</u>	<u>55,775</u>	<u>95,996</u>
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of financial statements of operations outside Mainland China	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Other comprehensive income for the year/period, net of tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	<u>6,282</u>	<u>20,214</u>	<u>98,438</u>	<u>55,775</u>	<u>95,998</u>
Attributable to:					
Owners of the Company	<u>6,282</u>	<u>20,214</u>	<u>98,438</u>	<u>55,775</u>	<u>95,998</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of financial position

		As at 31 December			As at 31 August
		2010	2011	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	4,738	32,190	131,469	164,534
Prepaid land lease payments	14	12,428	12,165	23,790	23,426
Other intangible assets		—	—	—	395
Prepayments for items of property, plant and equipment		600	5,187	104	722
Time deposits	18	—	20	20	20
Deferred tax assets	22	9	317	—	—
Total non-current assets		17,775	49,879	155,383	189,097
CURRENT ASSETS					
Inventories	15	21,365	63,990	114,598	252,596
Trade and bills receivables	16	40,713	58,027	78,414	99,787
Prepayments, deposits and other receivables	17	32,675	56,617	127,548	41,878
Due from a director	32	1,653	1,653	23	—
Due from a related party	32	—	12,867	—	—
Time deposits	18	4,000	5,000	—	—
Pledged deposits	18	7,000	36,100	—	—
Cash and cash equivalents	18	998	10,430	2,231	40,225
Total current assets		108,404	244,684	322,814	434,486
CURRENT LIABILITIES					
Trade and bills payables	19	22,620	65,890	48,104	59,382
Other payables and accruals	20	2,736	31,914	34,394	37,003
Interest-bearing bank and other borrowings	21	68,240	146,310	206,400	243,000
Due to a related party	32	8,923	—	—	—
Due to the ultimate holding company	32	—	—	—	470
Tax payable		1,844	9,062	36,730	54,361
Total current liabilities		104,363	253,176	325,628	394,216
NET CURRENT ASSETS/(LIABILITIES)		4,041	(8,492)	(2,814)	40,270
TOTAL ASSETS LESS CURRENT LIABILITIES					
		21,816	41,387	152,569	229,367

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ACCOUNTANTS’ REPORT

		As at 31 December			As at 31 August
		2010	2011	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	21	—	—	10,000	—
Other long term liabilities	23	6,358	5,221	5,053	4,942
Deferred tax liabilities	22	—	494	4,406	6,317
Total non-current liabilities		6,358	5,715	19,459	11,259
Net assets		15,458	35,672	133,110	218,108
EQUITY					
Equity attributable to owners of the Company					
Issued capital	24	31	31	31	31
Reserves	25	15,427	35,641	133,079	218,077
Total equity		15,458	35,672	133,110	218,108

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ACCOUNTANTS’ REPORT

Consolidated statements of changes in equity

	Attributable to Owners of the Company						Total RMB’000
	Issued capital	Merger reserve*	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Retained profits/ (accumulated losses)*	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
	(Note 24)	(Note 25 (a))	(Note 25 (b))	(Note 25 (c))			
At 1 January 2010	31	10,000	7,003	70	—	(8,928)	8,176
Total comprehensive income	—	—	—	—	—	6,282	6,282
Capital contribution	—	1,000	—	—	—	—	1,000
At 31 December 2010 and 1 January 2011	<u>31</u>	<u>11,000</u>	<u>7,003</u>	<u>70</u>	<u>—</u>	<u>(2,646)</u>	<u>15,458</u>
Total comprehensive income	—	—	—	—	—	20,214	20,214
Transfer to reserves	—	—	—	1,282	—	(1,282)	—
At 31 December 2011 and 1 January 2012	<u>31</u>	<u>11,000</u>	<u>7,003</u>	<u>1,352</u>	<u>—</u>	<u>16,286</u>	<u>35,672</u>
Total comprehensive income	—	—	—	—	—	98,438	98,438
Capital contribution	—	2,800	—	—	—	—	2,800
Acquisition of equity interest in a subsidiary from controlling shareholders	—	(3,800)	—	—	—	—	(3,800)
Transfer to reserves	—	—	—	5,260	—	(5,260)	—
At 31 December 2012 and 1 January 2013	<u>31</u>	<u>10,000</u>	<u>7,003</u>	<u>6,612</u>	<u>—</u>	<u>109,464</u>	<u>133,110</u>
Profit for the period	—	—	—	—	—	95,996	95,996
Other comprehensive income for the period: Exchange differences on translation of foreign operations	—	—	—	—	2	—	2
Total comprehensive income	—	—	—	—	2	95,996	95,998
Acquisition of equity interest in a subsidiary from controlling shareholders	—	(11,000)	—	—	—	—	(11,000)
Transfer to reserves	—	—	—	1,193	—	(1,193)	—
At 31 August 2013 (Unaudited)	<u>31</u>	<u>(1,000)</u>	<u>7,003</u>	<u>7,805</u>	<u>2</u>	<u>204,267</u>	<u>218,108</u>
At 31 December 2011 and 1 January 2012	<u>31</u>	<u>11,000</u>	<u>7,003</u>	<u>1,352</u>	<u>—</u>	<u>16,286</u>	<u>35,672</u>
Total comprehensive income	—	—	—	—	—	55,775	55,775
Capital contribution	—	2,800	—	—	—	—	2,800
Transfer to reserves	—	—	—	4,197	—	(4,197)	—
At 31 August 2012	<u>31</u>	<u>13,800</u>	<u>7,003</u>	<u>5,549</u>	<u>—</u>	<u>67,864</u>	<u>94,247</u>

* These reserve accounts comprise the consolidated reserves of RMB15,427,000, RMB35,641,000, RMB133,079,000 and RMB218,077,000 in the consolidated statements of financial position as at 31 December 2010, 2011 and 2012 and 31 August 2013, respectively.

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ACCOUNTANTS’ REPORT

Consolidated statements of cash flows

		Year ended 31 December			Eight months ended 31 August	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Profit before tax		8,421	27,674	135,449	76,691	129,094
Adjustments for:						
Finance costs	8	3,597	11,752	15,463	9,746	11,477
Interest compensation	6	(1,677)	(8,266)	(3,614)	(2,998)	—
Interest income	6	(100)	(592)	(564)	(534)	(27)
Loss on disposal of items of property, plant and equipment	7	24	—	—	—	—
Depreciation	7	42	220	2,564	1,556	6,077
Recognition of prepaid land lease payments	7	90	263	263	175	364
		10,397	31,051	149,561	84,636	146,985
Increase in inventories		(8,749)	(42,625)	(50,608)	(22,582)	(137,998)
Decrease/(increase) in trade receivables		423	(16,854)	(45,787)	(94,895)	(36,773)
Decrease/(increase) in prepayments, deposits and other receivables		19,867	410	(20,432)	(5,311)	(14,728)
Increase/(decrease) in trade payables		(611)	12,270	29,214	63,196	11,278
Increase/(decrease) in other payables and accruals		2,336	29,178	2,480	6,192	(8,391)
Decrease in other long term liabilities		(1,945)	(1,137)	(168)	(111)	(111)
Cash generated from/(used in) operations		21,718	12,293	64,260	31,125	(39,738)
Interest received		100	592	564	534	27
PRC tax paid		—	(56)	(5,114)	(4,594)	(13,556)
Net cash flows from/(used in) operating activities		21,818	12,829	59,710	27,065	(53,267)

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ACCOUNTANTS’ REPORT

		Year ended 31 December			Eight months ended 31 August		
		2010	2011	2012	2012	2013	
Notes		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000	
CASH FLOWS FROM INVESTING ACTIVITIES							
	Purchases of items of property, plant and equipment	13	(4,652)	(27,672)	(20,290)	(10,714)	(39,142)
	Additions to other intangible assets		—	—	—	—	(395)
	Increase in prepayments for items of property, plant and equipment		(600)	(4,587)	—	—	(618)
	Prepaid land lease payment	14	(12,781)	—	—	—	—
	Decrease/(increase) in amounts due from a director		(600)	—	1,630	—	23
	Decrease/(increase) in amounts due from a related party		—	(13,254)	12,867	(69,915)	—
	Decrease/(increase) in prepayments, deposits and other receivables		(12,203)	6,648	(187,001)	(44,301)	100,398
	Decrease/(increase) in time deposits and pledged deposits		(7,000)	(16,020)	27,000	38,600	—
	Acquisition of a subsidiary from controlling shareholders		—	—	—	—	(11,000)
	Net cash flows from/(used in) investing activities		(37,836)	(54,885)	(165,794)	(86,330)	49,266
CASH FLOWS FROM FINANCING ACTIVITIES							
	Capital contribution		—	—	2,800	2,800	—
	New interest-bearing bank and other borrowings		34,900	127,260	303,000	118,000	222,760
	Increase in other payables and accruals		—	—	—	—	11,000
	Increase in a balance due to the ultimate holding company		—	—	—	—	470
	Increase in amounts due to a director		—	—	—	5,000	—
	Repayment of interest-bearing bank and other borrowings		(19,850)	(49,650)	(207,510)	(62,510)	(180,760)
	Increase in balances due to a related party		5,382	—	—	—	—
	Interest paid	8	(4,302)	(12,022)	(14,505)	(9,746)	(11,477)
	Net cash flows from financing activities		16,130	65,588	83,785	53,544	41,993

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ACCOUNTANTS’ REPORT

	<i>Notes</i>	Year ended 31 December			Eight months ended 31 August	
		2010	2011	2012	2012	2013
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		112	23,532	(22,299)	(5,721)	37,992
Cash and cash equivalents at beginning of year/period		886	998	24,530	10,430	2,231
Effect of foreign exchange rate changes, net		—	—	—	—	2
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	18	<u>998</u>	<u>24,530</u>	<u>2,231</u>	<u>4,709</u>	<u>40,225</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the statements of financial position	18	<u>998</u>	<u>10,430</u>	<u>2,231</u>	<u>4,709</u>	<u>40,225</u>
Time deposits with original maturity of less than three months when acquired, pledged as security for bank loans	18	—	14,100	—	—	—
Cash and cash equivalents as stated in the statements of cash flows		<u>998</u>	<u>24,530</u>	<u>2,231</u>	<u>4,709</u>	<u>40,225</u>

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ACCOUNTANTS’ REPORT

Statements of financial position of the Company

	<u>31 December</u>	<u>31 August</u>
	<u>2012</u>	<u>2013</u>
	<u>RMB’000</u>	<u>RMB’000</u>
NON-CURRENT ASSET		
Investment in a subsidiary — at cost	<u>—</u>	<u>—</u>
CURRENT ASSETS		
Due from a director	23	—
Prepayments, deposits and other receivables	8	—
Due from a subsidiary	—	470
Cash and cash equivalents	<u>—</u>	<u>31</u>
Total current assets	<u>31</u>	<u>501</u>
CURRENT LIABILITIES		
Due to a subsidiary	1,750	10,688
Due to the ultimate holding company	<u>—</u>	<u>470</u>
Total current liabilities	<u>1,750</u>	<u>11,158</u>
Net liabilities	<u>(1,719)</u>	<u>(10,657)</u>
EQUITY		
Issued capital	31	31
Reserves	<u>(1,750)</u>	<u>(10,688)</u>
Total equity	<u>(1,719)</u>	<u>(10,657)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

(II) NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and reorganisation

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The initial authorised share capital of the Company was US\$50,000 divided into 100,000,000 shares of US\$0.0005 each. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. It became the holding company of the Group as a result of the Reorganisation as described in the paragraph headed “Reorganization” in the section headed “History, Reorganization and Group Structure” in the document.

The Group is principally engaged in the manufacture and sale of condiment products under the brand name of “Lao Heng He” in the People’s Republic of China (the “PRC”).

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed “History, Reorganization and Group Structure” in the document.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Date of incorporation/ registration	Place of incorporation/ registration and place of operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Lao Heng He Group Limited	13 December 2012	Hong Kong	HK\$1	100	—	Investment holding
Huzhou Chenshi Tian Niang Management Co., Limited (湖州陳氏天釀管理諮詢有限公司)	5 February 2013	The PRC/ Mainland China	HK\$500,000	—	100	Management consulting
Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司)	6 June 2005	The PRC/ Mainland China	RMB11,000,000	—	100	Manufacture and sale of condiment products
Huzhou Laohenghe Wine Co., Limited (湖州老恒和酒業有限公司)	20 July 2010	The PRC/ Mainland China	RMB38,000,000	—	100	Manufacture and sale of condiment products

The English names of the Company’s subsidiaries which were registered in Mainland China represent the translated names of these companies as no English names have been registered.

