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

OVERVIEW

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

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

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

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

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

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

- *Sales volume and pricing of our products.* Our results of operations are directly affected by our sales volume and the average selling prices of our products. Sales volume of our cooking wine products increased significantly during the Track Record Period, primarily reflecting increasing demand for our products, which we believe was affected by factors such as (i) increasing recognition of our "Lao Heng He" ("老恒和") brand; (ii) growing consumer consciousness of food safety and preference for naturally-made products; and (iii) the rising disposable income level in the PRC. The average selling prices of our products, which generally increased during the Track Record Period, are affected by factors such as product mix and market demand for our products. During the Track Record Period, our sales volume and the average selling prices of our products were also affected by our historical relationship with Zhong Wei. See "— Financial Impact of Separation from Zhong Wei".

- *Product mix.* Our product lines consist of cooking wine, soy sauce, vinegar and other products. In late 2010, we began streamlining our product offering to focus on cooking wine, and as a result of the rapid growth in the sales of our cooking wine products, our overall business experienced a period of rapid growth in revenue and net profit during the Track Record Period. We have developed four major categories of cooking wine products to target various consumer groups based on varying levels of income and consumption habits. Generally, our higher-end products command higher margins than our lower-end products. As a result, an increase in percentage of sales derived from our higher-end products would contribute to greater increases in revenue, average selling price, profit margin and net profit.

- *Cost of raw materials.* Our cost of sales primarily consists of cost of raw materials which primarily consist of rice and, secondarily, soy beans, wheat and packaging materials. In 2010, 2011, 2012 and for the eight months ended August 31, 2013, cost of rice represented 39.9%, 54.1%, 58.2% and 50.6%, respectively, of our cost of sales. In addition, the prices of rice and other raw materials such as packaging materials are subject to volatility caused by external conditions, such as market supply and demand, climate, environmental conditions, commodity price fluctuations, currency fluctuations, changes in governmental policies and natural disasters. In particular, the average purchase price of rice, our key raw material, has increased significantly in recent years. See "Industry Overview — The PRC Cooking Wine Market — Cooking Wine Manufacturing Methods in China". We expect the prices of rice and our other raw materials in China to continue to rise, and such trend may have an impact on our profitability. Our cost of raw materials during the early years of the Track Record Period was also affected by procurement from Zhong Wei. See "— Financial Impact of Separation from Zhong Wei — Procurement" below.

- *Capacity.* Our actual production volume is affected by a combination of (i) the amount of base wine of the required vintage available that allows us to produce the desired volume of final cooking wine products; (ii) warehouse and storage space; and (iii) bottling capacity. For more information, see "Business — Production Process and Facilities — Production facilities and capacity".

- *Seasonality.* Our results of operations are subject to seasonality. Historically, we have experienced higher sales of our cooking wine and other products in the third and fourth quarters of the year in anticipation of the increasing frequency of corporate, friend and family gatherings at year-end and prior to Chinese New Year holidays in the first quarter of the year. A comparison of our semi-annual operating results should take such factor into account.

FINANCIAL IMPACT OF SEPARATION FROM ZHONG WEI

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

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

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

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

- *Procurement.* During the Track Record Period, particularly in 2011, our rice supply, which is the largest component of our raw material supply, was partly purchased from Zhong Wei. We also purchased packaging materials from Zhong Wei. As our business became more successful, we increasingly purchased rice from third party suppliers directly. In addition, we also purchased certain popular Zhong Wei branded paste and pickled vegetable products from Zhong Wei to supplement our product offering. Because of these factors, procurement from Zhong Wei represented 29.9%, 41.4%, 8.5% and 3.8% of our total procurement in 2010, 2011, 2012 and the eight months ended August 31, 2013, respectively.

- *Bill financing.* We entered into significant bill financing arrangements with Zhong Wei during the Track Record Period, which have ceased since August 2012. In respect of the costs related to the bank acceptance notes, Zhong Wei would pay for the costs or reimburse us for the cost of discounting the bank acceptance notes. The amount of the discounting costs, which totaled RMB1.7 million, RMB8.3 million and RMB3.6 million in 2010, 2011 and 2012, respectively, have been recognized both as "interest compensation" under "other income" and as "interest on bank acceptance bills" under "finance costs", and as a result, have no impact on our consolidated income statement. On our consolidated statements of financial position, these unexpired bank acceptance notes were recognized as bills receivables under current assets in the amount of RMB40.3 million, RMB40.8 million and RMB15.4 million as of December 31, 2010, 2011 and 2012, respectively; and the same amounts were recognized as "bank advances for discounted bills" under "interest-bearing bank borrowings" under current liabilities as of the same respective dates. As of December 31, 2010, we had RMB23.0 million discounted but unexpired bank acceptance notes recognized as contingent liabilities. In addition, we also drew bank acceptance notes and transferred them to Zhong Wei. Zhong Wei then sold these bills prior to maturity at a discount and retained the proceeds. On our consolidated statements of financial position, these bills are recognized as bills payables, and totaled RMB16.0 million as of December 31, 2010 and RMB47.0 million as of December 31, 2011. See "Business — Legal Proceedings and Compliance — Bill financing".

- *Purchase of assets.* In December 2012, we purchased through a merger by absorption Huzhou Wu Xing Wu Cheng Wine Company, a spun-off company from Zhong Wei and wholly owned by Mr. Chen, whose assets primarily consisted of manufacturing facilities, production equipment, land use rights and office building. Such transaction contributed to increases in our property, plant and equipment and prepaid land lease payments from December 31, 2011 to December 31, 2012.

