
OUR BUSINESS

OVERVIEW

We are a leading bakery chain operator in the PRC. As of December 31, 2010, we owned and operated one of the largest retail chains selling bakery products in the PRC both in terms of revenue and number of retail outlets, according to Euromonitor. We started producing and selling bakery products in 1993, when we were one of the first foreign-invested bakery companies in the PRC market. As of December 31, 2011, we offered a range of bakery products through an expansive multi-channel retail network, including a total number of 898 retail outlets in 22 cities.

As of December 31, 2011, we operated in prime locations and major cities in the Yangtze River Delta region, including 513, 232 and 153 retail outlets in Shanghai, Jiangsu province and Zhejiang province, respectively. The Yangtze River Delta region, where we concentrate on the business development of our stores, is among the most prosperous, rapidly-growing and westernized regions in China, with demand for baked goods exceeding the national average. We added 113 and 127 retail outlets in 2008 and 2009, respectively. In 2010, in addition to the 20 retail outlets opened at the 2010 Shanghai Expo site, we added 55 retail outlets in provinces where we had operations. We added 80 additional retail outlets in 2011 as a result of the growing demand in the Yangtze River Delta region.

In addition, we have successfully developed a multi-channel retail network featuring differentiated store types designed to appeal to different consumer segments. Our multi-channel retail network primarily consists of good neighbor stores, subway stores and flagship stores, each targeting different customer groups, to provide comprehensive consumer coverage. For example, good neighbor stores are our most important retail format and are primarily located in high density residential areas with a stable customer base of household consumers. We also maintain subway stores which target white-collar workers who are in need of a quick snack or meal. We strategically place our flagship stores in marque locations, with the intention of increasing brand awareness and introducing new products. We believe that the combination of these store types and our strategic store placement results in greater market penetration. We directly operate all of our stores to maintain effective control and promote operational efficiency. We also sell our products through our online store and are planning to pursue cooperation with large supermarket and convenience store chains to further expand and diversify our sales channels.

We offered a diverse and innovative product line of more than 2,200 varieties of breads, cakes, moon cakes, pastries and certain other products, with new products launched each month from our strong product pipeline. In addition to introducing new bakery products, our continued focus on R&D has allowed us to introduce new ingredients, such as GABA. We plan to continue to emphasize R&D with the goal of increasing the nutritional benefits of our products and making our brand synonymous with “bringing healthy living home”. We believe that our “Christine” brand is recognized for its high quality and safety, which has been honored by the Shanghai Administration for Industry and Commerce with “a famous trademark in Shanghai” (“上海市著名商標”) award since January 2007.

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We have a highly-scalable and integrated infrastructure to support our diverse product line and expansive retail network. Our products are primarily produced at our central bakeries, which adhere to specialization, stringent safety control and consistent quality. As of September 30, 2011, we have five centralized bakeries in major cities of the Yangtze River Delta region, including Shanghai, Nanjing and Hangzhou. Each of these bakeries supports our nearby retail locations through our logistics network, utilizing both in-house delivery capacity as well as third-party service providers to ensure maximum efficiency and profitability. Our centralized model largely eliminates the need for on-site bakeries and makes our business highly scalable.

The continued expansion of our product offerings and retail network resulted in growth of revenue during the Track Record Period. Our revenue increased from approximately RMB1,000.7 million for the year ended December 31, 2008 to RMB1,050.1 million for the year ended December 31, 2009, and to RMB1,284.5 million for the year ended December 31, 2010, representing a CAGR of 13.3%, among which 47.5%, 53.4% and 52.3% was generated from the redemption of our coupon sales, respectively. Our revenue increased from approximately RMB894.8 million for the nine months ended September 30, 2010 to RMB986.5 million for the nine months ended September 30, 2011, among which approximately 53.2% was generated from the redemption of our coupon sales. Our profit and total comprehensive income for the year decreased from approximately RMB127.1 million for the year ended December 31, 2008 to RMB115.7 million for the year ended December 31, 2009, and to RMB88.3 million for the year ended December 31, 2010. Our profit and total comprehensive income increased from RMB70.1 million for the nine months ended September 30, 2010 to RMB80.0 million for the nine months ended September 30, 2011.