As at the date of this report, no statutory audited financial statements have been prepared for the Company and its subsidiaries since their dates of incorporation as there are no statutory audit requirements for the Company under the relevant rules and regulations in its jurisdiction of incorporation. For the subsidiaries established in the PRC, the local authority has not required them to prepare audited financial statements during the Relevant Periods.

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2.1. Basis of presentation

Pursuant to the Reorganisation as fully explained in the paragraph headed “Reorganization” in the section headed “History, Reorganization and Group Structure” in the document, the Company became the holding company of the companies now comprising the Group on 15 March 2013. The companies now comprising the Group were under the common control of Chen Weizhong (“陳衛忠”) and his wife (“the controlling shareholders”) before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidation basis by applying the principles of the pooling-of-interests method as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the eight months ended 31 August 2012 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the controlling shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012, and 31 August 2013 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the controlling shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2. Basis of preparation

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except other long term liabilities, which have been measured at fair value. The Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

3. Impact of issued but not effective IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information:

IFRS 9	<i>Financial Instruments*</i>
IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — <i>Investment Entities</i> ¹
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits</i> — <i>Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> — <i>Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 36 Amendments	Amendments to IAS 36 <i>Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> — <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Leases</i> ¹
Annual Improvements Project	Annual Improvements to IFRSs 2010–2012 Cycle [#]
Annual Improvements Project	Annual Improvements to IFRSs 2011–2013 Cycle [#]

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

* The mandatory effective date of IFRS 9 will be determined when the entire IFRS 9 is closer to completion

Generally for annual periods or transactions beginning on or after 1 July 2014, although entities are permitted to apply them earlier

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IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39: *Financial Instruments Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

The IAS 36 Amendments requires additional information about the recoverable amount of the asset and the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal, for which an impairment loss has been recognized or recorded during the period.

The Group expects to adopt these new or revised IFRS upon mandatory effective dates and is in the process of making an assessment of the impact of these new and revised IFRSs on the Group’s results of operations and financial position upon initial application. So far, the Group considers that these new and revised IFRS and IFRICs are unlikely to have any significant impact on the Group’s results of operations and financial position.

4. Summary of significant accounting policies

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report are set out below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the pooling-of-interests method.

The pooling-of-interests method involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the consolidating entities or businesses are consolidated using the existing book value. No amount is recognised in respect of goodwill or the excess of the acquirers’ interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control consolidation.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for an equity transaction.

Subsidiaries

A subsidiary is an entity (including a structured entity) controlled by the Company and/or its other subsidiaries.

The Group controls an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., the existing rights that give the Group the current ability to direct the relevant activities of the investee).

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control described above.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Machinery and equipment*	5% to 20%
Furniture and fixtures	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%

* Included in the machinery and equipment are earthen jars, for which the estimated useful life is 20 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding its economic useful life, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statements on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investment and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and bills payables, other payables, amount due to a related party, amount due to the ultimate holding company and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when services have been completed; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee retirement benefits

As stipulated by the rules and regulations of the PRC, the Company’s subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The contributions are recognised as expenses when the Company consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

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Early retirement and retirement benefits

During the fiscal 2005 restructuring, the Group undertook the expense related to both the retirement and the early retirement schemes for the medical and social welfare of those early retired and retired employees as of 30 June 2005. The Group recognises the relevant estimated liabilities as well as charges to the income statement once the Group undertakes the obligations. These benefits are unfunded.

Where these schemes fall due more than 12 months after the statement of financial position, they shall be discounted using the appropriate discount rate, and carried at discounted amount as liabilities. The discount rate is determined using the yield rate of government bonds with similar terms at the date of the financial statements.

Actuarial gains or losses include the experience adjustment (the impact of difference between previous actuarial assumption and actual results) and the impact of changes on actuarial assumption. The actuarial gains or losses are recognised in other comprehensive income when incurred and will not be reclassified to profit or loss in a subsequent period.

Interest expense is charged to the income statement which is derived from the discount rate which is determined at the commencement of retirement scheme within an accounting period and early retirement scheme multiplying with average present value over the entire terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The financial statements are presented in Renminbi, which is also adopted by the Company as the presentation currency of the Group. The Company’s functional currency is Hong Kong dollars (“HK\$”). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain Hong Kong and overseas subsidiaries are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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For the purpose of the consolidated statement of cash flows, the cash flows of Hong Kong and overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Hong Kong and overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Significant accounting judgement and estimates

The preparation of the Group’s Financial Information and the Interim Comparative Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in this report:

Tax provision

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in tax legislation and practices.

Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Deferred tax liabilities for withholding taxes

Deferred tax liabilities have not been established for income tax and withholding tax that would not be payable on certain undistributed earnings of the subsidiaries in Mainland China if the directors consider that the timing of the reversal of the related temporary differences in relation to the undistributed earnings of the subsidiaries in Mainland China can be controlled and such temporary differences will not be reversed in the foreseeable future. For those undistributed earnings of the subsidiaries in Mainland China that are considered to be repatriated and distributed by way of dividends, the related deferred tax liabilities would have been recognised.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the repair and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. Relevant carrying amounts of the property, plant and equipment were disclosed in Note 13.

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Impairment of trade and other receivables

The policy for provision for impairment losses of the Group is based on the evaluation of collectibility, the aged analysis of trade and other receivables and on management’s judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves management’s judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

Early retirement and retirement benefits

The Group had recognized the early retirement and retirement benefits as a liability. The initial recognition of early retirement and retirement benefits is measured at the best estimate of the expenditure required to settle early-retired and retired employees. When the Group determines the best estimate, it takes into account headcount changes of early-retired and retired employees, effect on future expenditure arising from inflation of prices and other factors. When selecting proper discount rate, the Group takes into account the average period of future payment for early retirement and retirement benefits and other factors. The difference between the actuarial assumptions and actual results will have impact on the relevant accounting estimation. Although the management considered that the above assumptions are reasonable, any changes in assumption may affect the amount of provision for early retirement and retirement benefits. The assumptions that the Group used in measuring the early retirement and retirement benefits are disclosed in note 23.

5. Operating segment information

The Group is principally engaged in the manufacturing and sale of condiment products. For management purposes, the Group operates in one business unit and has one reportable operating segment as follows:

- The food segment manufactures and sells condiment products.

As all of the Group’s revenue is derived from sales of their products to the customers in the PRC and all of the Group’s identifiable non-current assets are located in the PRC, no geographical information is presented in accordance with IFRS 8 *Operating Segments*.

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Information about major customers

Revenue amounting to 10 percent or more of the Group’s revenue derived from sales to a single customer for the Relevant Periods and the eight months ended 31 August 2012 is set out in the following table:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Customer A	—*	5,610*	45,831	24,157	67,415
Customer B	—*	5,213*	51,522	26,994	46,867
Customer C	—*	—*	4,116*	57*	44,863
Customer D	—*	4,484*	44,183	24,977	38,232
Customer E	—*	2,499*	39,865	22,015	33,849
Customer F	—*	2,202*	30,134*	11,577*	29,502*
Customer G	—*	4,298*	11,237*	10,535*	12,208*
Customer H	—*	3,684*	34,352	13,972*	8,404*
Customer I	30,749	45,333	4,931*	3,873*	606*
	<u>30,749</u>	<u>73,323</u>	<u>266,171</u>	<u>138,157</u>	<u>281,946</u>

* Revenue from these customers in the relevant periods did not exceed 10 percent of the Group’s revenue.

6. Revenue and other income and gains

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Revenue					
Sale of goods	32,539	109,492	337,125	188,327	322,862
Rendering of services	3,758	—	—	—	—
	<u>36,297</u>	<u>109,492</u>	<u>337,125</u>	<u>188,327</u>	<u>322,862</u>
Other income and gains					
Subsidy received	212	210	135	62	2,478
Rental income	—	—	—	—	318
Gain from sales of materials	6	1,205	725	563	161
Interest income	100	592	564	534	27
Interest compensation (note 32(b)(iii))	1,677	8,266	3,614	2,998	—
Others	39	241	13	5	32
	<u>2,034</u>	<u>10,514</u>	<u>5,051</u>	<u>4,162</u>	<u>3,016</u>

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7. Profit before tax

The Group’s profit before tax is arrived at after charging:

	Notes	Year ended 31 December			Eight months ended 31 August	
		2010	2011	2012	2012	2013
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Cost of inventories sold		22,910	63,250	144,226	80,770	130,250
Depreciation	13	42	220	2,564	1,556	6,077
Auditors’ remuneration**		—	—	—	—	—
Recognition of prepaid land lease payments	14	90	263	263	175	364
Minimum lease payments under operating leases:						
Plant and machinery		500	500	763	438	225
Office buildings		—	—	775	517	—
Employee benefit expenses (excluding directors’ and chief executive’s remuneration (note 9)):						
Wages and salaries		766	2,821	9,030	3,969	6,834
Pension scheme contributions		52	297	1,031	558	964
		<u>818</u>	<u>3,118</u>	<u>10,061</u>	<u>4,527</u>	<u>7,798</u>
Research and development costs — current year expenditure		—	—	12,191	5,765	23,120
Donations*		1,050	20	10	—	—
Loss on disposal of items of property, plant and equipment*		<u>24</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

* Items classified under “other expenses” in the consolidated income statements.

** No auditors’ remuneration was recorded during the Relevant Periods as no statutory audit was required for the Company and its subsidiaries with details as disclosed in note 1 to this report.

8. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Interest on bank and other borrowings wholly repayable within five years	1,920	3,486	11,849	6,748	11,477
Interest on bank acceptance bills	<u>1,677</u>	<u>8,266</u>	<u>3,614</u>	<u>2,998</u>	<u>—</u>
	<u>3,597</u>	<u>11,752</u>	<u>15,463</u>	<u>9,746</u>	<u>11,477</u>

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9. Director’s and chief executive’s remuneration

Director’s and chief executive’s remuneration, disclosed pursuant to the relevant rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	—	—	80	40	80
Pension scheme contributions	—	—	4	2	4
	—	—	84	42	84
Total	—	—	84	42	84
		Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration	
	Fees				
	RMB'000	RMB'000	RMB'000	RMB'000	
Year ended 31 December 2010					
<i>Executive director and chief executive:</i>					
Chen Weizhong (陳衛忠)	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2011					
<i>Executive director and chief executive:</i>					
Chen Weizhong (陳衛忠)	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2012					
<i>Executive director and chief executive:</i>					
Chen Weizhong (陳衛忠)	—	80	4	84	84
	—	80	4	84	84
Eight months ended 31 August 2013					
<i>Executive director and chief executive:</i>					
Chen Weizhong (陳衛忠)	—	80	4	84	84
	—	80	4	84	84
Eight months ended 31 August 2012 (Unaudited)					
<i>Executive director and chief executive:</i>					
Chen Weizhong (陳衛忠)	—	40	2	42	42
	—	40	2	42	42

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There was no arrangement under which the director and chief executive waived or agreed to waive any remuneration during the Relevant Periods and the eight months ended 31 August 2012.

10. Five highest paid employees

The number of directors included in the five highest paid employees of the Group for the Relevant Periods and the eight months ended 31 August 2012 are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
Number of directors included in the five highest paid employees	—	—	1	1	1

Details of the remuneration of the remaining, highest paid employees who are neither a director nor chief executive of the Group for the Relevant Periods and the eight months ended 31 August 2012 are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	122	121	277	156	226
Pension scheme contributions	10	29	24	14	15
	132	150	301	170	241

The number of these non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
Nil to HK\$1,000,000	5	5	4	4	4

11. Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Group was not subject to any income tax in the Cayman Islands.

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The corporate income tax of the Group in respect of its operations in Mainland China has been provided at the rate of 25% on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Group:					
Current — PRC					
Charge for the year	1,780	7,274	32,782	18,573	31,187
Deferred (<i>note 22</i>)	359	186	4,229	2,343	1,911
Total tax charge for the year	2,139	7,460	37,011	20,916	33,098

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the jurisdiction where most of the Company’s subsidiaries are located to the tax expense at the effective tax rate for each of the Relevant Period is as follows:

	Year ended 31 December						Eight months ended 31 August			
	2010		2011		2012		2012		2013	
	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000	%
							(Unaudited)			
Profit before tax	8,421		27,674		135,449		76,691		129,094	
Tax at the statutory tax rate	2,105	25.0	6,919	25.0	33,862	25.0	19,173	25.0	32,273	25.0
Effect of withholding tax at 10% on the distributable profits of the Group’s subsidiaries in Mainland China	—	—	494	1.8	2,933	2.2	1,605	2.1	2,890	2.2
Income not subject to tax	—	—	—	—	—	—	—	—	(544)	(0.4)
Tax incentive on eligible expenditures	—	—	—	—	—	—	—	—	(1,528)	(1.2)
Expenses not deductible for tax	34	0.4	47	0.2	216	0.1	138	0.2	7	—
Tax charge at the Group’s effective tax rate	2,139	25.4	7,460	27.0	37,011	27.3	20,916	27.3	33,098	25.6

12. Earnings per share attributable to equity holders of the Company

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a consolidated basis as disclosed in note 2.1 above.