BASIS OF PRESENTATION

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

CRITICAL ACCOUNTING POLICIES AND JUDGMENT AND ESTIMATES

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

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

Judgment

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

Tax provision

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

Recognition of deferred tax assets

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

Deferred tax liabilities for withholding taxes

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

Estimation uncertainties

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

Useful lives and residual values of property, plant and equipment

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

Impairment of trade and other receivables

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

Write-down of inventories to net realisable value

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

Early retirement and retirement benefits

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

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

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

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

Revenue

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

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

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

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

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

Revenue by product line

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

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

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

Sales volume

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

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

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

Average selling price

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

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

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

Cost of sales

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

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

(1) Others include miscellaneous materials such as spices.

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

Gross profit and gross profit margin

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

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

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

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

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

Other income and gains

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

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

- *Interest compensation.* During the Track Record Period, Zhong Wei drew bank acceptance bills, which it then transferred to us. We sold these bills back to the bank prior to maturity at a discount, and transferred the proceeds of such sale to Zhong Wei. Zhong Wei then repaid us the amount of the discount, which is categorized as "interest compensation". The same amount has been recognized as an expense under the item of "finance costs". See "— Finance Costs" below. Interest compensation represented interest compensated to us by Zhong Wei as finance costs from discounted bank acceptance bills, the proceeds from which were used to finance Zhong Wei, pursuant to the agreement between Zhong Wei and us. The amounts equal to "interest on bank acceptance bills" under "finance costs", which were calculated based on the face value of the discounted bank acceptance bills and the discount rates, and amortized on a straight-line basis over the remaining period of the discounted bills. Our reporting accountants have reviewed the calculation of "interest compensation" and agreed with the relevant accounting treatment. Based on the above, the Sole Sponsor and our reporting accountants are of the view that the calculation was fair and reasonable. We have ceased these bill financing activities since August 2012. See "Business — Legal Proceedings and Compliance — Bill financing".

- *Gain from sales of materials.* Sales of materials primarily consisted of sales of raw materials to Zhong Wei and third parties.

- *Subsidy received.* Subsidy received represented subsidy income received from local governments as incentives to encourage business development for certain of our subsidiaries in the PRC.

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

Selling and distribution expenses

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

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

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

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

Administrative expenses

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

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

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

(2) For the eight months ended August 31, 2012 and 2013, travelling expenses and entertainment expenses were included in the category of office expenses.

(3) Others primarily consist of insurance expenses, motor vehicle expenses, communication expenses and other miscellaneous expenses.

Administrative expenses primarily consist of research and development expenses, legal and other professional fees, salaries and benefits for our management and administrative staff, rental expenses, office expenses and other miscellaneous expenses. In 2012, our research and development expenses totalled RMB12.2 million, which primarily related to the research of our Tai Soy Sauce. For the eight months ended August 31, 2013, we had administrative expenses of RMB40.0 million, including (i) research and development expenses of RMB23.1 million for new fermentation and processing methods of base wine and soy sauce to improve their nutrition and flavor; and (ii) listing expenses of RMB8.9 million.

Other expenses

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

Finance costs

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

Income tax

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

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

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

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

RESULTS OF OPERATIONS

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

Revenue

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

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

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

Our administrative expenses increased significantly from RMB10.2 million for the eight months ended August 31, 2012 to RMB40.0 million for the eight months ended August 31, 2013. This increase mainly reflected (i) research and development expenses of RMB23.1 million for new fermentation and processing methods of base wine and soy sauce to improve their nutrition and flavor; and (ii) listing expenses of RMB8.9 million.

Finance costs

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

Income tax expense

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

Profit for the period

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

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

Revenue

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

Income tax expense

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

Profit for the year

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

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

Revenue

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

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

Cost of sales

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

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 245.4% from RMB13.4 million in 2010 to RMB46.2 million in 2011. Our gross profit margin increased from 36.9% in 2010 to 42.2% in 2011, and excluding the RMB3.8 million in net processing income for rendering of processing services, our gross profit margin in 2010 would have been 29.6%. See "— Description of Certain Income Statement Items — Revenue". The increase in our profit margin primarily reflected the combined effect of (i) an increase in the percentage of sales derived from cooking wine products, which generally had higher gross margins than our other products; (ii) an increase in the percentage of sales derived from premium cooking wine products, which generally bore higher margins than our lower-end cooking wine products; and (iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei.

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

Income tax expense

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

Profit for the year

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

DISCUSSION OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Net current assets/(liabilities)

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

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

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

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

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

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

Inventory

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

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

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

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

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

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

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

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

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

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

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

Trade and bills receivables

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

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

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

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

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

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

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

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

Prepayments, deposits and other receivables

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

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

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

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

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

Substantially all of the deposit and other receivables as of December 31, 2010 and 2011 consisted of funds advanced to a third party supplier. Deposits and other receivables as of December 31, 2012 primarily consisted of receivables from Zhong Wei, and such receivables from Zhong Wei had been subsequently settled by the end of April, 2013. Our deposits and other receivables as of August 31, 2013 primarily represented the input value-added tax to be deducted when the relevant finished goods are sold.

Due from/to a related party

See "— Related Party Transactions" below for details.