The following table presents our revenues during the Track Record Period, broken down by product and expressed in absolute values and as a percentage of our total revenue:

	For the years ended December 31,						For the nine months ended September 30,	
	2008		2009		2010		2011	
	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues
Bread and cakes	702.9	70.2%	715.4	68.1%	889.3	69.2%	643.6	65.2%
Moon cakes	175.4	17.5%	203.2	19.4%	181.0	14.1%	182.5	18.5%
Pastries	105.7	10.6%	91.3	8.7%	155.4	12.1%	118.5	12.0%
Other ⁽¹⁾	16.7	1.7%	40.2	3.8%	58.8	4.6%	41.9	4.3%
Total	<u>1,000.7</u>	<u>100.0%</u>	<u>1,050.1</u>	<u>100.0%</u>	<u>1,284.5</u>	<u>100.0%</u>	<u>986.5</u>	<u>100.0%</u>

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

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The following table presents our revenues during the Track Record Period, broken down by store types:

	For the years ended December 31,						For the nine months ended September 30,	
	2008		2009		2010		2011	
	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues
Good Neighbor Stores	973.9	97.3%	1,035.0	98.6%	1,249.0	97.2%	938.5	95.1%
Subway Stores	17.4	1.8%	12.8	1.2%	19.9	1.6%	17.4	1.8%
Flagship Stores	9.4	0.9%	2.3	0.2%	15.6	1.2%	17.9	1.8%
European-style Fresh- bake Stores	-	-	-	-	-	-	12.7	1.3%
Total	<u>1,000.7</u>	<u>100.0%</u>	<u>1,050.1</u>	<u>100.0%</u>	<u>1,284.5</u>	<u>100.0%</u>	<u>986.5</u>	<u>100.0%</u>

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success as a market leader in our industry and distinguish us from our competitors.

Market leading position in China's fast-growing bakery product market

We are a leading bakery chain operator in the PRC. As of December 31, 2010, we owned and operated one of the largest retail chains selling bakery products in the PRC both in terms of revenue and number of retail outlets, according to Euromonitor. We started producing and selling bakery products in 1993, when we were one of the first foreign-invested bakery companies in the PRC market. As of December 31, 2011, we offered a range of bakery products through an expansive multi-channel retail network, including a total number of 898 retail outlets in 22 cities.

According to Euromonitor, China's bakery industry has been rapidly expanding during the recent years, with sales of bakery products increasing at a CAGR of 12.3% from 2009 to 2010. By the end of 2010, total sales value for China's bakery products market has reached RMB97.0 billion, which is still relatively small compared to developed countries such as the United States, Japan or Korea on per capita terms. Due to a continued increase in income in China's cities, increase in Chinese consumer acceptance, and the introduction of innovative new bakery products, Euromonitor forecasts that China's bakery industry will continue its rapid growth in market size from 2010 to 2013 with a CAGR reaching 13.1%. According to Euromonitor, sales of bakery products in the PRC are expected to reach approximately RMB140.3 billion by 2013.

We believe that we are well-positioned to take advantage of the expected growth in China's bakery industry by leveraging our current market leading position and our highly scalable infrastructure. Additionally, our presence in the PRC bakery products market since 1993 and established brand names provide us with significant advantages in capitalizing on the rapid growth of China's fast-growing bakery product market. We believe that we are also able to achieve lower production costs and enhanced operation efficiency through our integrated infrastructure of centralized bakeries, thereby creating entry barriers for our competitors.