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13. Property, plant and equipment

Group

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
31 December 2010					
At 1 January 2010:					
Cost	—	1,986	55	—	2,041
Accumulated depreciation	—	(1,837)	(52)	—	(1,889)
Net carrying amount	<u>—</u>	<u>149</u>	<u>3</u>	<u>—</u>	<u>152</u>
At 1 January 2010, net of accumulated depreciation	—	149	3	—	152
Additions	2,914	10	—	1,728	4,652
Disposals	—	(24)	—	—	(24)
Depreciation provided during the year	—	(42)	—	—	(42)
At 31 December 2010, net of accumulated depreciation	<u>2,914</u>	<u>93</u>	<u>3</u>	<u>1,728</u>	<u>4,738</u>
At 31 December 2010:					
Cost	2,914	1,523	55	1,728	6,220
Accumulated depreciation	—	(1,430)	(52)	—	(1,482)
Net carrying amount	<u>2,914</u>	<u>93</u>	<u>3</u>	<u>1,728</u>	<u>4,738</u>
31 December 2011					
At 31 December 2010 and at 1 January 2011:					
Cost	2,914	1,523	55	1,728	6,220
Accumulated depreciation	—	(1,430)	(52)	—	(1,482)
Net carrying amount	<u>2,914</u>	<u>93</u>	<u>3</u>	<u>1,728</u>	<u>4,738</u>
At 1 January 2011, net of accumulated depreciation	2,914	93	3	1,728	4,738
Additions	8	7,785	4	19,875	27,672
Depreciation provided during the year	(154)	(65)	(1)	—	(220)
Transfers	21,603	—	—	(21,603)	—
At 31 December 2011, net of accumulated depreciation	<u>24,371</u>	<u>7,813</u>	<u>6</u>	<u>—</u>	<u>32,190</u>
At 31 December 2011:					
Cost	24,525	9,308	59	—	33,892
Accumulated depreciation	(154)	(1,495)	(53)	—	(1,702)
Net carrying amount	<u>24,371</u>	<u>7,813</u>	<u>6</u>	<u>—</u>	<u>32,190</u>

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Group

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
31 December 2012						
At 31 December 2011 and at 1 January 2012;						
Cost	24,525	9,308	59	—	—	33,892
Accumulated depreciation	(154)	(1,495)	(53)	—	—	(1,702)
Net carrying amount	<u>24,371</u>	<u>7,813</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>32,190</u>
At 1 January 2012, net of accumulated depreciation	24,371	7,813	6	—	—	32,190
Additions	65,688	18,961	3,912	2,028	11,254	101,843
Depreciation provided during the year	(1,307)	(1,212)	(45)	—	—	(2,564)
Transfers	3,382	7,843	—	—	(11,225)	—
At 31 December 2012, net of accumulated depreciation	<u>92,134</u>	<u>33,405</u>	<u>3,873</u>	<u>2,028</u>	<u>29</u>	<u>131,469</u>
At 31 December 2012:						
Cost	93,595	36,112	3,971	2,028	29	135,735
Accumulated depreciation	(1,461)	(2,707)	(98)	—	—	(4,266)
Net carrying amount	<u>92,134</u>	<u>33,405</u>	<u>3,873</u>	<u>2,028</u>	<u>29</u>	<u>131,469</u>
31 August 2013						
At 31 December 2012 and at 1 January 2013;						
Cost	93,595	36,112	3,971	2,028	29	135,735
Accumulated depreciation	(1,461)	(2,707)	(98)	—	—	(4,266)
Net carrying amount	<u>92,134</u>	<u>33,405</u>	<u>3,873</u>	<u>2,028</u>	<u>29</u>	<u>131,469</u>
At 1 January 2013, net of accumulated depreciation	92,134	33,405	3,873	2,028	29	131,469
Additions	2,012	2,209	—	—	34,921	39,142
Depreciation provided during the period	(3,064)	(2,232)	(281)	(500)	—	(6,077)
Transfers	22,786	—	—	—	(22,786)	—
At 31 August 2013, net of accumulated depreciation	<u>113,868</u>	<u>33,382</u>	<u>3,592</u>	<u>1,528</u>	<u>12,164</u>	<u>164,534</u>
At 31 August 2013:						
Cost	118,393	38,321	3,971	2,028	12,164	174,877
Accumulated depreciation	(4,525)	(4,939)	(379)	(500)	—	(10,343)
Net carrying amount	<u>113,868</u>	<u>33,382</u>	<u>3,592</u>	<u>1,528</u>	<u>12,164</u>	<u>164,534</u>

The Group had not obtained ownership certificates of certain buildings with a net carrying amount of RMB27,818,000 as at 31 December 2012, which had been subsequently obtained by 28 February 2013.

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As at 31 December 2012, certain of the Group’s buildings with a net carrying amount of approximately RMB17,096,000 were pledged to secure bank loans granted to Zhejiang Zhongwei Brewing Co., Limited (“浙江中味釀造有限公司”), a former related company (31 December 2010 and 2011: Nil). The pledge had been subsequently released by 22 February 2013.

14. Prepaid land lease payments

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount at 1 January	—	12,691	12,428	24,336
Additions during the year/period	12,781	—	12,171	—
Recognised during the year/period	(90)	(263)	(263)	(364)
Carrying amount at 31 December	12,691	12,428	24,336	23,972
Less: Current portion included in prepayments, deposits and other receivables	(263)	(263)	(546)	(546)
Non-current portion	12,428	12,165	23,790	23,426

The leasehold land is situated in Mainland China and is held under a long term lease.

The Group had not obtained ownership certificates of certain land use rights with a net carrying amount of RMB4,200,000 as at 31 December 2012, which had been subsequently obtained by 28 February 2013.

As at 31 December 2012, certain of the Group’s leasehold land with a net carrying amount of approximately RMB10,350,000 was pledged to secure bank loans granted to Zhejiang Zhongwei Brewing Co., Limited (“Zhong Wei”), a former related company (31 December 2010 and 2011: Nil). The pledge had been subsequently released by 22 February 2013.

15. Inventories

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Raw materials	9,206	3,697	6,353	21,012
Work in progress	10,803	57,271	101,894	228,573
Finished goods	1,356	3,022	6,351	3,011
	21,365	63,990	114,598	252,596

Certain of the Group’s inventories with a net carrying amount of approximately RMB34,437,000 and RMB65,715,000 were pledged to secure bank loans granted to the Group as at 31 December 2012 and 31 August 2013, respectively (31 December 2010 and 2011: Nil) (note 21).

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16. Trade and bills receivables

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	373	17,227	63,014	99,787
Bills receivable	40,340	40,800	15,400	—
Impairment	—	—	—	—
Total	40,713	58,027	78,414	99,787

The Group’s trading terms with its customers are mainly on credit. The credit period is generally one to three months.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2010, 2011, 2012 and 31 August 2013, an aged analysis of the trade receivables, based on the invoice date, is as follows:

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Within 30 days	—	6,398	37,066	50,722
31 to 90 days	—	9,777	20,481	48,130
91 to 180 days	—	988	3,340	675
181 to 360 days	—	—	1,920	260
Over 1 year	373	64	207	—
	373	17,227	63,014	99,787

An aged analysis of the trade receivables, based on the credit terms, that are neither individually nor collectively considered to be impaired, is as follows:

	Past due but not impaired				
	Total	Neither past due nor impaired			
			< 90 days	91 to 180 days	181 to 360 days
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2010	373	—	—	—	—
31 December 2011	17,227	16,175	988	—	—
31 December 2012	63,014	57,554	3,494	910	871
31 August 2013	99,787	95,663	3,834	290	—

The trade receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

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The trade receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for 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. The Group does not hold any collateral or other credit enhancements over these balances.

Bills receivable of RMB40,340,000, RMB40,800,000 and RMB15,400,000 as at 31 December 2010, 2011 and 2012 (31 August 2013: Nil) were discounted to banks in exchange for cash and included as “Bank advances for discounted bills” in note 21 to the Financial Information. The bank acceptance bills were all due from a former related party and had been settled by 21 February 2013. Details of the discounted bills are disclosed in note 33.

17. Prepayments, deposits and other receivables

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	4,451	2,914	21,464	19,045
Deposits and other receivables	28,224	53,703	106,084	22,833
	<u>32,675</u>	<u>56,617</u>	<u>127,548</u>	<u>41,878</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

18. Cash and cash equivalents and pledged deposits

	Notes	31 December			31 August
		2010	2011	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances		998	10,430	2,231	40,225
Time deposits		11,000	41,120	20	20
		11,998	51,550	2,251	40,245
Less:					
Pledged time deposits for bank loans	21(b)(i)	(1,000)	(15,100)	—	—
Pledged time deposits for bank acceptance bills	19	(6,000)	(21,000)	—	—
Non-pledged time deposit with original maturity of over six months when acquired		(4,000)	(5,020)	(20)	(20)
Cash and cash equivalents		<u>998</u>	<u>10,430</u>	<u>2,231</u>	<u>40,225</u>

As at 31 December 2010, 2011, 2012 and 31 August 2013, the cash and bank balances of the Group denominated in RMB amounted to RMB998,000, RMB10,430,000, RMB2,231,000 and RMB40,124,000, respectively.

RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one month to six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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19. Trade and bills payables

At 31 December 2010, 2011, 2012 and 31 August 2013, an aged analysis of the trade and bills payables, based on the invoice date, is as follows:

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	4,679	14,971	33,373	42,694
3 to 6 months	1,353	2,334	7,283	8,749
Over 6 months	588	1,585	7,448	7,939
Trade payables	6,620	18,890	48,104	59,382
Bills payables	16,000	47,000	—	—
Trade and bills payables	22,620	65,890	48,104	59,382

Trade payables of the Group include a trading balance due to related parties of RMB3,522,000 as at 31 December 2011 (31 December 2010 and 2012 and 31 August 2013: Nil). The balance due to the related parties is unsecured, interest-free and repayable in accordance with normal commercial terms.

The trade payables are non-interest-bearing and are normally settled on terms of one to three months. The carrying amounts of the trade payables approximate to their fair values.

As at 31 December 2010 and 2011, bills payable of the Group include a balance due to a related party of RMB16,000,000 and RMB7,000,000, respectively (31 December 2012 and 31 August 2013: Nil). The balance due to the related party is unsecured, interest-free and repayable in accordance with normal commercial terms.

The bills are secured by pledged time deposits amounting to RMB6,000,000 and RMB21,000,000 as at 31 December 2010 and 2011, respectively (31 December 2012 and 31 August 2013: Nil) (note 18).

20. Other payables and accruals

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	19	1,464	6,518	—
Other payables	2,505	30,158	25,691	35,958
Accruals	212	292	2,185	1,045
	2,736	31,914	34,394	37,003

All these balances are non-interest-bearing and other payables have an average term of three months.

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All the Group’s bank and other borrowings are denominated in RMB. The carrying amounts of the Group’s bank and other borrowings approximate to their fair values.

22. Deferred tax

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

	Tax losses	Unrealised profits/(losses) on inventory	Withholding tax paid on dividends distributed	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2010	368	—	—	368
Debited to the consolidated income statements (note 11)	(359)	—	—	(359)
Net deferred tax assets at 31 December 2010 and 1 January 2011	9	—	—	9
Credited/(debited) to the consolidated income statements (note 11)	(9)	317	(494)	(186)
Net deferred tax liabilities at 31 December 2011 and 1 January 2012	—	317	(494)	(177)
Debited to the consolidated income statements (note 11)	—	(1,296)	(2,933)	(4,229)
Net deferred tax liabilities at 31 December 2012 and 1 January 2013	—	(979)	(3,427)	(4,406)
Credited/(debited) to the consolidated income statements (note 11)	—	979	(2,890)	(1,911)
Net deferred tax liabilities at 31 August 2013	—	—	(6,317)	(6,317)

Pursuant to the Corporate Income Tax Law of the People’s Republic of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2011, 2012 and 31 August 2013, the Group has not recognised deferred tax liabilities of RMB1,152,000, RMB7,996,000 and RMB14,739,000 in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB11,525,000, RMB79,961,000 and RMB147,391,000, that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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23. Other long term liabilities

The actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to the acquisition of Huzhou Laohenghe Brewery Co., Limited by the controlling shareholders and the early retirement obligations for employees who early retired were RMB6,358,000, RMB5,221,000, RMB5,053,000 and RMB4,942,000 as at 31 December 2010, 2011, 2012 and 31 August 2013, respectively. The benefit obligations arising from the plans were unfunded.