Trade and bills payables

The following table sets forth an aging analysis of our trade and bills payables as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Within 3 months	4,679	14,971	33,373	42,694
3 to 6 months	1,353	2,334	7,283	8,749
Over 6 months	588	1,585	7,448	7,939
Trade payables	6,620	18,890	48,104	59,382
Bills payable	16,000	47,000	—	—
Total	22,620	65,890	48,104	59,382
Turnover days of trade payables[1]	80	44	63	49

(1) Turnover days of trade payables represents average trade payables divided by purchases for the relevant period and multiplied by 365 for each of the three years ended December 31 2010, 2011, 2012 and by 243 for the eight months ended August 31, 2013. Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of the period, divided by two. Purchases equal cost of sales for the relevant period plus the difference between inventory at the end of the period and inventory at the beginning of the period.

Our trade payables mainly relate to the purchase of raw materials from our principal suppliers with credit terms of one to three months upon receipt of goods and invoices. The trade payables are non-interest-bearing and are normally settled on terms of one to three months.

Turnover days of trade payables decreased from 80 days in 2010 to 44 days in 2011, primarily due to increased grain procurement from farmers and grain supplier centers, which usually have shorter credit terms than Zhong Wei and packaging material suppliers. Turnover days of trade payables increased to 63 days in 2012 primarily due to our strengthened capability to negotiate for longer credit terms as the amount of our raw material procurement significantly increased. Turnover days of trade payables decreased to 49 days for the eight months ended August 31, 2013, primarily due to our decreased purchase of packaging materials from 41% of our total purchase for the year ended December 31, 2012 to 26% for the eight months ended August 31, 2013.

Our trade payables included a trading balance due to related parties of RMB3.5 million as of December 31, 2011, which were nil as of December 31, 2010, 2012 and as of August 31, 2013. The balance due to related parties primarily related to purchases of semi-finished goods and finished goods from Zhong Wei and its affiliate. See "— Related Party Transactions".

Bills payable in the amount of RMB16.0 million as of December 31, 2010 and RMB7.0 million as of December 31, 2011 represented balances due to Zhong Wei. See "— Financial Impact of Separation from Zhong Wei". The bills are secured by time deposits amounting to RMB6.0 million and RMB21.0 million as of December 31, 2010 and 2011, respectively. We had no bills payable as of December 31, 2012 and as of August 31, 2013.

Our Directors confirm that we did not experience any material defaults in payment of trade and other payables during the Track Record Period.

Other payables and accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	19	1,464	6,518	—
Other payables	2,505	30,158	25,691	35,958
Accruals	212	292	2,185	1,045
Total	2,736	31,914	34,394	37,003

All these balances are non-interest-bearing and other payables have an average term of three months. Our other payables as of December 31, 2011 primarily consisted of RMB20.0 million in funds from a third party for working capital purposes. We repaid these funds in full in 2012. Our other payables as of December 31, 2012 and August 31, 2013 primarily consisted of (i) payables relating to the purchases of equipment as a result of the expansion of our operations; and (ii) value-added tax payable as our sales increased. Our other payables as of August 31, 2013 also consisted of funds borrowed from certain independent third parties in connection with the Reorganization. These funds were non-interest-bearing as the lenders were personal friends of our ultimate Controlling Shareholder.

Property, plant and equipment

Our amount related to property, plant and equipment increased from RMB4.7 million as of December 31, 2010 to RMB32.2 million as of December 31, 2011, to RMB131.5 million as of December 31, 2012 and further to RMB164.5 million as of August 31, 2013. The increase from December 31, 2010 to December 31, 2011 primarily reflected the construction of new facilities and purchases of equipment as we expanded our business. The increase from December 31, 2011 to December 31, 2012 primarily reflected the addition of office buildings, manufacturing facilities and production equipment as a result of our purchase of the assets of Huzhou Wu Xing Wu Cheng Wine Company as part of our Reorganization. See "History, Reorganization and Group Structure — Reorganization — Purchase of Zhong Wei's Principal Assets through Merger". The increase in our amount related to property, plant and equipment from December 31, 2012 to August 31, 2013 primarily related to the expansion of our existing facilities and the completion of our new facilities.

Prepaid land lease payments

Our prepaid land lease payments decreased from RMB12.4 million as of December 31, 2010 to RMB12.2 million as of December 31, 2011, and increased to RMB23.8 million as of December 31, 2012 and remained stable at RMB23.4 million as of August 31, 2013. The increase from December 31, 2011 to December 31, 2012 primarily reflected the addition of manufacturing facilities as a result of our purchase of the assets of Huzhou Wu Xing Wu Cheng Wine Company as part of our Reorganization. See "History, Reorganization and Group Structure — Reorganization — Purchase of Zhong Wei's Principal Assets through Merger".