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Multi-channel retail network covering prime locations in China's high growth and high demand regions

The Yangtze River Delta region, where we concentrate on the business development of our stores, is among the most prosperous, rapidly-growing and westernized regions in China, with demand for bakery products exceeding the national average. We opened 132 and 163 retail outlets in 2008 and 2009, respectively. In 2010, in addition to the 20 retail outlets opened at the 2010 Shanghai Expo site, we opened 96 retail outlets in provinces where we had operations. We opened 124 retail outlets in 2011 as a result of the growing demand in the Yangtze River Delta region. In addition, due to various business and commercial reasons, such as the expiration of leases or our performance evaluation of our retail outlets, during the years ended December 31, 2008, 2009, 2010 and 2011, we decided to close 19, 36, 41 and 44 retail outlets, respectively. As a result, we had 636, 763, 818 and 898 retail outlets as of December 31, 2008, 2009, 2010 and 2011, respectively.

Our retail network covers one of the most densely populated and affluent regions in the PRC, the Yangtze River Delta, with our primary presence in urban areas, including the major cities like Shanghai, Nanjing and Hangzhou. As of December 31, 2011, we operated 513, 232 and 153 retail outlets in 22 cities in the Shanghai, Jiangsu province and Zhejiang province, respectively. We believe consumers in this region welcome western culinary influences and that demand for bakery products in this region correspondingly exceeds other regions in the country. According to Euromonitor, the market for bakery products in the Yangtze River Delta Region maintained rapid growth from 2009 to 2010 with a CAGR of 8.1%. Rapid economic development and increased spending power in the Yangtze River Delta Region have also allowed us to successfully expand into certain second and third tier cities, such as Kunshan, Taicang and Jiaxing, due to increased demand for quality food experiences in these cities.

We have successfully developed a multi-channel retail network featuring differentiated store types designed to appeal to different consumer segments. For example, our multi-channel retail network primarily consists of good neighbor stores, subway stores and flagship stores, each targeting different customer groups, to provide comprehensive consumer coverage. Our good neighbor stores generate the majority of our revenues and are primarily located in high density residential areas with a stable household consumer base. Our subway stores are located in and around subway stations, targeting white-collar workers who are in need of quick snacks or meals. Finally, we have strategically placed our flagship stores in marque locations, with the intention of increasing brand awareness and introducing new products. We directly operate all of our retail outlets in order to provide our customers with consistent customer experience, high standards for food safety and product quality. In addition, we have been developing our online sales in order to utilize our strong logistics capabilities to serve an even larger consumer market.

We believe our expansive retail network, strong logistics support, strategic retail outlet locations and differentiated store types will be difficult for any competitor to duplicate or otherwise compete with, creating an entry barrier to new competitors. We further believe that this extensive and strategically distributed network of highly accessible stores not only helps us to increase our revenues and attract new customers, but also enables us to increase brand recognition and value in China, which will in turn further facilitate our expansion.

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Strong brand recognition and reputation for safe, healthy and high quality products

We believe we have an established reputation as a premier provider of safe, healthy and high quality bakery products in the PRC. We possess a strict quality control system and consider food safety to be our top priority. Our quality control procedures cover our entire production process from the selection of suppliers, to the procurement of ingredients, manufacturing by our central bakery, transportation of our products, and sales at our retail outlets. All expired products are returned to our central bakeries to be destroyed to ensure the safety and quality of our products. Our quality control system is bolstered by our government certifications. Our Ji Yuan De and Long Wu central bakeries have received ISO/DIS 22000 certifications from 2007. We have also implemented a raw material control system whereby all ingredients delivered to our production facilities are sampled for testing before they are put into our production process.

Our reputation for quality and safety has led to many engagements with headline events, including events requiring government approval. In 2007, we were one of the food suppliers for the 13th World Summer Special Olympic Games. In 2009, we became the designated provider for bakery products to the Shanghai World Expo and opened 20 retail outlets in the World Expo site in 2010. The high traffic exposure gained during the World Expo further elevated our brand recognition.

