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.

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.

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.

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.

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.

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.

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.

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. We intend to use approximately 50% of the net proceeds from the Global Offering for the purchase of rice, the primary raw materials for base wine, and approximately 25% of the net proceeds therefrom for expansion of production facilities and increase our stock of base wine to approximately 169 million liters by 2014. This would add to our cost advantages attributable to the general trend of price inflation for rice, increase our production volume and provide a solid foundation to expand our market share. We also plan to lease more warehouses to store our increased stock of base wine.

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.

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.

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
  - — 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.

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	
	RMB'000	% of total revenue from sales of goods	RMB'000	% of total revenue from sales of goods	RMB'000	% of total revenue from sales of goods	RMB'000	% of total revenue from sales of goods	RMB'000	% of total revenue from sales 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.

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	
	RMB'000	% of total sales of cooking wine products	RMB'000	% of total sales of cooking wine products	RMB'000	% of total sales of cooking wine products	RMB'000	% of total sales of cooking wine products	RMB'000	% of total sales of cooking wine 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

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-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, 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.

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.

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".

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	
	RMB'000	% of total sales of goods	RMB'000	% of total sales of goods	RMB'000	% of total sales of goods	RMB'000 (unaudited)	% of total sales of goods	RMB'000	% of total sales of goods
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.

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

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:

Distributor	Designated distribution area	Designated distribution channels	Length of relationship as of August 31, 2013
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

Distributor	Designated distribution area	Designated distribution channels	Length of relationship as of August 31, 2013
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. (陝西鋭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.

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 distributers 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.

- *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. Based on the foregoing, as well as the independent work performed by the Sole Sponsor including, among other things, reviews of our distributorship model and reviews conducted with third parties and at our end-markets, as far as the Sole Sponsor is aware, nothing has led the Sole Sponsor to doubt the genuineness of our sales to the distributors and nothing has come to the Sole Sponsor's attention that the increase in our sales to distributors during the Track Record Period was the result of inventory accumulation beyond the ordinary and usual course of business.

- *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 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.

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:			
	For the year ended December 31,			For the eight months ended August 31,	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013	2010	2011	2012	2013
Distributors at the beginning of the period	—	—	9	7	—	—	11	11
Addition of new distributors	—	9	—	—	—	11	—	—
Termination of existing distributors[1]	—	—	—	—	—	—	—	—
Consolidation by other distributors[2]	—	—	—	1	—	—	—	2
Movement among categories due to downgrade[5]	—	—	(2)	—	—	—	—	(4)
Distributors at the end of the period	—	9	7	6	—	11	11	5
% of total sales of the period	—	70.7%	74.2%	83.3%	—	13.5%	12.2%	7.8%

	Category C distributors:				Category D distributors:				Total:			
	For the year ended December 31,			For the eight months ended August 31,	For the year ended December 31,			For the eight months ended August 31,	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013	2010	2011	2012	2013	2010[3]	2011[4]	2012	2013
Distributors at the beginning of the period	—	—	40	17	—	—	230	392	1	1	290	427
Addition of new distributors	—	40	—	2	—	230	177	25	—	289	177	27
Termination of existing distributors[1]	—	—	—	—	—	—	28	181	—	—	28	181
Consolidation by other distributors[2]	—	—	—	3	—	—	12	53	—	—	12	59
Movement among categories due to downgrade[5]	—	—	(23)	3	—	—	25	1	—	—	—	—
Distributors at the end of the period	—	40	17	19	—	230	392	184	1	290	427	214
% of total sales of the period	—	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".

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 distributer, 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.

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 Global Offering, 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 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 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.

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 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 Global Offering, has any interests in any of our five largest suppliers during the Track Record Period.

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.

- *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.

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.

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:

Location of production facility	Approximate plant area (sq.m.)	Principal products
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.

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

	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

	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;

(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 evolvement, 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 Listing, 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.

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, using net proceeds from the Global Offering. See "Future Plans and Use of Proceeds". 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	Estimated cost	Expected completion time
	sq.m.	RMB million	
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".

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 (低聚肽黃酒) 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, 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.

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.

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)

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**.

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 the Listing Date. 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".

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.

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.

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.

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.