RELATED PARTY TRANSACTIONS

The following table sets forth significant related party transactions for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sale of products to:					
Zhong Wei（浙江中味釀造有限公司）	30,749	45,333	4,931	3,873	N/A
Sale of materials and work-in-progress to:					
Zhong Wei（浙江中味釀造有限公司）	—	2,113	859	731	N/A
Anji Zhong Wei（安吉中味食品有限公司）	517	371	467	463	N/A
Rendering of processing services to:					
Zhong Wei（浙江中味釀造有限公司）	3,758	—	—	—	N/A
Interest compensation from:					
Zhong Wei（浙江中味釀造有限公司）	1,677	8,266	3,614	2,998	N/A
Purchase of materials, work-in-progress and finished products from:					
Zhong Wei（浙江中味釀造有限公司）	12,354	41,695	16,930	4,797	N/A
Anji Zhong Wei（安吉中味食品有限公司）	544	909	3,016	3,016	N/A
Yilong Zhong Wei（儀隴縣中味食品有限公司）	7	3,231	4,701	319	N/A
Purchase of assets from:					
Zhong Wei（浙江中味釀造有限公司）	—	—	88,641	—	N/A
Properties and equipments rental fee paid to:					
Zhong Wei（浙江中味釀造有限公司）	500	500	1,275	850	N/A
Anji Zhong Wei（安吉中味食品有限公司）	—	—	40	—	N/A

The following table sets forth provision of guarantees by our related parties for the periods indicated:

	For the year ended December 31,			For the eight months ended August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans guaranteed by:				
Zhong Wei（浙江中味釀造有限公司）	5,000	—	—	—
CHEN Weizhong (陳衛忠) and XING Liyu (邢利玉)	15,000	75,000	103,000	74,000
Total	20,000	75,000	103,000	74,000

The following table sets forth amount due from/to a related party as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from:				
Zhong Wei (浙江中味釀造有限公司)	—	12,867	N/A	N/A
A director (CHEN Weizhong (陳衛忠))	1,653	1,653	23	—

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to:				
Zhong Wei (浙江中味釀造有限公司)	8,923	—	N/A	N/A
Amount due to the ultimate holding company	—	—	—	470

Historically, our ultimate Controlling Shareholder, Mr. Chen, controlled two condiment businesses, namely Zhong Wei and our Group. Mr. Chen controlled Zhong Wei until he sold the business of Zhong Wei to an independent third party in December 2012. As a result, historically we engaged in a number of related party transactions with Zhong Wei. Specifically, until 2011 we primarily sold our products to Zhong Wei, which in turn sold our products through its distribution network. Our sales to Zhong Wei constituted 94.5% of our revenue generated from sales of goods in 2010. In 2011, we began increasingly selling our products directly to our distributors, and as a result, our sales to Zhong Wei constituted 41.4%, 1.5% and 0.2% of our total revenue for 2011, 2012 and the eight months ended August 31, 2013, respectively.

We paid RMB0.5 million, RMB0.5 million and RMB1.3 million for the use of the plant facilities and office building of Zhong Wei for the years 2010, 2011 and 2012, respectively. We purchased these plant facilities in December 2012. During the year 2012, we purchased properties, equipment, motor vehicles, furniture and fixtures, and land use rights from Zhong Wei for RMB88.6 million. In 2012, we also paid RMB40,000 for using the warehouse facilities of Anji Zhong Wei, an affiliate of Zhong Wei.

As of December 31, 2012, certain of our buildings with a net carrying amount of approximately RMB17.1 million were pledged to secure banking loans granted to Zhong Wei. As of December 31, 2012, certain of our Group's leasehold lands with a net carrying amount of approximately RMB10.4 million was pledged to secure banking loans granted to Zhong Wei. Both pledges were subsequently released in February 2013.

As of December 31, 2010, 2011 and 2012, we also had amounts due from our director, Mr. Chen, in the amount of RMB1.7 million, RMB1.7 million and RMB0.02 million, respectively. As of August 31, 2013 and November 30, 2013, our amount due to the ultimate holding company was RMB470,000 and RMB465,000, respectively, which will be fully settled upon Listing.

Our Group used Mr. Chen's trade-secret cooking wine recipes for no consideration during the Track Record Period. On January 1, 2013, Mr. Chen and Lao Heng He entered into the Exclusive Recipes Licensing Agreement, whereby Mr. Chen agreed to grant Lao Heng He and its existing and future subsidiaries an exclusive right to use Mr. Chen's trade-secret cooking wine recipes for no consideration. On August 23, 2013, Mr. Chen and Lao Heng He entered into a Recipes Transfer Agreement, whereby Mr. Chen agreed to transfer to Lao Heng He his trade-secret cooking wine recipes for nominal consideration. The transfer will be effective upon Listing.

Mr. Chen has undertaken to indemnify our Group for all possible liabilities and losses in connection with the non-registration of our leased properties, bill financing, and taxation claims.

All of the above related party transactions have been discontinued and the related amounts have been settled as follows:

- *Guarantees of bank loans.* Mr. Chen's and Ms. XING Liyu's guarantees of bank loans have been released.

- *Zhong Wei-related amounts.* Zhong Wei was sold to an independent third party in December 2012. Accordingly, any amounts due from and to Zhong Wei will no longer be recognized as resulting from related party transactions. See "— Financial Impact of Separation from Zhong Wei". These amounts were fully settled in May 2013.

- *Amount due from Mr. Chen.* The amount outstanding was subsequently settled in April 2013.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through a combination of capital contribution from shareholders, cash flow from operations and short-term bank borrowings. We were able to repay our obligations under bank borrowings when they became due during the Track Record Period.