The value of our reputation and brand is also recognized by third party organizations and widely acknowledged by consumers. For example, since January 2007, our “Christine” brand was designated as a famous trademark in Shanghai (“上海市著名商標”) by the Shanghai Administration for Industry and Commerce (a governmental agency under the Shanghai Municipality responsible for market supervision and administrative law enforcement). In 2009 and 2010, we were awarded “Excellent Enterprise” by the Shanghai Food Association. In 2008, 2009 and 2010, we were recognized as one of the China Social Responsible Enterprises by China Business News. In 2007, the China Food Industry Association (“中國食品工業協會”, an independent nation-wide, non-profit organization established by food industry businesses, organizations and other associations) recognized our “Christine” brand as one of the “2007 Top 10 Most Competitive Brands in China’s Bakery Industry” (“2007中國烘焙最具競爭力十大名牌”).

We believe our strong brand reputation for high quality and safe products will benefit our continued expansion and market leadership by allowing us to enjoy brand-based price premiums and increased consumer loyalty, as well as attracting a number of corporate customers in addition to our retail customers.

Highly standardized, scalable and integrated infrastructure platform that provides strong support for future expansion

We have established a standardized and scalable infrastructure platform in order to simultaneously protect and enhance our brand name and reputation while allowing rapid growth. As of September 30, 2011, we have established five centralized bakeries in the Yangtze River Delta region to provide bakery products to all of our retail outlets. This centralized and automated production platform ensures stringent quality control and uniform standards, thereby protecting our brand reputation for high quality and product safety while simultaneously allowing cost efficiency. We centralize the procurement of our principal ingredients to take advantage of our economies of scale and to maximize our bargaining power with suppliers. This centralized procurement system enables us to obtain high quality ingredients at competitive prices. We also possess superior transportation and logistics

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capabilities, guaranteeing our ability to deliver our baked products to our retail locations in a timely fashion and ensuring the freshness of our products. We primarily use third party service providers to deliver to our stores and our current delivery radius from our factories to our stores is approximately 200 kilometers. In addition, we currently own a fleet of 43 vehicles and maintain our own delivery system to serve our Shanghai retail outlets, which allows us to deliver products in a short period of time.

Our centralized production capacity, combined with our strong logistics capabilities, also allows us to rapidly expand into new store locations without having to set up individual production operations at retail locations, which can be costly and time consuming to establish. With the support of our highly standardized infrastructure platform, we added 113 and 127 retail outlets in 2008 and 2009, respectively. In 2010, in addition to the 20 retail outlets opened at the 2010 Shanghai Expo site, we added 55 retail outlets in provinces that we had operations. We added 80 additional retail outlets in 2011 as a result of the growing demand in the Yangtze River Delta region. Further, our standardized practices will ensure our ability to quickly and easily replicate successful models when we expand into new markets.

Diverse and innovative product offerings catering to customers' changing needs

A variety of innovative product offerings are an important contributor to our success because they allow us to meet different consumer tastes and differentiate our products from those of our competitors. We have a proven track record of consistently introducing new varieties of products that gain wide-spread acceptance by our customers, including our award-winning products such as "Annual Ring" and "Crab Pie". We have introduced over 2,200 varieties of bakery products since 1993 and, during the year of 2010, we introduced an average of about seven new products per month. As of September 30, 2011, we offered around 1,333 varieties of breads and cakes, around 29 varieties of moon cakes and around 194 varieties of pastries as well as a range of other products. Each of our retail outlets generally offers over 100 different products a day. Our innovative products also allow us to respond to emerging trends, such as providing more healthy options.

We started producing breads and moon cakes that contain wheat germ and konjac jelly, a starchy corn used to create flour and jelly, in the third quarter of 2007 and the third quarter of 2008, respectively. According to a report issued in July 2007 by the Shanghai Nutrition Food Quality Surveillance & Inspection Center ("上海市營養食品監督檢驗站"), our moon cakes contain more fiber than traditional bakery products. In addition, we introduced new nutritional elements into our products like GABA. According to Circular 12 promulgated by the Ministry of Health in 2009 (中華人民共和國衛生部2009年第十二號令), our GABA ingredient has been officially recognized by the Chinese Ministry of Health as one of the six items under the Category of New Resource Food (新資源食品目錄). We have used GABA milk in our selected products in order to enhance nutrition and taste. We plan to improve our R&D and technology capabilities through various means, including engaging famous US or Japanese bakeries to provide consulting services.