(a) The movements of the actuarial liabilities recognised in the statements of financial position are as follows:

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount at beginning of year/period	6,775	6,358	5,221	5,053
Benefits paid	(417)	(1,137)	(168)	(111)
As at end of year/period	<u>6,358</u>	<u>5,221</u>	<u>5,053</u>	<u>4,942</u>

(b) The discount rates and the principal actuarial assumptions for the above obligations are as follows:

	31 December			31 August
	2010	2011	2012	2013
Discount rate:				
Medical benefits	3.9%	3.4%	3.6%	4.0%
Survivor pension	3.6%–4.1%	3.0%–3.7%	3.2%–3.9%	3.9%–4.1%
Average annual benefit increase:				
Medical benefits	0%–4%	0%–4%	0%–4%	0%–4%
Survivor pension	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>

24. Issued capital

The Company was incorporated in the Cayman Islands on 4 December 2012. As at 31 August 2013, the Company had no distributable reserve.

Save for the aforesaid, the Company has not conducted any business since its date of incorporation.

	31 December 2012	31 August 2013
	USD’000	USD’000
Authorised:		
100,000,000 ordinary shares of US\$0.0005 each	<u>50</u>	<u>50</u>
	31 December 2012	31 August 2013
	RMB’000	RMB’000
Issued:		
10,000,000 ordinary shares of US\$0.0005 each	<u>31</u>	<u>31</u>
Fully paid:		
10,000,000 ordinary shares of US\$0.0005 each	<u>—</u>	<u>31</u>

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25. Reserves

Group

The amounts of the Group’s reserves and the movements therein during the Relevant Periods and the eight months ended 31 August 2012 are presented in the consolidated statements of changes in equity.

(a) Merger reserve

The merger reserve represents the difference between the Company’s share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company’s cost of acquisition of the subsidiaries under common control upon the Reorganisation as detailed in note 1 above.

(b) Capital reserve

Capital reserve arose from the capital contribution by the controlling shareholders of the Company.

(c) Statutory surplus reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company’s subsidiaries established in the PRC, and were approved by the respective boards of directors.

(d) The amounts of the Company’s reserves and the movements therein during the Relevant Periods are presented as follows:

	Accumulated losses
	RMB’000
Upon incorporation	—
Loss for the period since its incorporation	(1,750)
At 31 December 2012 and 1 January 2013	(1,750)
Loss for the period	(8,938)
At 31 August 2013	(10,688)

26. Contingent liabilities

During the years ended 31 December 2010, 2011 and 2012, the Group discounted bank acceptance bills to various third parties. The unexpired bank acceptance bills amounted to RMB23,000,000 as at 31 December 2010 (31 December 2011, 2012 and 31 August 2013: Nil). The bank acceptance bills were all due from a related party and had been settled by 27 March 2011.

27. Pledge of assets

Details of the Group’s bank loans and bank advances for discounted bills, and bills payables, which are secured by the assets of the Group, are included in notes 21 and 19, respectively, to the financial statements.

28. Acquisition of a subsidiary

On 20 October 2012, the Group acquired 100% equity interest in Huzhou Wu Xing Wu Cheng Wine Company (“Wu Cheng Wine”), a company spun off from Zhong Wei with assets of manufacturing facilities, production equipment, a land use right, an office building and an equivalent amount of current liabilities, at no consideration. As at the date of the acquisition, the carrying amounts of the properties, plants and equipment, the prepaid land lease payments and other payables as shown in the management accounts of Wu Cheng Wine amounted to RMB76,470,000, RMB12,171,000 and RMB88,641,000, respectively.

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The acquisition of Wu Cheng Wine was not accounted for as a business combination but an asset acquisition as Wu Cheng Wine did not include the essential elements to qualify as a business, and the consideration of the acquisition was the fair value of the current liabilities, which approximated to the carrying amounts of RMB88,641,000. Further details of the transaction are included in note 29 below.

29. Major non-cash transactions

1. In 2012, the Group acquired assets from Zhong Wei (note 28) by taking up debts of Zhong Wei amounting to RMB88,641,000;
2. In 2012, the Group offset its amounts due from Zhong Wei and due from a third party against its relevant debts due to Zhong Wei and a third party of RMB88,641,000 in aggregate.

30. Operating lease arrangements

The Group leases certain of its properties and equipment under operating lease arrangements. Leases for properties and equipment are negotiated for terms ranging between one to five years.

At 31 December 2010, 2011, 2012 and 31 August 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	500	500	317	317
In the second to fifth years, inclusive	500	—	840	810
	<u>1,000</u>	<u>500</u>	<u>1,157</u>	<u>1,127</u>

31. Commitments

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the Relevant Periods:

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Plant and machinery	15,000	4,960	—	7,700
Advertising contracts	7,923	9,530	9,115	1,290
	<u>22,923</u>	<u>14,490</u>	<u>9,115</u>	<u>8,990</u>

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32. Related party transactions

In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods and the eight months ended 31 August 2012:

(a) Name of and relationship with related parties

<u>Name of related parties</u>	<u>Relationship</u>
Chen Weizhong (陳衛忠)	controlling shareholder
Xing Liyu (邢利玉)	Spouse of Chen Weizhong, collectively the controlling shareholders
Zhejiang Zhongwei Brewing Co., Limited*	Company controlled by controlling shareholders
Yilong Zhongwei Food Co., Limited* (“儀隴縣中味食品有限公司”)	Company controlled by controlling shareholders
Anji Zhongwei Food Co., Limited** (“安吉中味食品有限公司”)	Company controlled by controlling shareholders
Key Shine Global Holdings Limited	Ultimate holding company

* Zhejiang Zhongwei Brewing Co., Limited and Yilong Zhongwei Food Co., Limited were no longer the Group’s related party following the disposal by controlling shareholders to a third party on 27 December 2012.

** Anji Zhongwei Food Co., Limited was no longer the Group’s related party following its disposal by controlling shareholders to a third party on 30 November 2012.

(b) Significant related party transactions during the Relevant Periods and the eight months ended 31 August 2012 are as follows:

		Year end 31 December			Eight months ended 31 August	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sale of products to:	(i)					
Zhong Wei		30,749	45,333	4,931	3,873	N/A
Sale of materials and work-in-progress to:	(i)					
Zhong Wei		—	2,113	859	731	N/A
Anji Zhongwei Food Co., Limited		517	371	467	463	N/A
Rendering of processing services to:	(ii)					
Zhong Wei		3,758	—	—	—	N/A
Interest compensation from	(iii)					
Zhong Wei		1,677	8,266	3,614	2,998	N/A
Purchase of materials, work-in-progress and finished goods from:	(i)					
Zhong Wei		12,354	41,695	16,930	4,797	N/A
Anji Zhongwei Food Co., Limited		544	909	3,016	3,016	N/A
Yilong Zhongwei Food Co., Limited		7	3,231	4,701	319	N/A
Purchase of assets from:						
Zhong Wei	(iv)	—	—	88,641	—	N/A
Properties and equipment rental fee paid to:						
Zhong Wei	(v)	500	500	1,275	850	N/A
Anji Zhongwei Food Co., Limited	(vi)	—	—	40	—	N/A

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Notes:

- (i) The sales to and purchases from related parties were on prices and conditions as mutually agreed.
 - (ii) The processing service income was based on the direct costs incurred, plus a mark-up.
 - (iii) The interest compensation from Zhong Wei was to compensate for the interest on bank acceptance bills as disclosed in note 8.
 - (iv) The Group purchased properties, equipment, motor vehicles, furniture and fixtures, and land use rights from Zhong Wei amounting to RMB88,641,000, based on the considerations and terms agreed between the Group and Zhong Wei.
 - (v) The Group rented the plant facilities owned by Zhong Wei at an annual charge of RMB500,000 for the years of 2010, 2011 and 2012. The Group rented the office buildings owned by Zhong Wei at an annual charge of RMB775,000 for the year 2012. The relevant plant facilities and office buildings were acquired by the Group in December 2012, as mentioned in note (iv) above.
 - (vi) The Group rented the warehouse of Anji Zhongwei Food Co., Limited at an annual charge of RMB40,000.
- (c) Provision of guarantees by related parties

	31 December			31 August
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings guaranteed by:				
Zhong Wei	5,000	—	—	N/A
Chen Weizhong and Xing Liyu*	15,000	75,000	103,000	74,000
	<u>20,000</u>	<u>75,000</u>	<u>103,000</u>	<u>74,000</u>

* The guarantees had been subsequently released with the maturity of the relevant loans by 27 December 2013.

- (d) Amount due from/to a related party

	31 December 2010	Maximum amount outstanding	31 December 2011	Maximum amount outstanding	31 December 2012	Maximum amount outstanding	31 August 2013	Maximum amount outstanding
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from:								
Zhong Wei	—	—	12,867	12,867	N/A	N/A	N/A	N/A
	<u>—</u>	<u>—</u>	<u>12,867</u>	<u>12,867</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
					31 December		31 August	
					2010	2011	2012	2013
					RMB'000	RMB'000	RMB'000	RMB'000
Amount due to:								
Zhong Wei					8,923	—	N/A	N/A
					<u>8,923</u>	<u>—</u>	<u>N/A</u>	<u>N/A</u>

The balances with the related party were non-trade in nature, unsecured, interest-free and repayable on demand.

Details of the Group's trade balances with its related party as at the Relevant Periods are disclosed in note 19 to the Financial Information.

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The carrying amounts of the balances with the related party were related to a party for whom there was no recent history of default.

The carrying amounts of the balances with the related party approximate to their fair values.

- (e) Amount due from a director

	31 December 2010	Maximum amount outstanding	31 December 2011	Maximum amount outstanding	31 December 2012	Maximum amount outstanding	31 August 2013	Maximum amount outstanding
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Due from a director:								
Chen Weizhong	1,653	1,653	1,653	1,653	23	1,653	—	23

The amount due from a director was non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amount of the balance approximated to its fair value.

- (f) Due to the ultimate holding company

As disclosed in the consolidated statement of financial position, the Group had an outstanding balance due to its ultimate holding company of RMB470,000 as at 31 August 2013. The balance was unsecured, interest-free and repayable on demand.

- (g) Compensation of key management personnel of the Group, including directors’ remuneration as detailed in note 9 above.

	Year end 31 December			Eight months ended 31 August	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	—	—	288	144	288
Pension scheme contributions	—	—	18	9	19
Total compensation paid to key management personnel	—	—	306	153	307

Further details of directors’ and chief executive’s emoluments are included in note 9 above.

- (h) The Group used Chen Weizhong’s trade-secret cooking wines recipes for no consideration during the Relevant Periods. On 1 January 2013, Chen Weizhong and Huzhou Laohenghe Brewery Co., Limited entered into a licensing agreement, whereby Chen Weizhong agreed to grant Huzhou Laohenghe Brewery Co., Limited and its subsidiary and any future newly set up subsidiaries an exclusive right to use Chen Weizhong’s trade-secret cooking wines recipes for no consideration. On 23 August 2013, Mr. Chen entered into a Recipes Transfer Agreement with Huzhou Laohenghe Brewery Co., Limited to transfer the trade-secret cooking wines recipes to Huzhou Laohenghe Brewery Co., Limited for consideration of RMB1.
- (i) Chen Weizhong has undertaken to indemnify the Group all possible liabilities and losses in connection with the non-registration of leased properties, bill financing, and taxation claims.