We are undergoing a period of rapid expansion. One of the most important aspects of our expansion strategy is the significant increase of base wine stock, because (i) the value of our base wine generally increases with time in storage, and (ii) we expect the price of rice to continue to increase which has been the general trend in recent years. To this end, we have incurred significant bank loans primarily to fund the purchase of rice and earthen jars for storage of base wine, which contributed to our net current liabilities (albeit relatively small) as of December 31, 2011 and 2012. See "— Discussion of Consolidated Statements of Financial Position Items—Net current assets/liabilities". Our bank loans also contributed to relatively high gearing ratios as of December 31, 2011 and 2012 (although our relatively low total equity as of those dates also affected the ratios). See "— Key Financial Ratios". Another impact of the rapid increase of base wine stock is the increase of work-in-progress inventory, which contributed to our relatively high inventory turnover days historically and a net cash outflow from operating activities for the eight months ended August 31, 2013. See "— Discussion of Consolidated Statements of Financial Position Items — Inventory" and "—Liquidity and Capital Resources — Cash Flows".

Despite the foregoing, however, we believe that the current level of our working capital is sufficient for the foreseeable future for the following reasons:

- *Availability of additional credit.* As of November 30, 2013, the total credit facility granted to our Group amounted to approximately RMB293.0 million, of which RMB233.0 million had been utilized and RMB60.0 million were available for drawdown.

- *Flexibility in adjustment of growth strategy.* Unlike capital expenditures for property, plant and equipment, the pace of our expenditure on rice may be adjusted quickly to adapt to factors such as changes in our liquidity position.

- *Financial ratios.* Our current ratios historically have been relatively high at 103.9%, 96.6%, 99.1% and 110.2% as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. In addition, as discussed, although we had net current liabilities as of December 31, 2011 and 2012, the amounts were relatively low at RMB8.5 million and RMB2.8 million, respectively, compared to RMB244.7 million and RMB322.8 million, respectively, in total current assets as of those dates.

- *Continuing growth.* We expect continuing increasing sales at least in the short term, which we expect to contribute to our cash from operating activities, which coupled with the expected proceeds from the Global Offering, will strengthen our liquidity position.

Cash Flows

The following table sets forth selected cash flow data from our consolidated cash flow statements as of and for the periods indicated:

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

Cash flow from operating activities

Our net cash used in operating activities was RMB53.3 million for the eight months ended August 31, 2013, while we had net cash from operating activities of RMB27.1 million for the same period in 2012. Net cash used in operating activities for the eight months ended August 31, 2013 primarily consisted of (i) increase in inventories of RMB138.0 million, (ii) increase in trade receivables of RMB36.8 million, (iii) increase in prepayments, deposits and other receivables of RMB14.7 million, primarily reflecting increase in the amount of input value-added tax to be deducted when the relevant finished goods are sold and (iv) PRC tax paid of RMB13.6 million, partially offset by cash received from operations of RMB147.0 million. Net cash from operating activities for the eight months ended August 31, 2012 primarily consisted of (a) cash received from operations of RMB84.6 million, (b) increase in trade payables of RMB63.2 million and (c) increase in other payables and accruals of RMB6.2 million, partially offset by increase in trade receivables of RMB94.9 million, increase in inventories of RMB22.6 million and PRC tax paid of RMB4.6 million.

As we rapidly grow our business, we have been devoting our cash and other resources into expanding our operations. We had net cash outflow from operating activities for the eight months ended August 31, 2013 primarily due to the increase in inventories of RMB138.0 million. The increase in inventory was primarily due to an increase in raw materials and our work-in-progress. We increased our purchase of raw materials such as rice, packaging materials and soy beans during the eight months ended August 31, 2013 so as to expand production. The increase in our work-in-progress better enables us to produce sufficient cooking wine and other products to meet rising market demands for these products in the coming year and the future. As a result, we ramped up our operations during this period to produce sufficient base wine for aging and for producing cooking wines.

In 2012, our net cash generated from operating activities was RMB59.7 million. The net cash inflow was primarily due to cash received from operations of RMB149.6 million, an increase in trade payables of RMB29.2 million, and an increase in other payables and accruals of RMB2.5 million, partially offset by an increase in inventories of approximately RMB50.6 million, an increase in trade receivables of RMB45.8 million, an increase in prepayments, deposits and other receivables of RMB20.4 million, and payment for PRC tax of RMB5.1 million.

In 2011, our net cash generated from operating activities was RMB12.8 million. The net cash inflow was primarily due to cash received from operations of RMB31.1 million, an increase in trade payables of RMB12.3 million and an increase in other payables and accruals of approximately RMB29.2 million, partially offset by an increase in inventories of RMB42.6 million, an increase in trade receivables of RMB16.9 million, and a decrease in other long-term liabilities of RMB1.1 million.

In 2010, our net cash generated from operating activities was RMB21.8 million. The net cash inflow was primarily due to cash received from operations of RMB10.4 million, an increase in prepayments, deposits and other receivables of RMB19.9 million and an increase in other payables and accruals of RMB2.3 million, partially offset by an increase in inventories of RMB8.7 million and a decrease in other long-term liabilities of RMB1.9 million.

Cash flow from investing activities

Our net cash from investing activities was RMB49.3 million for the eight months ended August 31, 2013, as compared to net cash used in investing activities of RMB86.3 million for the same period in 2012. Net cash from investing activities for the eight months ended August 31, 2013 was attributable to a recovery of other receivables of RMB100.4 million primarily due from Zhong Wei, partially offset by purchases of property, plant and equipment of RMB39.1 million. Net cash used in investing activities for the eight months ended August 31, 2012 consisted of (i) an increase in amounts due from Zhong Wei of RMB69.9 million, (ii) an increase in prepayments, deposits and other receivables of RMB44.3 million and (iii) RMB10.7 million for purchases of property, plant and equipment, partially offset by a decrease in time deposits and pledged deposits of RMB38.6 million.