Our continued development of diverse and innovative products allow us to satisfy a greater number of customers and respond to emerging trends in our industry, while setting our products apart from those of our competitors.

Experienced management team with a proven track record

Our senior management team has extensive operating and industry experience in our business. Mr. Tien-An Lo, our Chairman, has over 18 years of experience in the bakery and retail industry,

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including leading our Company since 1999. Under Mr. Lo's leadership, the number of our retail outlets has grown from 13 as of December 31, 1999 to 898 as of December 31, 2011. Mr. Lo's depth of experience with our Group, including his leadership during a period of immense growth, gives him unique insight into both our business and our industry. Similarly, Ms. Xiuping Zhu, our chief executive officer, has over 16 years of experience in the bakery and retail industries. Both Mr. Tien-An Lo and Ms. Xiuping Zhu have been identified as distinguished leaders in the business community in China. For example, Mr. Lo was named "Entrepreneur of the Year" ("年度創業人物") in 2007 by Forbes China. Ms. Zhu was designated as an "Outstanding Entrepreneur" ("優秀企業家") in 2005 by the Shanghai Sugar and Food Industry Association ("上海市糖製食品工業專業協會"). In 2008, she was awarded as the National Outstanding Woman Entrepreneur and the Best Foreign-Enterprise Manager ("全國優秀創業女性最佳外企經理人獎") by the All-China Women's Federation ("中華全國婦女聯合會"). Both Forbes China and Shanghai Sugar and Food Industry Association are independent third parties.

We believe the experience of our senior management has contributed to the successful growth of our business and operations in the past, and will continue to contribute to the future growth of our operations and profitability.

OUR STRATEGIES

Our goals are to continue to expand our retail network within the PRC and to become the largest retail chain operator of bakery products in the PRC as well as to convey our core values through our brand, including helping our customers to "bring healthy living home". To achieve our goal, we plan to implement the following strategies:

Continue to expand our retail network

We plan to expand our retail network and to further penetrate our existing market by opening new stores in Eastern China. To better capitalize on expansion opportunities in China's bakery market, we intend to establish new production facilities and retail outlets in provinces surrounding the Yangtze River Delta region. We plan to further penetrate markets in second and third tier cities in order to satisfy growing demand in these cities as well. Our centralized production model provides strong support for our rapid expansion. We plan to expand our retail network to around 1,200 retail outlets by the end of 2013. We may also consider expanding into other regions of China in the future, although at present we do not have any plans to expand outside the PRC.

With the rapid growth of China's real estate market and middle-upper class residential developments, we expect our good neighbor stores to continue to be the primary focus of our expansion plan. Concurrently, as subway systems become a primary mode of transportation for commuters in many cities, we plan to open more subway stores to capitalize on this increased customer traffic. We have entered into a cooperative arrangement with Shanghai Metro Authority and plan to open more subway stores to organically match the planned growth and expansion of the Shanghai subway system. In addition, in view of the increasing popularity of fresh bakery products and the growing health-consciousness of PRC consumers, starting in April 2011, we began opening new, European style fresh-bake stores. These stores target shopping centers with large traffic volumes by providing fresh-baked European-style breads and a trendy and healthy concept, with an aim to broaden our existing customer base. As of the Latest Practicable Date, we have opened seven European-style fresh-bake stores. The first European style fresh-bake Song Jiang outlet which was opened in April 2011 has recorded a revenue of approximately RMB4.6 million for the period from May 2011 to January 2012 in total. We plan to open 121 new European-style fresh-bake stores by the end of 2013, among which 43 and 69 European style fresh-bake stores will be opened in 2012 and 2013, respectively.