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33. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the date of statements of financial position are as follows:

31 December 2010	Loans and receivables
Group	RMB’000
Financial assets	
Trade and bills receivables	40,713
Financial assets included in deposits and other receivables	28,211
Due from a director	1,653
Time deposits	4,000
Pledged deposits	7,000
Cash and cash equivalents	998
	<u>82,575</u>
Loans and receivables	<u>82,575</u>
	Financial liabilities at amortised cost
	RMB’000
Financial liabilities	
Trade and bills payables	22,620
Financial liabilities included in other payables and accruals	1,823
Interest-bearing bank and other borrowings	68,240
Due to a related party	8,923
	<u>101,606</u>
Financial liabilities at amortised cost	<u>101,606</u>
31 December 2011	Loans and receivables
Group	RMB’000
Financial assets	
Trade and bills receivables	58,027
Financial assets included in deposits and other receivables	52,938
Due from a director	1,653
Due from a related party	12,867
Time deposits	5,020
Pledged deposits	36,100
Cash and cash equivalents	10,430
	<u>177,035</u>
Loans and receivables	<u>177,035</u>
	Financial liabilities at amortised cost
	RMB’000
Financial liabilities	
Trade and bills payables	65,890
Financial liabilities included in other payables and accruals	28,178
Interest-bearing bank and other borrowings	146,310
	<u>240,378</u>
Financial liabilities at amortised cost	<u>240,378</u>

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31 December 2012	Loans and receivables
Group	RMB’000
Financial assets	
Trade and bills receivables	78,414
Financial assets included deposits and other receivables	100,429
Due from a director	23
Time deposits	20
Cash and cash equivalents	2,231
Loans and receivables	181,117
	Financial liabilities at amortised cost
	RMB’000
Financial liabilities	
Trade and bills payables	48,104
Financial liabilities included in other payables and accruals	17,328
Interest-bearing bank and other borrowings	216,400
Financial liabilities at amortised cost	281,832
31 August 2013	Loans and receivables
Group	RMB’000
Financial assets	
Trade and bills receivables	99,787
Financial assets included deposits and other receivables	198
Time deposits	20
Cash and cash equivalents	40,225
Loans and receivables	140,230
	Financial liabilities at amortised cost
	RMB’000
Financial liabilities	
Trade and bills payables	59,382
Financial liabilities included in other payables and accruals	23,591
Interest-bearing bank and other borrowings	243,000
Due to the ultimate holding company	470
Financial liabilities at amortised cost	326,443

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31 December 2010	Loans and receivables
Company	RMB’000
Financial assets	
Due from a director	23
Financial assets included deposits and other receivables	8
	<u>31</u>
Loans and receivables	<u>31</u>
31 December 2011	Loans and receivables
Company	RMB’000
Financial assets	
Due from a director	23
Financial assets included deposits and other receivables	8
	<u>31</u>
Loans and receivables	<u>31</u>
31 December 2012	Loans and receivables
Company	RMB’000
Financial assets	
Due from a director	23
Financial assets included deposits and other receivables	8
	<u>31</u>
Loans and receivables	<u>31</u>
	Financial liabilities at amortised cost
	RMB’000
Financial liabilities	
Due to a subsidiary	1,750
	<u>1,750</u>
Financial liabilities at amortised cost	<u>1,750</u>
31 August 2013	Loans and receivables
Company	RMB’000
Financial assets	
Due from a subsidiary	470
Cash and cash equivalents	31
	<u>501</u>
Loans and receivables	<u>501</u>

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	Financial liabilities at amortised cost RMB’000
Financial liabilities	
Due to a subsidiary	10,688
Due to the ultimate holding company	<u>470</u>
Financial liabilities at amortised cost	<u><u>11,158</u></u>

At 31 December 2010, 2011 and 2012, the Group discounted certain bills receivable accepted by banks in the PRC (the “Discounted Bills”) with a carrying amount of RMB40,340,000, RMB40,800,000 and RMB15,400,000 (the “Discount”), respectively. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to these Discounted Bills, and accordingly, the Group continued to recognise the full carrying amounts of the Discounted Bills. Subsequent to the discount, the Group does not retain any rights on the use of the Discounted Bills, including sale, transfer or pledge of the Discounted Bills to any other third parties.

At 31 December 2010, the Group discounted certain bills receivable accepted by banks in the PRC (the “Derecognised Bills”) with a carrying amount of RMB23,000,000 (31 December 2011, 2012 and 31 August 2013: Nil). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills.

The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equals to their carrying amounts. In the opinion of the director, the fair values of the Group’s Continuing Involvement in the Derecognised Bills is not significant.

During the years ended 31 December 2010, 2011 and 2012, the Group has recognised interest expenses of RMB291,000 on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The discount has been made evenly throughout the years ended 31 December 2010, 2011 and 2012. No such transaction occurred in the eight months ended 31 August 2013.

34. Financial risk management objectives and policies

The Group’s principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from and to a related party, amounts due from a director, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are interest rate risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s debt obligations.

The effective interest rates and terms of repayment of the interest-bearing bank and other borrowing of the Group are set out in note 21 above.

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The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact of floating rate borrowings) during the Relevant Periods.

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax RMB’000</u>
31 December 2010		
RMB	100	(177)
RMB	(100)	177
31 December 2011		
RMB	100	(363)
RMB	(100)	363
31 December 2012		
RMB	100	(1,543)
RMB	(100)	1,543
31 August 2013		
RMB	100	(1,672)
RMB	(100)	1,672

Credit risk

The major concentration of credit risk arises from the Group’s exposure to a substantial number of trade receivables, other receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents.

Trade receivables are typically unsecured and derived from revenue earned from customers in the PRC, which are exposed to credit risk. The Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of trade and other receivables. In addition, the balance of trade receivables is monitored on an ongoing basis and the Group’s exposure to bad debts is not significant. Further quantitative data in respect of the Group’s exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 above.

An amount due from a director and an amount due from a related party are usually unsecured, interest-free and repayable on demand. In evaluating the collectability of the related party balances, the Group considers many factors, including the repayment history and their credit worthiness. An allowance for doubtful accounts would be made if collection of the full amount is no longer probable. Further quantitative data in respect of the Group’s exposure to credit risk arising from an amount due from a director and an amount due from a related party are disclosed in note 32 above.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China. The Group has policies that limit its credit exposure to any financial institutions and the management believes these financial institutions are of high credit quality.

The carrying amounts of trade receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent the Group’s maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Liquidity risk

The Group’s policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and bank borrowings.

APPENDIX I

ACCOUNTANTS’ REPORT

The maturity profile of financial liabilities as at 31 December 2010, 2011 and 2012 and 31 August 2013, based on the contractual undiscounted payments, was as follows:

	2010				
	On demand	Less than 3 months	3 to less than 12 months	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	
Trade and bills payables	1,940	8,680	12,000	22,620	
Financial liabilities included in other payables and accruals	—	1,823	—	1,823	
Interest-bearing bank and other borrowings	—	19,621	50,967	70,588	
Due to a related party	8,923	—	—	8,923	
	<u>10,863</u>	<u>30,124</u>	<u>62,967</u>	<u>103,954</u>	
	2011				
	On demand	Less than 3 months	3 to less than 12 months	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	
Trade and bills payables	3,918	24,972	37,000	65,890	
Financial liabilities included in other payables and accruals	—	28,178	—	28,178	
Interest-bearing bank and other borrowings	—	39,525	114,106	153,631	
	<u>3,918</u>	<u>92,675</u>	<u>151,106</u>	<u>247,699</u>	
	2012				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	14,731	33,373	—	—	48,104
Financial liabilities included in other payables and accruals	—	17,328	—	—	17,328
Interest-bearing bank and other borrowings	—	24,402	191,031	10,607	226,040
	<u>14,731</u>	<u>75,103</u>	<u>191,031</u>	<u>10,607</u>	<u>291,472</u>
	31 August 2013				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	16,688	42,694	—	—	59,382
Financial liabilities included in other payables and accruals	—	12,591	11,000	—	23,591
Due to the ultimate holding company	470	—	—	—	470
Interest-bearing bank and other borrowings	—	161,324	86,551	—	247,875
	<u>17,158</u>	<u>216,609</u>	<u>97,551</u>	<u>—</u>	<u>331,318</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders’ value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade and bills payables, other payables and accruals, interest-bearing bank borrowings, an amount due to a related party, an amount due to the ultimate holding company and other long term liabilities less cash balances. Capital represents total equity of the Company. The Group’s policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of each of the Relevant Periods are as follows:

Group

	31 December			31 August
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Trade and bills payables	22,620	65,890	48,104	59,382
Other payables and accruals	2,736	31,914	34,394	37,003
Interest-bearing bank and other borrowings	68,240	146,310	216,400	243,000
Due to a related party	8,923	—	—	—
Due to the ultimate holding company	—	—	—	470
Other long term liabilities	6,358	5,221	5,053	4,942
Less: Cash and cash equivalents	(998)	(10,430)	(2,231)	(40,225)
Net debt	107,879	238,905	301,720	304,572
Total equity	15,458	35,672	133,110	218,108
Capital and net debt	123,337	274,577	434,830	522,680
Gearing ratio	87%	87%	69%	58%

35. Post balance sheet events

Pursuant to the written resolution dated 17 December 2013, the authorised share capital of the Company was increased from US\$50,000 to US\$500,000 by the creation of an additional 900,000,000 shares.

36. Subsequent financial statements

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 August 2013.

APPENDIX III

PROFIT ESTIMATE

The estimate of the consolidated profit attributable to the owners of the Company for the year ended December 31, 2013 is set out in the paragraph headed “Profit Estimate” under the section “Financial Information”.

(A) BASES

The Directors have prepared the estimate of the consolidated profit attributable to the owners of the Company for the year ended December 31, 2013 based on the audited consolidated results of the Group for the eight months ended August 31, 2013, the unaudited consolidated results of the Group for the three months ended November 30, 2013 and an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2013.

The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in the Accountants’ Report, the text of which is set forth in Appendix I to this document.

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of market value of the property interests in Hong Kong and the PRC as at 30 November 2013.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

January 16, 2014

The Directors
Honworld Group Limited
Balidian Town
Food and Industrial Park
Wuxing District
Huzhou City
Zhejiang Province
the PRC

Dear Sirs,

Instructions, Purpose and Date of Valuation

In accordance with your instructions for us to value the property held by Honworld Group Limited (the “Company”) or its subsidiaries or its associated companies (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the market values of those property interests as at 30 November 2013 (the “date of valuation”).

Definition of Market Value

Our valuation of each of the property interests represents the market value which in accordance with The HKIS Valuation Standards 2012 Edition published by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

APPENDIX IV

PROPERTY VALUATION

Valuation Basis and Assumption

Our valuation of each of the property interests excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the properties, we have complied with the requirements set out in [●] and The HKIS Valuation Standards 2012 by the Hong Kong Institute of Surveyors.

Unless otherwise stated, in the course of our valuation of the property interests situated in the PRC, we have assumed that transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that, any premiums payable have already been fully paid. We have also assumed that the grantees or the users of the property interests have free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired terms as granted. We have relied on the advice given by the Group and the Group’s legal advisor, Kai Tong Law Firm, on the PRC laws, regarding the title to each of the property interests in the PRC and the Group’s interests in the properties in the PRC.

Method of Valuation

In valuing the properties in Group I, which are currently held by the Group for owner occupation in the PRC, we have adopted the Depreciated Replacement Cost (“DRC”) Approach in valuing the property interests. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence. For the land portion, we have made reference to comparable sales evidence as available in the market. The DRC is subject to adequate potential profitability of the business.

The properties in Group II, which are leased by the Group in the PRC, have no commercial value due to prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Source of Information

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal advisor, Kai Tong Law Firm, in respect of the title to the properties in the PRC. We have also accepted advice given to us on such matters as planning approvals or statutory notices, tenure, identification of land and buildings, completion date of buildings, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

APPENDIX IV

PROPERTY VALUATION

Site Inspection

Our Jason Cheng from DTZ Hangzhou Office, inspected the exterior and, wherever possible, the interior of each of the properties in February 2013. We have inspected the exterior and, wherever possible, the interior of each of the properties. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Currency

Unless otherwise stated, all money amounts indicated herein are in Renminbi for the properties in the PRC.