In 2010, 2011 and 2012, our net cash used in investing activities was RMB37.8 million, RMB54.9 million, RMB165.8 million, respectively. Our expenditures for investing activities in 2010, 2011 and 2012 primarily related to our expansion of production facilities and the related purchase of property, plant and equipment. See "Business — Production Process and Facilities" for details of our production facilities.

Cash flow from financing activities

Our net cash from financing activities was RMB42.0 million and RMB53.5 million for the eight months ended August 31, 2013 and 2012, respectively. Net cash from financing activities for the eight months ended August 31, 2013 consisted of (i) RMB222.8 million from new bank and other borrowings and (ii) RMB11.0 million from increase in other payables and accruals, partially offset by RMB180.8 million in repayments of bank and other borrowings and RMB11.5 million in interest paid. Net cash from financing activities for the eight months ended August 31, 2012 consisted of RMB118.0 million from new bank and other borrowings, partially offset by RMB62.5 million in repayments of bank and other borrowings and RMB9.7 million in interest paid.

In 2012, our net cash generated from financing activities was RMB83.8 million, primarily due to new bank loans of RMB303.0 million, offset by repayment of bank and other borrowings of RMB207.5 million and payment of interest of RMB14.5 million.

In 2011, our net cash generated from financing activities was RMB65.6 million, primarily due to new bank loans of RMB127.3 million, offset by repayment of bank and other borrowings of RMB49.7 million and payment of interest of RMB12.0 million.

In 2010, our net cash generated from financing activities was RMB16.1 million, primarily due to new bank loans of RMB34.9 million, partially offset by repayment of bank and other borrowings of RMB19.9 million.

INDEBTEDNESS

The following table sets forth our bank and other borrowings as of the dates indicated:

	As of December 31, 2010			As of December 31, 2011			As of December 31, 2012			As of August 31, 2013			As of November 30, 2013		
	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount	Effective interest rate	Maturity	Amount
	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000 (unaudited)
Current															
Bank borrowings — secured	4.43–8.53	2011	22,900	6.10–8.53	2012	100,510	5.88–8.53	2013	186,000	5.88–8.53	2013–2014	238,000	6.00–8.53	2013–2014	228,000
Other borrowings — secured	21.60	2011	5,000	21.60	2012	5,000	20.00	2013	5,000	19.20	2013	5,000	19.20	2014	5,000
Bank advances for discounted bills	N/A	2011	40,340	N/A	2012	40,800	N/A	2013	15,400	N/A	N/A	—	N/A	N/A	—
Total			68,240			146,310			206,400			243,000			233,000
Non-current															
Bank borrowings — secured			—			—	8.53	2014	10,000			—			—
Total			68,240			146,310			216,400			243,000			233,000

Our bank loans were secured by (i) the pledge of certain of our time deposits amounting to RMB1.0 million, RMB15.1 million, nil and nil as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively, (ii) the pledge of certain of our inventory with a net carrying amount of RMB34.4 million and RMB65.7 million as of December 31, 2012 and August 31, 2013, respectively and (iii) the guarantee of Zhong Wei, Mr. Chen and Xing Liyu, amounting to RMB20.0 million, RMB75.0 million, RMB103.0 million and RMB74.0 million as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. These guarantees have been fully released as of the date of this prospectus. See "— Related Party Transactions". All our bank borrowings are denominated in RMB. As of the Latest Practicable Date, the Directors confirm that we have been in full compliance with the relevant covenants and restrictions under the terms of the relevant bank facilities. Our bank borrowings are not subject to any material restrictive covenants. Our available facilities are committed facilities without any material restricted covenants or guarantees from parties outside the Group.

Bank advances for discounted bills related to the banking financing Zhong Wei received through bank acceptance bills. See "— Financial Impact of Separation from Zhong Wei" and "— Discussion of Consolidated Statements of Financial Positions Items — Trade and Bills Receivables".

We had RMB8.9 million, nil, nil and nil for amounts due to related parties as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively.

As of November 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, the total credit facility granted to our group amounted to approximately RMB293 million, of which RMB233 million had been utilized and RMB60.0 million was available for drawdown.

We have used the proceeds of bank and other borrowings to replenish our working capital and fund our capital expenditure. We have not encountered any material difficulty in obtaining external borrowings and did not experience any default or delay in the repayment of bank and other borrowings during the Track Record Period. Our other borrowings during the Track Record Period consisted of borrowings from a micro-lending company, whose interest rate was higher than those of bank borrowings but was in line with other micro-lending companies. We borrowed a principal amount of RMB5.0 million from the micro-lending company in response to the local government's support for local businesses. We have been able to repay these borrowings when they became due and payable and we have no plans to borrow from this company after the Listing.

As of the Latest Practicable Date, the Directors confirm that there are no external financing plans in the near future.

Except as disclosed in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loan from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding as of November 30, 2013 (being the latest practicable date for the purpose of this indebtedness statement). We confirm that there has not been any material change in the indebtedness since that date.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
Return on equity(1)	40.6%	56.7%	74.0%	N/A(5)
Current ratio(2)	103.9%	96.6%	99.1%	110.2%
Gearing ratio(3)	441.5%	466.2%	162.6%	116.5%
Net debt to equity ratio(4)	435.0%	437.0%	160.9%	98.0%
Net profit margin(6)	17.3%	18.5%	29.2%	29.7%

(1) Profit attributable to owners of the Company for the period, divided by equity attributable to owners of the Company, then multiplied by 100%.