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We also plan to expand our extensive retail network beyond directly-operated store fronts. Concurrent with our geographic expansion, we plan to increase our product supply in supermarkets, convenience stores and online stores through our e-commerce channels. We plan to cooperate with reputable supermarkets or convenience stores operators to develop new sales channels and to segment these markets by utilizing brand differentiation techniques. In addition, we are in the process of developing certain frozen bakery products which are specifically designed for wholesale customers to cover a larger customer base and different market segment. The R&D and the manufacturing of this new product line will primarily be led by our Jiangning central bakery and be supported by our other central bakeries. We believe these markets represent a large and underdeveloped monetization opportunity.

Continue to increase sales performance of our stores

We intend to continue our focus on improving per store sales performance. We plan to expand our product offerings, increase the frequency of our promotions and improve our promotion of new products at our retail outlets. We will enlist the support of our employees in these plans through coordinated employee service trainings and market promotions. Furthermore, we plan to encourage our store managers to increase the performance of their retail outlet through a performance-based incentive plan. We believe that the above strategies will further improve our per store sales performance. As part of this effort, we plan to leverage our in-depth knowledge of the PRC market to improve the attractiveness of our retail outlets to our target consumers. For example, we plan to renovate some of our retail outlets in order to present a more trendy and fashionable style. We believe this will give our stores a modern and youthful image, which will in turn lead to greater customer attention and consumption.

Upgrade and integrate production facilities to enhance production capacity and operation efficiency

We plan to upgrade our existing production facilities to further increase production and operation efficiency. The planned upgrade primarily focuses on expanding the capacity of our existing production facilities such as Long Wu, Ji Yuan De, Jiang Ning, Shuang Hong central bakeries, and purchase of parcels of land for construction of new production facilities in Hangzhou. We are currently in the process of identifying the location for the new central bakery in Hangzhou. We expect to relocate Danbi (Hangzhou) central bakery to the new central bakery in Hangzhou by the end of 2012. The table below sets forth the estimated capital expenditure, projected increase in production capacity and the expected date of completion and commencement of our existing and new facilities:

Central bakeries	Estimated capital expenditure (RMB million)	Projected increase in production capacity (million units)	Expected time of commencement	Estimated year of completion
Long Wu	19.0	2.6	2nd quarter 2012	4th quarter 2013
Ji Yuan De	6.1	1.0	2nd quarter 2012	4th quarter 2013
Jiang Ning	46.1	169.0	2nd quarter 2012	4th quarter 2013
Shuang Hong	7.6	11.5	2nd quarter 2012	4th quarter 2013
New production facilities in Hangzhou	119.3	90.4	2nd quarter 2012	4th quarter 2012

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In addition, we intend to further upgrade our information technology systems, to integrate our information technology system with our production facilities, logistics system and retail outlets, and to apply this upgraded system in the expansion of our central bakeries. We believe that the above upgrades will further improve our production operational efficiency, thereby enhancing the utilization rate of each production line. With our rapid expansion, we may also consider building additional production facilities in accordance with our expansion plan.

Further strengthen our R&D capabilities to provide diverse product offerings and premium products

We plan to further strengthen our R&D capabilities related to our product production and quality. We have established a research and development center in Nanjing to conduct product development and analysis activities and are seeking to qualify this laboratory as a national level laboratory. We believe the capability to conduct real time analysis throughout our research and development process will increase the speed of our product development, while maintaining our high standards of quality control. We also plan to recruit research and technical personnel in the bakery, food and bio-technology industries to assist these activities. In addition, we plan to focus on developing products using biotechnology and to invite foreign experts on such matters to train and advise our research and development employees.

With the increase in China's disposable income and urbanization, we believe the taste and preferences of Chinese consumers continue to evolve. We plan to continue to diversify our product offerings to satisfy the changing needs of Chinese customers. In particular, we seek to develop premium products with higher nutritional content and plan to further develop beverages products to supplement our bakery offerings. We will continue to develop the "GABA inside" concept and introduce GABA into new products in order to reap those benefits.