We enclose herewith the summary of valuations and valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
M.H.K.I.S., M.R.I.C.S.
Senior Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor (General Practice) who has over 27 years' experience in the valuation of properties in Hong Kong and over 22 years' experience in valuation of properties in the PRC.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 30 November 2013 attributable to the Group
Group I — Properties held by the Group for owner-occupation in the PRC	
1 An industrial complex situated at No.299 Zhumuyang Road, Balidian Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省湖州市 吳興區八里店鎮 諸墓漾路299號 一工業大樓)	RMB91,970,000
2. An industrial complex situated at Dayunsi Village, Lincheng Town, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省湖州市 林城鎮大雲寺村 一工業大樓)	RMB68,670,000
Sub-total:	RMB160,640,000

APPENDIX IV

PROPERTY VALUATION

Property	Market value in existing state as at 30 November 2013 attributable to the Group
Group II — Properties leased by the Group in the PRC	
3. A warehouse situated at Balidian Food Industrial Park, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省湖州市 八里店食品工業園區倉庫)	No commercial value
4. An industrial complex situated at Xilong Village, Xilong Country, Anji County, Zhejiang Province, the PRC (中華人民共和國 浙江省安吉縣 溪龍鄉溪龍村工業園區廠房)	No commercial value
5. An industrial complex situated at Taifuhejiagang, Changxing County Zhejiang Province, the PRC (中華人民共和國 浙江省長興縣 太傅賀家崗工業園區廠房)	No commercial value

APPENDIX IV

PROPERTY VALUATION

Property	Market value in existing state as at 30 November 2013 attributable to the Group
6. An industrial complex situated at Zhaquanqiao Village, Daochang County, Zhejiang Province, the PRC (中華人民共和國 浙江省道場鄉 雪泉橋村工業園區廠房)	No commercial value
7. A land plot situated at Laoliangku site, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國 浙江省林城鎮 老糧庫場地工業園區地塊)	No commercial value
8. A workshop situated at the rear base, Balidian Town, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省 湖州市 八里店鎮 後方基地車間)	No commercial value

APPENDIX IV

PROPERTY VALUATION

Property	Market value in existing state as at 30 November 2013 attributable to the Group
9. A land plot situated beside New 318 National Road, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國 浙江省林城鎮 新318國道旁公路管理站場地)	No commercial value
10. A land plot situated at Phase 1 Shangshi Village, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國 浙江省林城鎮 上獅村第一期場地)	No commercial value
Sub-total:	<u>No commercial value</u>
Grand-total:	<u><u>RMB160,640,000</u></u>

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Properties held by the Group for owner-occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2013
1. An industrial complex situated at No.299 Zhumuyang Road, Balidian Town, Wuxing District, Huzhou city, Zhejiang Province, the PRC (中華人民共和國 浙江省 湖州市 吳興區 八里店鎮 諸墓漾路299號 一工業大樓)	The property comprises an industrial complex erected upon 3 parcels of land with a total site area of approximately 65,639 sq.m.. The industrial complex comprises 16 buildings with a total gross floor area of approximately 57,271.47 sq.m. completed in between 2005 and 2012. The land use rights of the property have been granted for respective terms all due to expire on 30 November 2055 for industrial use.	The property is occupied by the Group for industrial use.	RMB91,970,000

Notes:

- (1) According to 3 Certificates for the Use of State-owned Land Nos. (2012) 025794, (2012) 025795 and (2013) 000372 issued by People’s Government of Huzhou Municipal and People’s Government of Wuxing District, the land use rights of the property comprising site area of 65,639 sq.m. have been vested in 湖州老恒和釀造有限公司 (“Lao Heng He”) for respective terms all due to expire on 30 November 2055 for industrial use.
- (2) According to 16 Building Ownership Certificates Nos. 110169818, 110169816, 110169817, 11069815, 110169814, 110169813, 110169755, 110169752, 110169749, 110169746, 110173751, 110173748, 110173749, 110173750, 110173752 and 110173753 issued by Huzhou Planning and Construction Bureau, the building ownership of the property with a total gross floor area of 57,271.47 sq.m., have been granted to 湖州老恒和釀造有限公司 (“Lao Heng He”).
- (3) According to Business License No. 330503000014773 in November 2013, 湖州老恒和釀造有限公司 (“Lao Heng He”) is a limited company with a registered capital of RMB11,000,000 established on 1 July 1979 for an operating period from 9 June 2005 to 8 June 2025.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers which contains, *inter-alia*, the following information:
 - (i) 湖州老恒和釀造有限公司 (“Lao Heng He”) has obtained the land use rights and building ownership of the property;
 - (ii) The property is not subject to any mortgage or encumbrance;
 - (iii) 湖州老恒和釀造有限公司 (“Lao Heng He”) has the rights to occupy and use the property within the remaining land use term; and
 - (iv) 湖州老恒和釀造有限公司 (“Lao Heng He”) can transfer, grant, lease and refinance the property.
- (5) In accordance with the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificates for the Use of State-owned Land	Yes
Building Ownership Rights Certificates	Yes
Business Licence	Yes

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2013
2. An industrial complex situated at Dayunsi Village, Lincheng Town, Huzhou city, Zhejiang Province, the PRC (中華人民共和國 浙江省 湖州市 林城鎮 大雲寺村 一工業大樓)	The property comprises an industrial complex erected upon one parcel of land with a total site area of approximately 61,353 sq.m.. The industrial complex comprises a single storey building and a 2-storey building with a total gross floor area of approximately 32,163.60 sq.m. completed in 2011. The land use rights of the property have been granted for a term due to expire on 6 August 2060 for industrial use.	The property is occupied by the Group for industrial use.	RMB68,670,000
<i>Notes:</i>			
(1) According to Certificate for the Use of State-owned Land No. (2012) 01004163 issued by People’s Government of Zhejiang Changxing, the land use rights of the property with a site area of approximately 61,353 sq.m. have been vested in 湖州老恒和酒業有限公司 (“Lao Heng He Wine”) for a term due to expire on 6 August 2060 for industrial use.			
(2) According to 2 Building Ownership Certificates Nos. 00175899 and 00175900 issued by Changxing Town Construction Bureau, the building ownership of the property with a total gross floor area of 32,163.60 sq.m., have been granted to 湖州老恒和酒業有限公司 (“Lao Heng He Wine”).			
(3) According to Business License No.330522000054103 dated 21 December 2012, 湖州老恒和酒業有限公司 (“Lao Heng He Wine”) was established as a limited company with a registered capital of RMB38,000,000 for an operating period from 20 July 2010 to 19 July 2060.			
(4) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers which contains, <i>inter-alia</i> , the following information:			
(i) 湖州老恒和酒業有限公司 (“Lao Heng He Wine”) has obtained the land use rights and building ownership of the property;			
(ii) The property is not subject to any mortgage or encumbrance;			
(iii) 湖州老恒和酒業有限公司 (“Lao Heng He Wine”) has the rights to occupy and use the property within the remaining land use term; and			
(iv) 湖州老恒和酒業有限公司 (“Lao Heng He Wine”) can transfer, grant, lease and refinance the property.			
(5) In accordance with the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:			
Certificates for the Use of State-owned Land			Yes
Building Ownership Certificates			Yes
Business Licence			Yes

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group II — Properties leased by the Group in the PRC

	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 November 2013</u>
3.	A warehouse situated at Balidian Food Industrial Park, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省 湖州市 八里店食品工業園區 倉庫)	The property comprises a single storey workshop completed in 2005 with a total gross floor area of 3,000 sq.m.. According to the PRC legal opinion, the lessor has obtained the building ownership of the property and is entitled to lease the property. The tenancy agreement is legal and valid. The Group is entitled to use the property. The validity of the lease is not affected though the lease has not been registered at the relevant local building bureau. The lessor agreed to compensate the loss incurred if the lessor cannot provide the relevant documents for title proof, lease registration, etc.	The property is leased from a connected party for a term from 1 March 2012 to 1 December 2017 at an annual rental of RMB15,000.	No commercial value
4.	An industrial complex situated at Xilong Village, Xilong Country, Anji County, Zhejiang Province, the PRC (中華人民共和國 浙江省 安吉縣 溪龍鄉 溪龍村工業園區 廠房)	The property comprises a single storey industrial complex completed in 2007 with a total gross floor area of 10,215.70 sq.m. for industrial use. According to the PRC legal opinion, the lessor has obtained the Realty Title Certificate of the property and is entitled to lease the property. The lease registration system has not been established and thus the lease cannot be registered. The tenancy agreement is legal and valid without major legal obstacles. The Group is entitled to use the property.	The property is leased from an independent 3rd party for a term from 1 September 2013 to 31 August 2015 at an annual rental of RMB40,000.	No commercial value

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2013
5. An industrial complex situated at Taifuhejiagang, Changxing County Zhejiang Province, the PRC (中華人民共和國浙江省長興縣太傅賀家崗工業園區廠房)	The property comprises a single storey industrial complex completed in 1995 with a total gross floor area of 20,000 sq.m. for industrial use. According to the PRC legal opinion, the lessor is entitled to lease the property. According to a confirmation letter dated 21 August 2013, the lessee is entitled to sublet the property to the Group. The Group is entitled to use the property. The validity of the sub-lease is not affected though the lease has not been registered at the relevant local building bureau. The lessor agreed to compensate the loss incurred if the lessor cannot provide the relevant documents for title proof, lease registration, etc.	The property is sub-leased from an independent 3rd party for a term from 1 September 2013 to 31 August 2015 at an annual rental of RMB40,000.	No commercial value
6. An industrial complex situated at Zhaquanqiao Village, Daochang County, Zhejiang Province, the PRC (中華人民共和國浙江省道場鄉雪泉橋村工業園區廠房)	The property comprises a single storey industrial complex completed in 2007 occupying a total site area of 33,639 sq.m. with a total gross floor area of 33,333.33 sq.m. for industrial use. According to the PRC legal opinion, the lessor has obtained the building ownership of the property and is entitled to lease the property. The tenancy agreement is legal and valid. The Group is entitled to use the property. The validity of the lease is not affected though the lease has not been registered at the relevant local building bureau. The lessor agreed to compensate the loss incurred if the lessor cannot provide the relevant documents for title proof, lease registration, etc.	The property is leased from an independent 3rd party for a term from 1 March 2012 to 1 December 2017 at an annual rental of RMB12,000.	No commercial value

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2013
7.	A land plot situated at Laoliangku site, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國 浙江省 林城鎮 老糧庫場地工業園區 地塊)	The property comprises a land plot with site area of 12,064.61 sq.m. According to the PRC legal opinion, the lessor has obtained the land use rights via Land Use Rights Certificate and the lessor is entitled to lease the property. The tenancy agreement is legal and valid. The Group is entitled to use the property.	The property is leased from an independent 3rd party for a term of 5 years from 15 November 2012 to 16 November 2017 at an annual rental of RMB210,000.	No commercial value
8.	A workshop situated at the rear base, Balidian Town, Huzhou City, Zhejiang Province, the PRC (中華人民共和國 浙江省 湖州市 八里店鎮 後方基地車間)	The property comprises a single storey workshop completed in 2003 with a total gross floor area of 2,160 sq.m. for workshop use. According to the PRC legal opinion, the lessor has obtained the building ownership of the property and is entitled to lease the property. The tenancy agreement is legal and valid. The Group is entitled to use the property. The validity of the lease is not affected though the lease has not been registered at the relevant local building bureau. The lessor agreed to compensate the loss incurred if the lessor cannot provide the relevant documents for title proof, lease registration, etc.	The property is leased from an independent 3rd party for a term from 1 March 2013 to 28 February 2014 at an annual rental of RMB207,360.	No commercial value

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2013
9.	A land plot situated beside New 318 National Road, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國浙江省林城鎮新318國道旁公路管理站場地)	The property comprises a land plot with site area of approximately 15 mu (10,000 sq.m.). According to the PRC legal opinion, the lessor has obtained the land use right of the property and is entitled to lease the property. According to a temporary lease agreement, a sub-lease consent letter and a confirmation letter dated on 28 January 2013, 10 March 2013 and 25 June 2013 respectively, the lessee is entitled to sublet the property to the Group. The tenancy agreement is legal and valid. The Group is entitled to use the property. The lessee agreed to compensate the loss incurred if the lessor cannot provide the relevant documents for title proof, etc.	The property is sub-leased from an independent 3rd party for a term of 5 years from 15 March 2013 to 14 March 2018 at an annual rental of RMB45,000.	No commercial value
10.	A land plot situated at Phase 1 Shangshi Village, Lincheng Town, Zhejiang Province, the PRC (中華人民共和國浙江省林城鎮上獅村第一期場地)	The property comprises a land plot with site area of approximately 28 mu (18,666.67 sq.m.). According to the PRC legal opinion, the local authority has provided a confirmation letter dated on 31 December 2013 and confirms that the lessor is entitled to lease the property to the Group. The tenancy agreement is legal and valid. The Group is entitled to use the property.	The property is leased from an independent 3rd party for a term of 10 years from 1 January 2014 to 31 December 2023 at a rental of RMB2,500 per mu from the 1st year and RMB3,000 per mu from the 6th year.	No commercial value

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This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important. As stated in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII, a copy of the Memorandum and Articles of Association is available for inspection.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on December 4, 2012 under the Cayman Companies Law. The Memorandum of Association and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on December 17, 2013 with immediate effect. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

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The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the

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Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the

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Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;

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- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

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(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no

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dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

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Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 September 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

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(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on December 4, 2012. Our registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY-1111, Cayman Islands. We have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on October 10, 2013. Mr. AU Wai Keung has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at Room 606–607, 6/F, China Merchants Building, 152–155 Connaught Road Central, Sheung Wan, Hong Kong.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 100,000,000 shares of US\$0.0005 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this document:

- (a) on December 4, 2012, one subscriber share was allotted and issued to NovaSage Nominees (Cayman) Limited at par.
- (b) by a resolution passed by the first directors of our Company on December 4, 2012, the subscriber Share was transferred to Key Shine at a consideration of US\$0.0005. On the same date, Key Shine and Foremost were allotted 7,417,859 shares and 2,582,140 shares respectively.
- (c) On December 17, 2013, the authorized share capital of our Company was increased from US\$50,000 to US\$500,000 by the creation of an additional 900,000,000 Shares with a nominal value of US\$0.0005 each.