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 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

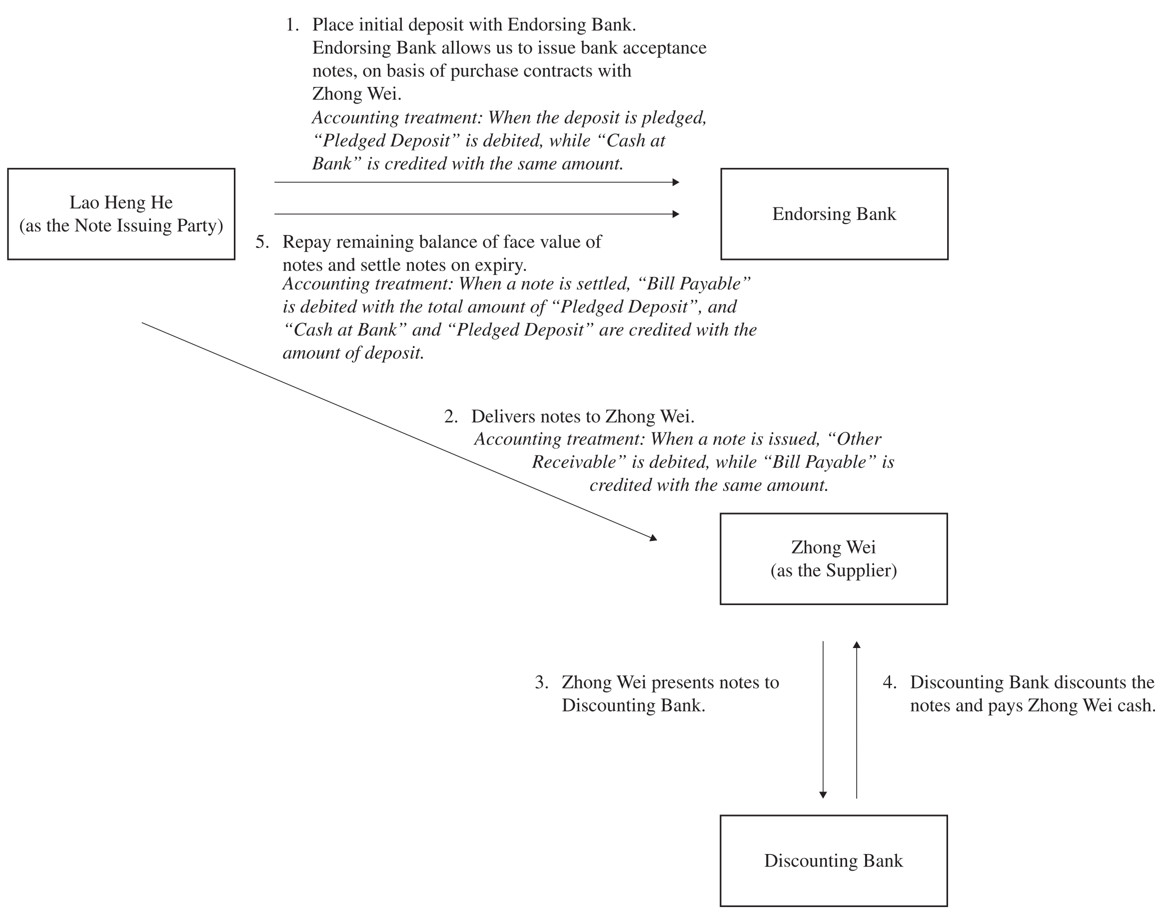
Historically, Mr. Chen, our ultimate Controlling Shareholder, centralized the funding requirements for his businesses. During the three financial years ended December 31, 2012, due to restrictions on loan financing, it was common to obtain funds from commercial banks through bill financing arrangements. 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 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.