(2) Current assets divided by current liabilities.

(3) Total debt divided by total equity. Total debt is defined to include interest-bearing bank borrowings and payables incurred not in the ordinary course of business.

(4) Net debt divided by total equity. Net debt includes total debt net of cash and cash equivalents.

(5) The profit attributable to owners of the Company used in calculating this ratio only consisted eight months results which is not comparable with those for the years ended December 31, 2010, 2011 and 2012.

(6) Net profit after taxes divided by revenue for the relevant period and multiplied by 100%.

Our return on equity increased from 40.6% as of December 31, 2010 to 56.7% as of December 31, 2011. This increase was primarily due to the increase in profit attributable to owners of the Company for the year ended December 31, 2011 by 221.8%. Our return on equity further increased to 74.0% as of December 31, 2012, primarily due to the increase in profit attributable to owners of the Company for the year ended December 31, 2012 by 387.0%.

Our current ratio remained relatively stable during 2010, 2011 and 2012. The increase of our current ratio as of August 31, 2013 was primarily due to our increased current assets for the eight months ended August 31, 2013.

Our gearing ratio remained relatively stable as of December 31, 2010 and 2011, and then decreased to 162.6% as of December 31, 2012 and further decreased to 116.5% as of August 31, 2013, primarily reflecting an increase in total equity during the latter periods.

Our net debt to equity ratio remained relatively stable as of December 31, 2010 and 2011, and decreased to 160.9% as of December 31, 2012 and further decreased to 98.0% as of August 31, 2013, primarily reflecting an increase in total equity during the latter periods.

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

(i) our strategic move to concentrate our resources on cooking wine products and accordingly, an increase in the percentage of sales derived from cooking wine products, which generally had higher gross margins than our other products;

(ii) an increase in the percentage of sales derived from premium and other higher-end cooking wine products as we gradually focused our product development efforts on such products, which generally bore higher margins than our lower-end cooking wine products; and

(iii) an increase in the percentage of sales directly to distributors, which bore higher margins than sales to Zhong Wei.

CAPITAL AND OTHER COMMITMENTS

We lease certain of our plants and machineries under operating lease arrangements. Leases for properties are negotiated for five years. The following table sets forth our total future minimum lease payments under non-cancellable operating leases falling due as of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	500	500	317	317
In the second to fifth years, inclusive	500	—	840	810
	1,000	500	1,157	1,127

In addition to the operating lease commitments above, the following table sets forth our capital commitments at of the dates indicated:

	As of December 31,			As of August 31,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Capital commitments contracted but not provided for				
— Plant and machinery	15,000	4,960	—	7,700
— Advertising contracts	7,923	9,530	9,115	1,290
Total	22,923	14,490	9,115	8,990

Our capital commitments contracted but not provided for outstanding during the Track Record Period related to our advertising campaign on China Central Television and construction of plant and machinery.

WORKING CAPITAL CONFIRMATION

As of November 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, the total credit facility granted to our group amounted to approximately RMB293 million, of which RMB233 million had been utilized and RMB60.0 million was available for drawdown.

Taking into account the financial resources available to us, including expected net proceeds from the Global Offering, our operating cash inflow and available credit facilities, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

CONTINGENT LIABILITIES

During the Track Record Period, we discounted bank acceptance bills to various third parties. The unexpired bank acceptance bills amounted to RMB23.0 million, nil, nil and nil as of December 31, 2010, 2011, 2012 and August 31, 2013, respectively. The bank acceptance bills were all due from a related party and expired by December 31, 2011.

Except as described above, we did not have any other material contingent liabilities or guarantees as of the Latest Practicable Date.

DISTRIBUTABLE RESERVES

As of the Latest Practicable Date, the Company (i.e. the Cayman listed company) did not have any distributable reserves.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to show the effect on the audited consolidated net tangible assets of the Group as of August 31, 2013 as if the Global Offering had occurred on August 31, 2013 and are prepared based on the consolidated net tangible assets attributable to the owners of the Company derived from the audited financial information of the Group as of August 31, 2013, as set out in Appendix I to this Prospectus and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as of August 31, 2013 or any future dates.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as of August 31, 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	Unaudited pro forma adjusted consolidated net tangible assets per Share
	(Note 1) RMB'000	(Note 2) RMB'000	RMB'000	(Note 3) RMB	HK$
Based on the minimum indicative Offer Price of HK$4.95 per Share	217,713	443,468	661,181	1.32	1.69
Based on the maximum indicative Offer Price of HK$7.15 per Share	217,713	655,341	873,054	1.75	2.24

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of August 31, 2013 was equal to the audited consolidated net tangible assets attributable to the owners of the Company as of August 31, 2013 after deduction of the intangible assets as of August 31, 2013 set out in the accountants' report in Appendix I to this Prospectus.

2. The estimate net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK$4.95 and HK$7.15, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis of 500,000,000 Shares (including the Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalization Issue) in issue and that the Over-allotment Option are not exercised.

PROFIT ESTIMATE

For the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2013, our unaudited pro forma estimated earnings per Share for the year ended December 31, 2013 has been prepared on the bases of the notes set out below. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year ended December 31, 2013 or for any future period.

Estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2013[1][3]	not less than RMB152.0 million (approximately HK$192 million)
Unaudited pro forma estimated earnings per Share for the year ended December 31, 2013[2][3]	not less than RMB0.30 (approximately HK$0.38)

Notes:

(1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix III to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2013 based on the audited consolidated results for the eight months ended August 31, 2013, the unaudited consolidated results based on management accounts of our Group for the three months ended November 30, 2013 and an estimate of the consolidated results of our Group for the remaining one month ended December 31, 2013.

(2) The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated results for the year ended December 31, 2013 attributable to owners of the Company, assuming that a total of 500,000,000 Shares had been in issued during the entire year. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK$ at the exchange rate of RMB0.7927 to HK$1.00.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirement under Rules 13.13 to Rule 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange.

CAPITAL EXPENDITURE

Our capital expenditures during the Track Record Period primarily related to expenditures on purchase of property, plant and equipment which were funded out of bank borrowings and cash flows from our operations. The table below sets forth the details of our capital expenditure to be incurred for 2014:

Expansion plan	Estimated cost
	RMB million
Purchase of three million earthen jars	45.0
Purchase of one hundred steel fermentation tanks	40.0
One fermentation workshop with ancillary equipment	34.6
One warehouse for semi-finished products	6.0
One filtration workshop with ancillary equipment	4.8
One sterilization workshop with ancillary equipment	2.0
One warehouse for raw materials	1.2
Total	133.6

We plan to finance future capital expenditures mainly through the net proceeds of the Global Offering, bank borrowings, as well as from cash flows generated from operations. As we expect to continue our business expansion, we may incur additional capital expenditures.

DIVIDEND POLICY

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

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

OFF BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet transactions or arrangements as of the Latest Practicable Date.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from/to a related party and a director, and cash and cash equivalents. The main purpose of these financial instruments is to finance our operations. We have various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from our operations. The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk in the normal course of business.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our debt obligations. Our borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rates expose us to fair value interest rate risk. As of each of December 31, 2010, 2011, 2012 and August 31, 2013, most of our borrowings were at fixed rates. In addition, as most of our borrowings are short-term and due within one year, we obtain new borrowings each year. To the extent interest rates rise, our cost of refinancing will increase. The effective interest rates and terms of repayment of the interest-bearing bank borrowing of our Group's borrowings are disclosed in note 21 in Appendix I to this prospectus.

We currently do not use any interest rate swaps to hedge our exposure to interest rate risk.

Credit risk

The major concentration of credit risk arises from our exposure to a substantial amount of trade receivables, other receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents.

Trade receivables are typically unsecured and derived from revenue earned from customers in the PRC, which are exposed to credit risk. Our Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of trade and other receivables. In addition, the balance of trade receivables is monitored on an ongoing basis and our exposure to bad debts is not significant. Further quantitative data in respect of our exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 of the Accountants' Report set out in Appendix I to this prospectus.

An amount due from a director and an amount due from a related party are usually unsecured, interest-free and had no fixed terms of repayment. In evaluating the collectability of the related party balances, we consider many factors, including the repayment history and their credit worthiness. An allowance for doubtful accounts would be made if collection of the full amount is no longer probable. Further quantitative data in respect of our exposure to credit risk arising from an amount due from a director and an amount due from a related party are disclosed in note 32 of the Accountants' Report set out in Appendix I to this prospectus.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China. We have policies that limit our credit exposure to any financial institutions and the management believes these financial institutions are of high credit quality.

The carrying amounts of trade receivables, an amount due from a director, an amount due from a related party, time deposits, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant credit risk.

Liquidity risk

Liquidity risk relates to the risk that we will not be able to meet obligations associated with our financial liabilities. We are exposed to liquidity risk in respect of settlement of trade payables and our financing obligations, and also in respect of our cash flow management.

Our policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and bank borrowings.

Please refer to Note 34 of the Accountants' Report in Appendix I to this prospectus for further details on the above risks, including the maturity profile of our financial liabilities as of the end of each reporting period.

RECENT DEVELOPMENT

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

LISTING EXPENSES

Our listing expenses mainly comprise of underwriting commission in addition to professional fees paid to legal advisors and the reporting accountant for their services rendered in relation to the Listing and Global Offering. The total amount of listing expenses and commissions, together with SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering, is estimated to be approximately RMB47.7 million (based on the mid-point of our indicative price range for the Global Offering). We incurred listing fees and expenses in the Track Record Period in the amount of approximately RMB11.4 million, of which RMB2.4 million was capitalized as prepayment and RMB9.0 million was charged to our profit and loss accounts. We expect that out of the remaining RMB36.3 million fees and expenses to be incurred (including commission expenses calculated based on an Offer Price of HK$6.05 per Share, being the mid-point of the indicative Offer Price range), approximately RMB25.8 million will be capitalized, and approximately RMB10.5 million is to be fully charged to our profit and loss accounts in 2013.

NO MATERIAL ADVERSE CHANGE

Our Directors and the Sole Sponsor confirm that they have performed sufficient due diligence to ensure that, up to the date of the prospectus, there has been no material adverse change in our financial and trading positions or prospects since August 31, 2013 and there is no event since August 31, 2013 which would materially affect the information shown in the "Accountants' Report" set out in Appendix I to this prospectus. As far as we are aware, there was no material change in the general conditions in the PRC condiment market that had affected or would affect our business operations or financial conditions materially and adversely.