5. Changes in the Share Capital of Our Subsidiaries

- (a) Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this document. Save for the subsidiaries mentioned in the Accountants’ Report, we do not have any other subsidiaries.
- (b) The following alterations in the share capital of our Company’s subsidiaries have taken place within two years preceding the date of this document:
 - (i) on October 20, 2012, Lao Heng He and Huzhou Wuxing Wucheng Wine Company Limited (湖州吳興烏程酒業有限公司) entered into a merger agreement, pursuant to which the registered capital of Lao Heng He was increased from RMB10,000,000 to RMB11,000,000;

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- (ii) on December 13, 2012, Lao Heng He Group Limited was incorporated in Hong Kong as a limited liability company with an authorized share capital of HK\$10,000, divided into 10,000 shares of HK\$1 each, and 1 share was allotted and issued to Mr. Chen at par as fully paid;
- (iii) on February 5, 2013, Lao Heng He Group Limited established Huzhou Chen Shi, a wholly-owned foreign enterprise under PRC laws, with a registered capital of HK\$500,000 and fully paid up as at March 14, 2013; and
- (c) Save as disclosed in this appendix, there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this document.

6. Further information about our PRC establishments

We have interest in the registered capital of three companies established in the PRC. A summary of the corporate information of such companies as at the Latest Practicable Date is set out as follows:

Name:	Huzhou Chen Shi
Date of establishment:	February 5, 2013
Place of establishment:	PRC
Nature:	Wholly foreign-owned enterprise
Registered Capital:	HK\$500,000

Name:	Lao Heng He
Date of establishment:	July 1, 1979
Place of establishment:	PRC
Nature:	Limited company
Registered Capital:	RMB11,000,000

Name:	Lao Heng He Wine
Date of establishment:	July 20, 2010
Place of establishment:	PRC
Nature:	Limited company
Registered Capital:	RMB38,000,000

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) a merger agreement dated October 20, 2012 entered into between Lao Heng He and Huzhou Wuxing Wucheng Wine Company Limited (湖州吳興烏程酒業有限公司) (as the merged company), pursuant to which Lao Heng He would be the subsisting entity and Huzhou Wuxing Wucheng Wine Company Limited (湖州吳興烏程酒業有限公司) would be dissolved and merged upon completion of the merger;
- (b) a share transfer agreement dated December 3, 2012 entered into between Lao Heng He and Zhong Wei, pursuant to which Zhong Wei agreed to transfer its 10% equity interests in Lao Heng He Wine to Lao Heng He for a consideration of RMB3,800,000;
- (c) an exclusive recipes licensing agreement dated January 1, 2013 entered into between Mr. Chen (as licensor) and Lao Heng He (as licensee), pursuant to which Mr. Chen agreed to grant Lao Heng He and its subsidiaries an exclusive right to use his certain wine recipes for nil consideration;
- (d) an exclusive trademark license agreement dated January 13, 2013 entered into between Zhong Wei (as licensor) and Lao Heng He (as licensee), pursuant to which Zhong Wei granted to Lao Heng He and its subsidiaries the exclusive right to use the trademarks listed therein in China, for a consideration of RMB1;
- (e) an exclusive trademark license supplemental agreement dated January 13, 2013 entered into among Zhong Wei (as licensor), Lao Heng He (as licensee) and Mr. CAO Jianliang (曹建良) (as guarantor), pursuant to which, among other things, (i) Mr. CAO Jianliang (曹建良) agreed to become a guarantor in respect of, among others, Zhong Wei's performance under the exclusive trademark license agreement as set out in paragraph (d) above; (ii) Zhong Wei agreed to grant Lao Heng He the right to register, in areas outside China, the words or images relating to the trademarks referred to in the exclusive trademark license agreement as set out in paragraph (d) above, and the ownership right as a result of such registrations; and (iii) Zhong Wei agreed to grant Lao Heng He the right to purchase any or all of the trademarks referred to in the exclusive trademark license agreement as set out in paragraph (d) above for nil consideration, at any time after entering into the agreement;
- (f) a trademark transfer agreement dated March 22, 2013 entered into among Zhong Wei (as transferor), Lao Heng He Wine (as transferee) and Lao Heng He, pursuant to which Zhong Wei agreed to transfer all of its trademarks stated therein to Lao Heng He Wine for a consideration of RMB1 and that Lao Heng He agreed not to exercise the right of first refusal in respect thereof;

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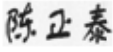
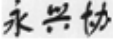
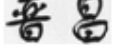
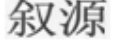
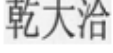
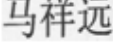
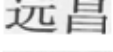
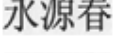
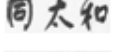
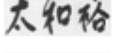
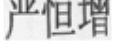
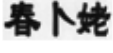
- (g) a recipes transfer agreement dated August 23, 2013 entered into between Mr. Chen and Lao Heng He, pursuant to which Mr. Chen agreed to transfer his certain wine recipes to Lao Heng He for a consideration of RMB1.

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

- (i) As of the Latest Practicable Date, we have registered the following trademarks in the PRC and Hong Kong:

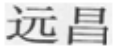
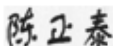
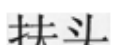
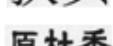
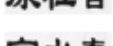
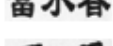
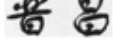
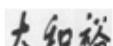
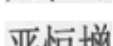
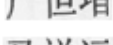
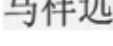
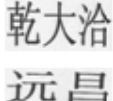
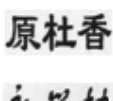
No.	Trademark	Class	Registered Owner	Place Registration	Registration Number	Registration Date
1.		5	Lao Heng He	PRC	8419680	7 July 2011
2.		29	Lao Heng He	PRC	6037229	14 August 2009
3.		29	Lao Heng He	PRC	8065619	7 April 2011
4.		29	Lao Heng He	PRC	8065618	7 April 2011
5.		29	Lao Heng He	PRC	8065622	7 April 2011
6.		29	Lao Heng He	PRC	8055756	7 April 2011
7.		29	Lao Heng He	PRC	8054913	7 April 2011
8.		29	Lao Heng He	PRC	8054918	7 April 2011
9.		29	Lao Heng He	PRC	8054924	7 April 2011
10.		29	Lao Heng He	PRC	8054938	7 April 2011
11.		29	Lao Heng He	PRC	8065620	7 April 2011
12.		29	Lao Heng He	PRC	8065621	7 April 2011
13.		29	Lao Heng He	PRC	8055761	7 April 2011
14.		29	Lao Heng He	PRC	8455481	14 March 2012
15.		29	Lao Heng He	PRC	7939621	14 March 2012
16.		30	Lao Heng He	PRC	4839265	14 July 2008

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No.	Trademark	Class	Registered Owner	Place Registration	Registration Number	Registration Date
17.	永兴协	30	Lao Heng He	PRC	8064447	14 February 2011
18.	同太和	30	Lao Heng He	PRC	8064446	14 February 2011
19.	陈正泰	30	Lao Heng He	PRC	8064445	14 February 2011
20.	太和裕	30	Lao Heng He	PRC	8064448	14 February 2011
21.	马祥远	30	Lao Heng He	PRC	8054917	14 February 2011
22.	远昌	30	Lao Heng He	PRC	8054923	14 February 2011
23.	叙源	30	Lao Heng He	PRC	8054922	14 February 2011
24.	万升	30	Lao Heng He	PRC	8054928	14 February 2011
25.	乾大洽	30	Lao Heng He	PRC	8054932	14 February 2011
26.	沈泰源	30	Lao Heng He	PRC	8419713	7 July 2011
27.		30	Lao Heng He	PRC	8455519	21 July 2011
28.	严恒增	30	Lao Heng He	PRC	8055760	14 February 2011
29.	严恒增	31	Lao Heng He	PRC	8055759	7 April 2011
30.	马祥远	31	Lao Heng He	PRC	8054916	7 April 2011
31.	万升	31	Lao Heng He	PRC	8054927	7 April 2011
32.	永源春	31	Lao Heng He	PRC	8054936	7 April 2011
33.	叙源	31	Lao Heng He	PRC	8054921	7 April 2011
34.	乾大洽	31	Lao Heng He	PRC	8054931	7 April 2011
35.	严恒增	32	Lao Heng He	PRC	8055758	14 February 2011
36.	马祥远	32	Lao Heng He	PRC	8054915	14 February 2011
37.	万升	32	Lao Heng He	PRC	8054926	14 March 2011
38.	永源春	32	Lao Heng He	PRC	8054935	14 February 2011
39.	叙源	32	Lao Heng He	PRC	8054920	14 February 2011
40.	乾大洽	32	Lao Heng He	PRC	8054930	14 February 2011

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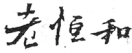
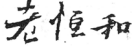
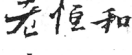
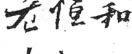
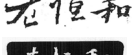
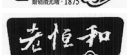
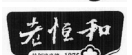
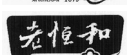
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No.	Trademark	Class	Registered Owner	Place Registration	Registration Number	Registration Date
41.		32	Lao Heng He	PRC	8054940	14 February 2011
42.		33	Lao Heng He	PRC	8064450	14 February 2011
43.		33	Lao Heng He	PRC	7564980	21 September 2010
44.		33	Lao Heng He	PRC	7393055	28 August 2010
45.		33	Lao Heng He	PRC	7535436	21 October 2010
46.		33	Lao Heng He	PRC	8064449	14 February 2011
47.		33	Lao Heng He	PRC	8064453	14 February 2011
48.		33	Lao Heng He	PRC	8064452	14 February 2011
49.		33	Lao Heng He	PRC	8055757	14 February 2011
50.		33	Lao Heng He	PRC	8054914	14 February 2011
51.		33	Lao Heng He	PRC	8054925	14 February 2011
52.		33	Lao Heng He	PRC	8054929	14 February 2011
53.		33	Lao Heng He	PRC	8054939	14 February 2011
54.		33	Lao Heng He	PRC	8455535	21 July 2011
55.		33	Lao Heng He	PRC	8969108	28 December 2011
56.		33	Lao Heng He	PRC	8064451	14 February 2011
57.		30	Lao Heng He	HK	301390446	23 July 2009

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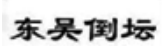
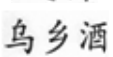
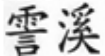
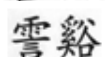
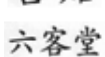
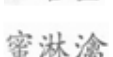
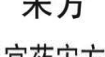
- (ii) As of the Latest Practicable Date, we have been granted by Zhong Wei the exclusive right to use the following trademarks which are material to our business:

No.	Trademark	Class	Registered Owner	Place Registration	Registration Number	Registration Date
1		29	Zhong Wei	PRC	1748198	14 April 2002
2		30	Zhong Wei	PRC	1947077	7 September 2002
3		30	Zhong Wei	PRC	702350	21 August 1994
4		33	Zhong Wei	PRC	706614	21 September 1994
5		29	Zhong Wei	PRC	711347	21 October 1994
6		29	Zhong Wei	PRC	7293837	21 October 2010
7		30	Zhong Wei	PRC	7293846	21 August 2010
8		33	Zhong Wei	PRC	7293853	21 August 2010
9		33	Zhong Wei	PRC	8769556	7 November 2011
10		18	Zhong Wei	PRC	9041100	21 January 2012
11		17	Zhong Wei	PRC	9041101	21 February 2012
12		11	Zhong Wei	PRC	9041102	28 July 2012
13		8	Zhong Wei	PRC	9041103	21 January 2012
14		7	Zhong Wei	PRC	9041104	21 January 2012
15		3	Zhong Wei	PRC	9041105	21 January 2012
16		2	Zhong Wei	PRC	9041106	21 January 2012
17		1	Zhong Wei	PRC	9041107	21 January 2012
18		31	Zhong Wei	PRC	9041118	21 January 2012
19		33	Zhong Wei	PRC	6285233	28 January 2010
20		33	Zhong Wei	PRC	6780730	14 July 2010

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- (iii) As of the Latest Practicable Date, we have applied for the registration of the following trademarks in the PRC which are still under the examination of relevant government authorities:

NO.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
1.		Lao Heng He	29	23 July 2012	10013530	PRC
2.		Lao Heng He	30	29 November 2012	11821671	PRC
3.		Lao Heng He	33	29 November 2012	11821599	PRC
4.		Lao Heng He	33	29 November 2012	11821517	PRC
5.		Lao Heng He	33	29 November 2012	11821490	PRC
6.		Lao Heng He	33	29 November 2012	11820677	PRC
7.		Lao Heng He	33	11 December 2012	11872919	PRC
8.		Lao Heng He	33	19 June 2013	12774602	PRC
9.		Lao Heng He	33	19 June 2013	12774542	PRC