We believe that by focusing on diversifying our product offerings and developing premium products, we will be able to respond to market changes, demands and new market segments. We believe this focus on R&D will also allow us to become a leading producer of safe, healthy and nutritious bakery products in the PRC.

Further enhance our brand recognition

We believe that brand recognition is a key factor in consumers' purchasing decisions regarding bakery products. Therefore, we will continue to promote our products under our highly-recognized brand, "Christine". We plan to increase the intensity and frequency of our marketing efforts in order to concurrently increase consumption rates as well as the amount spent by each customer per store visit. We also intend to continue to promote our brand as conveying our core values of safety, quality, health and nutrition. For example, in addition to our existing advertisements placed on television and newspapers, we plan to advertise more on other media channels, such as the internet, subways, buses, and outdoor bulletin boards. We also plan to carry out coordinated advertising campaigns during major Chinese holidays, such as the Chinese Mid-Autumn Festival and the Chinese New Year. We will continue to focus on our single-brand strategy in our brand enhancement process.

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Pursue strategic acquisitions to further expand our geographic coverage and product offerings

Strategic acquisitions will be an essential part of our future growth, even as we continue our high rate of organic growth. We completed the acquisition of Hangzhou Danbi in 2009, through which we added additional production facilities, further improved our cake production technique and added 51 new stores in Zhejiang province, primarily located in the Hangzhou and Ningbo areas. Based on this successful experience, we plan to continue to strategically identify and acquire target companies that will complement and increase our market share in our existing markets or contribute to our expansion into new markets, including other bakery companies with attractive production facilities and retail networks. As of the date of this prospectus, we have not identified or entered into negotiations with any potential targets for acquisition.

OUR RETAIL NETWORK

As of December 31, 2011, we operated a retail network of 898 self-operated retail outlets covering 22 cities in three municipality/provinces in the Yangtze River Delta region. We had 513 retail outlets located in Shanghai, 232 in Jiangsu province and 153 in Zhejiang province. The changes in our number of retail outlets are illustrated below:

	2008	2009	2010	2011
	(in retail outlets)			
Opening balance	523	636	763	818
New stores.	132	163	96 ⁽¹⁾	124
Closed stores	19	36	41 ⁽¹⁾	44
Period end	<u>636⁽²⁾</u>	<u>763⁽²⁾</u>	<u>818⁽²⁾</u>	<u>898⁽²⁾</u>

Notes:

- (1) The numbers include the 20 retail outlets opened/closed at the 2010 Shanghai Expo site.
- (2) In 2008, 2009, 2010 and 2011, we added 113, 127, 55 and 80 additional retail outlets (net of closed stores) to our retail network, respectively.

To further expand and diversify our sales channels, we also sell our products through our online store, and are planning to pursue cooperation with large supermarket and convenience store chains. As of the Latest Practicable Date, we had not entered into any cooperation agreement with any supermarket or convenience store chain operator.

Retail outlets

We sell our bakery products primarily through our retail outlets. We employ a vigorous system in selecting our retail outlets, which requires them to be located at easily accessible locations with high flows of pedestrian traffic, in highly concentrated residential areas, in large shopping malls or on corners of street crossings. These factors primarily include location, pedestrian flow, and potential competition within the same area, which are weighed differently depending on the type of target store we intend to open. We also require our retail outlets to have at least 20 square meters of business area and be located at least one kilometer away from any other retail outlets operated by us. Our stores are differentiated into several types, each strategically designed to appeal different consumer groups.

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Our good neighbor stores, which are our most important retail outlets, are primarily located in high density residential areas with a stable household consumer-base. These stores generally range from 50 sq.m. to 80 sq.m. in size and operate seven days a week.