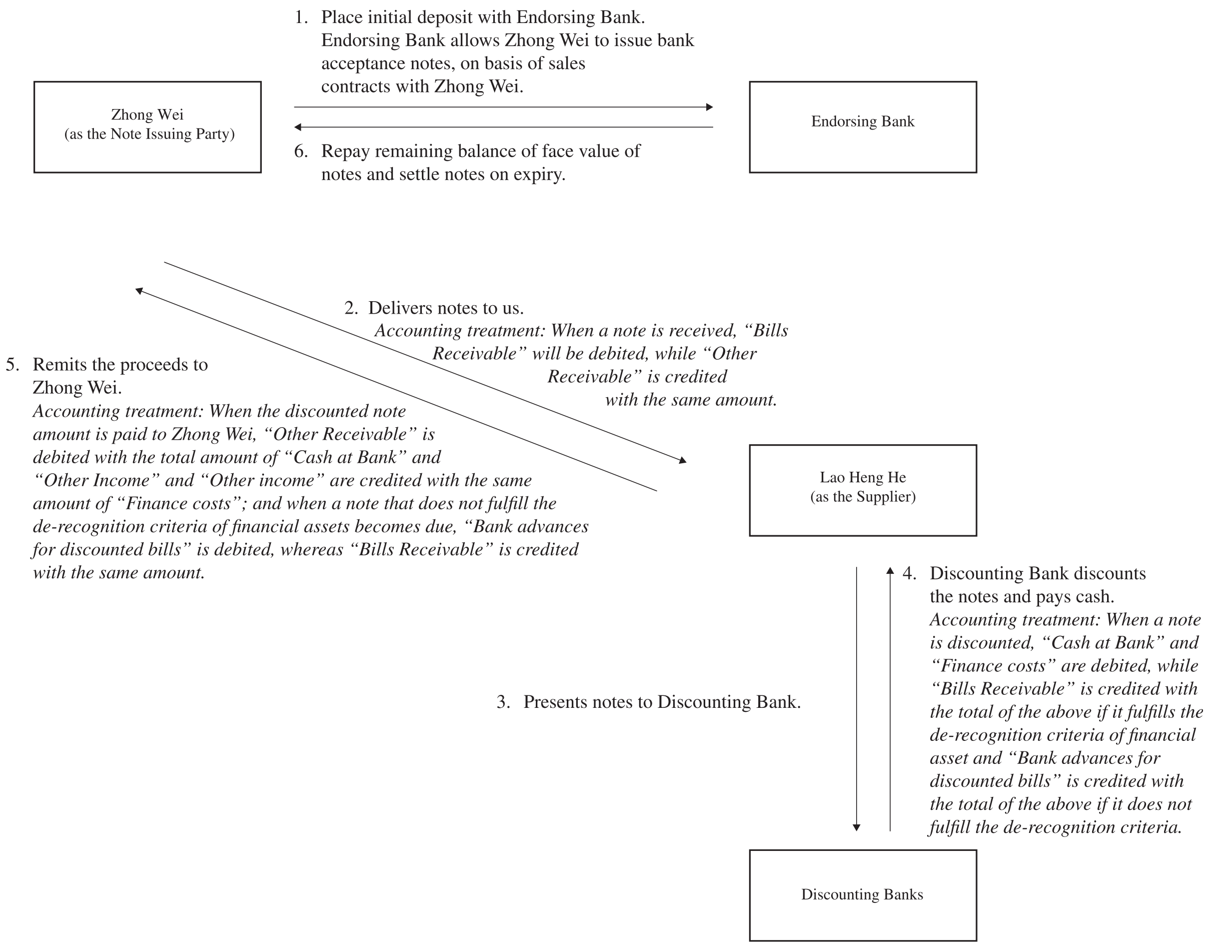
In situations where Zhong Wei was the Supplier, Zhong Wei remitted the proceeds to Mr. Chen's other investments directly, while in situations where Lao Heng He was the Supplier, Lao Heng He remitted the proceeds to Zhong Wei which remitted the proceeds to Mr. Chen's other investments subsequently. Accordingly, 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:



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.

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

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 that are undertaking an initial public offering. 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.

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);

- 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 a number of listing applicants, 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 Listing Rules and all other Hong Kong and PRC regulations regularly to ensure awareness and compliance of the policies;

- Engaged TC Capital Asia Limited as our compliance advisor upon Listing to advise us on compliance matters in accordance with Rule 3A.19 of the Listing Rules and to conduct periodic reviews and assessments of the group's internal control measures and report to the board of Directors and the audit committee the results of its reviews and assessments.

We will engage an independent consulting firm for at least 12 months after Listing to conduct periodic review and assessment of our internal control measures, report the results of such assessment to our Directors and audit committee and propose additional measures for improvement (if any). We will also disclose in our first annual report after Listing whether there are any further bill financing activities identified by our Directors, senior management, audit committee, compliance advisor and/or independent consulting firm.

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.

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) and the Sole Sponsor, based on the due diligence which it has conducted, are of the view that the Excess Financing does not affect Mr. Chen's character, experience and integrity pursuant to the requirements of rule 3.08 and rule 3.09 of the Listing Rules 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, and the undertaking by Mr. Chen that he will attend training courses regarding relevant laws and regulations to be conducted by professional training providers accredited by the relevant professional bodies in the areas of financial management, corporate governance and the Listing Rules during each of the two years after the Listing.

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.