(b) Domain Names

- (i) As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.	hzlaohenghe.com	Lao Heng He	22 June 2011	22 June 2014
2.	mgfr.net	Lao Heng He	11 October 2012	11 October 2014
3.	mgmc.com.cn	Lao Heng He	11 October 2012	11 October 2014
4.	zgnzlj.cn	Lao Heng He	11 October 2012	11 October 2014
5.	zgnzlj.com.cn	Lao Heng He	11 October 2012	11 October 2014
6.	zgnzlj.com	Lao Heng He	11 October 2012	11 October 2014
7.	zgnzlj.net	Lao Heng He	11 October 2012	11 October 2014
8.	zgynlj.cn	Lao Heng He	11 October 2012	11 October 2014
9.	zgynlj.com.cn	Lao Heng He	11 October 2012	11 October 2014
10.	zgynlj.net	Lao Heng He	11 October 2012	11 October 2014
11.	zjmgmc.cn	Lao Heng He	11 October 2012	11 October 2014
12.	zjmgmc.com.cn	Lao Heng He	11 October 2012	11 October 2014
13.	zjmgmc.com	Lao Heng He	11 October 2012	11 October 2014
14.	zjmgmc.net	Lao Heng He	11 October 2012	11 October 2014
15.	玫瑰腐乳.com	Lao Heng He	11 October 2012	11 October 2014
16.	玫瑰腐乳.net	Lao Heng He	11 October 2012	11 October 2014
17.	玫瑰米醋.com	Lao Heng He	11 October 2012	11 October 2014
18.	玫瑰米醋.net	Lao Heng He	11 October 2012	11 October 2014
19.	浙江玫瑰米醋.com	Lao Heng He	11 October 2012	11 October 2014
20.	浙江玫瑰米醋.net	Lao Heng He	11 October 2012	11 October 2014
21.	中國釀造料酒.com	Lao Heng He	11 October 2012	11 October 2014
22.	中國釀造料酒.net	Lao Heng He	11 October 2012	11 October 2014
23.	中國原釀料酒.com	Lao Heng He	11 October 2012	11 October 2014
24.	中國原釀料酒.net	Lao Heng He	11 October 2012	11 October 2014
25.	laohenghe.hk	Lao Heng He	6 February 2013	6 February 2014
26.	hzlaohenghe.hk	Lao Heng He	6 February 2013	6 February 2014

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(c) *Patents*

(i) As of the Latest Practicable Date, we have registered the following design patents in the PRC:

No.	Title of Design	Registration Number	Place of Registration	Filing Date	Authorization Date
1.	Bottle — Cooking Wine	ZL200930143429.6	PRC	18 June 2009	17 February 2010
2.	Bottle — Mushroom Soy sauce	ZL200930143431.3	PRC	18 June 2009	12 May 2010
3.	Bottle — Brewed Fish	ZL200930143430.9	PRC	18 June 2009	3 March 2010
4.	Bottle — Fresh	ZL200930143428.1	PRC	18 June 2009	17 February 2010
5.	Bottle Package — Spring Onion Flavored Cooking Wine	ZL201030212979.1	PRC	23 June 2010	30 March 2011
6.	Bottle Package — Five Spices Cooking Wine	ZL201030212924.0	PRC	23 June 2010	30 March 2011
7.	Bottle Package — Barbeque Cooking Wine	ZL201030212928.9	PRC	23 June 2010	30 March 2011
8.	Bottle Package — Shanxi Vinegar	ZL201030213003.6	PRC	23 June 2010	30 March 2011
9.	Bottle Package — Soy Sauce	ZL201030212951.8	PRC	23 June 2010	18 May 2011
10.	Bottle Package — Cooking Rice Wine	ZL201030213013.X	PRC	23 June 2010	30 March 2011
11.	Bottle Package — Rose Fermented Bean Curd	ZL201030212972.X	PRC	23 June 2010	18 May 2011
12.	Bottle Package — Rose Rice Vinegar	ZL201030212959.4	PRC	23 June 2010	30 March 2011
13.	Bottle Package — Premier Vinegar	ZL201030212999.9	PRC	23 June 2010	23 February 2011
14.	Bags — Zhejiang Rice Wine	ZL201030213030.3	PRC	23 June 2010	30 March 2011
15.	Bags — Cooking Wine	ZL201030212930.6	PRC	23 June 2010	30 March 2011
16.	Bags — Soybean Soy Sauce	ZL201030212948.6	PRC	23 June 2010	30 March 2011
17.	Bags — Wine Sauce	ZL201030213027.1	PRC	23 June 2010	30 March 2011
18.	Bags — Dried Radish	ZL201030213018.2	PRC	23 June 2010	30 March 2011
19.	Bag — Pepper Radish	ZL201030212942.9	PRC	23 June 2010	30 March 2011
20.	Bags	ZL201230344532.9	PRC	27 July 2012	6 March 2013
21.	Bottle	ZL201230477234.7	PRC	09 October 2012	10 April 2013

(ii) As of the Latest Practicable Date, we have registered the following invention patents in the PRC:

No.	Registered Owners	Title of Invention	Registration Number	Place of Registration	Filing Date	Authorization Date
1.	Lao Heng He	a type of manufacturing method for fish-based soy sauce	ZL200810062321.9	PRC	8 May 2008	25 July 2012
2.	Lao Heng He	a type of manufacturing method for spring onion flavored cooking wine	ZL200910233980.9	PRC	22 October 2009	23 May 2012
3.	Lao Heng He	a type of manufacturing method for brine flavored cooking wine	ZL200910233979.6	PRC	22 October 2009	25 July 2012
4.	Lao Heng He Wine	a type of oligopeptides rice wine and its preparation method	ZL200710067827.4	PRC	4 April 2007	11 August 2010

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(iii) As of the Latest Practicable Date, we have applied for the registration of the following patents which are still under the examination of relevant government authorities:

No.	Registrant	Title of Invention	Application Number	Place of Application	Filing Date
1.	Lao Heng He	a type of cooking wine production process and cooking wine	201210417289.8	PRC	25 October 2012
2.	Lao Heng He	a type of soy sauce production process and soy sauce	201210417218.8	PRC	25 October 2012
3.	Lao Heng He	a type of fermented bean curd production process and fermented bean curd	201210417383.3	PRC	25 October 2012
4.	Lao Heng He	a type of mustard production process and mustard	201210432054.6	PRC	2 November 2012
5.	Lao Heng He	Bottle	201330002224.2	PRC	6 January 2013
6.	Lao Heng He	a type of packing box	201320274515.1	PRC	17 May 2013
7.	Lao Heng He Wine	a type of yellow rice wine production process and yellow rice wine	201310216494.2	PRC	3 June 2013

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

Name of Director	Capacity/Nature of Interest	Number of Underlying Shares	Approximate % shareholding interest
Mr. Chen	Interest of controlled corporation	278,169,750	55.63%

(b) *Interests of the Substantial Shareholders*

Name	Nature of Interest and Capacity	Number of Shares Held	Approximate % of Interest
Mr. Chen	Interest of a controlled corporation	278,169,750	55.63
Ms. HO Ping Tanya	Interest of a controlled corporation	96,830,250	19.37
Ms. XING Liyu ⁽¹⁾	Interest of Spouse	278,169,750	55.63
Mr. WONG Kin San ⁽²⁾	Interest of Spouse	96,830,250	19.37
Key Shine ⁽³⁾	Beneficial owner	278,169,750	55.63
Foremost ⁽⁴⁾	Beneficial owner	96,830,250	19.37

Notes:

- (1) Ms. XING Liyu is the spouse of Mr. Chen. Ms. XING Liyu is deemed to be interested in the same number of Shares in which Mr. Chen is interested.

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- (2) Mr. WONG Kin San is the spouse of Ms. HO Ping Tanya. Mr. WONG Kin San is deemed to be interested in the same number of Shares in which Ms. HO Ping Tanya is interested in.
- (3) The entire issued share capital of Key Shine is legally and beneficially owned by Mr. Chen.
- (4) The entire issued share capital of Foremost is legally and beneficially owned by Ms. HO Ping Tanya.

(c) *Interests of the shareholders of any member of our Group (other than our Company)*

[●]

2. Directors’ Service Contracts

Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than 90 days notice in writing served by either the executive Directors or our Company.

Under their service contract, each executive Director is entitled to a fixed basic salary, and any bonus and other non-cash benefits are only payable at the discretion of our Company. The appointments of the executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles. The executive Directors are primarily stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the board of Directors from time to time.

Non-Executive Directors

Each of our non-executive Directors and independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from their respective date of appointment unless terminated by not less than three months notice in writing served by either parties.

Under their respective appointment letters, the non-executive Director and each of the independent non-executive Director is entitled to a fixed director’s fee. In certain other circumstances, the agreement can also be terminated by our Company, including but not limited to certain breaches of the Directors’ obligations under the agreement or certain misconducts. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has or is proposed to enter into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

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3. Directors’ Remuneration

No remuneration was received by our sole Director Mr. Chen (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for the years ended 31 December 2010 and 2011. For the year ended 31 December 2012 and the eight months ended August 31, 2013, the aggregate amount of remuneration our sole Director Mr. Chen received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) was approximately RMB84,000 and RMB84,000, respectively.

No remuneration was paid by our Company to the Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of office as director of any member of our Group or any other office in connection with the management affairs of any member of our Group in respect of each of the three years ended December 31, 2010, 2011 and 2012 and the eight months ended August 31, 2013. Further, none of our Directors waived any remuneration during the same period.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ended December 31, 2013 is estimated to be approximately RMB0.12 million.

Further information regarding our Directors’ remuneration during the Track Record Period can be found in the “Accountants Report” in Appendix I.

4. Directors’ Competing Interests

None of our Directors is interested in any business, apart from the Group’s business, which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

- (a) [●];
- (b) [●];
- (c) None of the Directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) None of the Directors nor any of the persons listed in “— Other Information — Qualification of Experts” below are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (e) [●];

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- (f) None of the Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) None of our Directors or their respective associates (as defined under the relevant rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Estate duty, tax and other indemnity

The Controlling Shareholders have entered into a deed of indemnity in favor of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 11 of the Laws of Hong Kong) or the equivalent or similar thereof under the laws of any jurisdictions outside Hong Kong) to an member of our Group on or before [●]; and
- (b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits or gains, earned, accrued or received on or before [●].

The Controlling Shareholders are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of the Company and its subsidiaries as set out in the accountants’ report set out in appendix I or in the audited accounts of the relevant members of the Group for the three financial years ended December 31, 2012 and the eight months ended August 31, 2013;
- (b) to the extent for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date of deed of indemnity; and
- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in the Cayman Islands or the PRC coming into force after the date of deed of indemnity or to the extent such claim arises or is increased by an increase in the rates of taxation after the date of deed of indemnity with retrospective effect;

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Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

Under the deed of indemnity, our Controlling Shareholders have also given indemnities to our Group on a joint and several basis against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Company and/or other relevant members of our Group arising from (i) breach of or non-compliance with laws and regulations in the PRC, Hong Kong or elsewhere to which members of our Group are subject to as set out in the section headed “Regulatory Overview”; (ii) any lack of any proper title or use or occupation rights or any breach of any law or regulation, covenants or obligations under any property ownership certificate, land use right certificate or land grant contract or non-registration of lease or tenancy in connection with any property as set out in the section headed “Business — Properties”; or (iii) any claims brought by any regulatory authorities or any other third party in connection with the bill financing transactions as set out in the section headed “Business — Legal Proceedings and Compliance — Bill financing”.

Under the deed of indemnity, our Controlling Shareholders have further given indemnities to our Group on a joint and several basis against all costs (including legal costs), expenses, interests, penalties or other liabilities which the Company or any of the members of our Group may properly incur in connection with (i) the investigation, assessment or the contesting of any claim; (ii) the settlement of any claim; (iii) any legal proceedings in which the Company or any of the members of our Group claims under or in respect of the deed of indemnity and in which judgment is given in favor of the Company or any of the members of our Group; or (iv) the enforcement of any such settlement or judgment in respect of any claim.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings and Compliance”, no member of the Group was engaged in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our financial condition or results of operations.

5. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since August 31, 2013 (being the date on which our latest audited consolidated financial statements was made up) up to the Latest Practicable Date.

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12. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of or of the fair value of, the Shares being sold or transferred, whichever is higher. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) *Cayman Islands*

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares.

14. Miscellaneous

- (a) Save as disclosed in the paragraph “— Changes in the share capital of our Company” in this appendix,
 - (i) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Company or any of our subsidiaries;
 - (iv) within the two years immediately preceding the date of this document, no commission has been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company or any of our subsidiaries;
 - (v) no founder shares, management shares or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (vi) there is no arrangement under which future dividends are waived or agreed to be waived;

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- (vii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this document;
- (viii) our Company has no outstanding convertible debt securities or debentures; and
- (ix) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.