Our subway stores are located in and around subway stations, and cater to white-collar workers seeking a quick snack or meal. We recently entered into a strategic partnership agreement with the Shanghai Metro Authority to secure our rights to expand our presence in Shanghai Metro stations. These stores generally range from 20 sq.m. to 30 sq.m. in size and operate seven days a week.

We strategically place our flagship stores in marque locations to increase our brand awareness and roll-out marketing campaigns for our new products. These stores are generally range around 1,000 sq.m. in size and operate seven days a week.

We began implementing our expansion strategy in April 2011 by opening European style fresh-bake stores. These stores are primarily located in shopping centers with large traffic volumes and seeks to attract customers with fresh-baked European style breads and a trendy health-conscious products, with the goal of broadening our existing customer base. These stores generally range from 100 sq.m. to 150 sq.m. in size and operate seven days a week. As of the Latest Practicable Date, we have opened seven European style fresh-bake stores and expect to open 121 European style fresh-bake stores by the end of 2013.

As of the Latest Practicable Date, we have 848 good neighbor stores and 37 subway stores, two flagship stores and 7 European style fresh-bake stores.

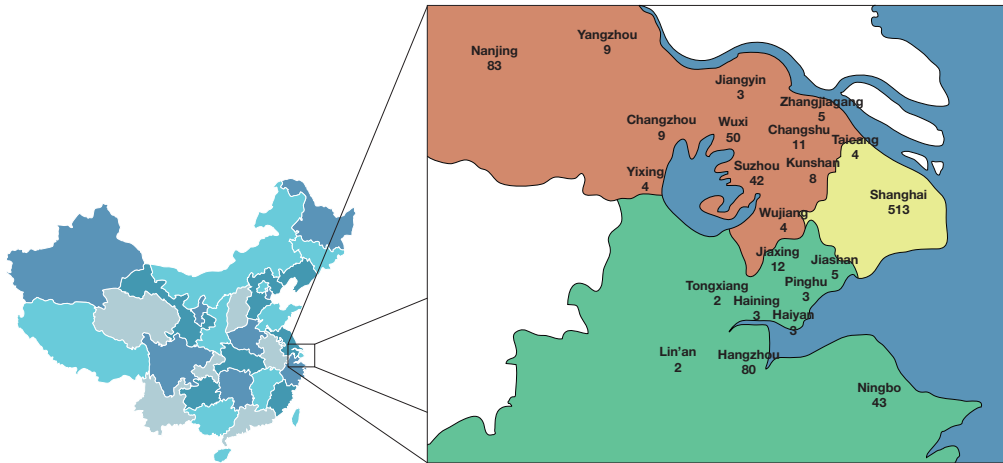
The table below sets forth the revenue contribution of each of our primary store type during the Track Record Period:

	For the years ended December 31,									For the nine months ended September 30, 2011		
	2008			2009			2010			Number of Stores	Revenue Contribution	Size of Sale Area (sq.m.)
	Number of Stores	Revenue Contribution	Size of Sale Area (sq.m.)	Number of Stores	Revenue Contribution	Size of Sale Area (sq.m.)	Number of Stores	Revenue Contribution	Size of Sale Area (sq.m.)			
Good Neighbor Stores	623	97.3%	52,599.1	751	98.6%	59,482.6	788	97.2%	63,443.1	843	95.1%	76,160.8
Subway Stores	12	1.8%	250.7	11	1.2%	189.6	28	1.6%	1,782.5	34	1.8%	940.9
Flagship Stores	1	0.9%	1,021.0	1	0.2%	1,021.0	2	1.2%	1,981.0	2	1.8%	1,790.0
European-style Fresh-bake Stores	-	-	-	-	-	-	-	-	-	7	1.3%	1,131.2
Total	636	100.0%	53,870.8	763	100.0%	60,693.2	818	100.0%	67,206.6	886	100.0%	80,022.9

We directly operate all of our retail outlets and do not enter into franchise agreements to permit third-party ownership or operation using our brand name. We believe that this approach enables us to provide our customers with consistent customer experience, maintain high standards for food safety and ensure product quality.

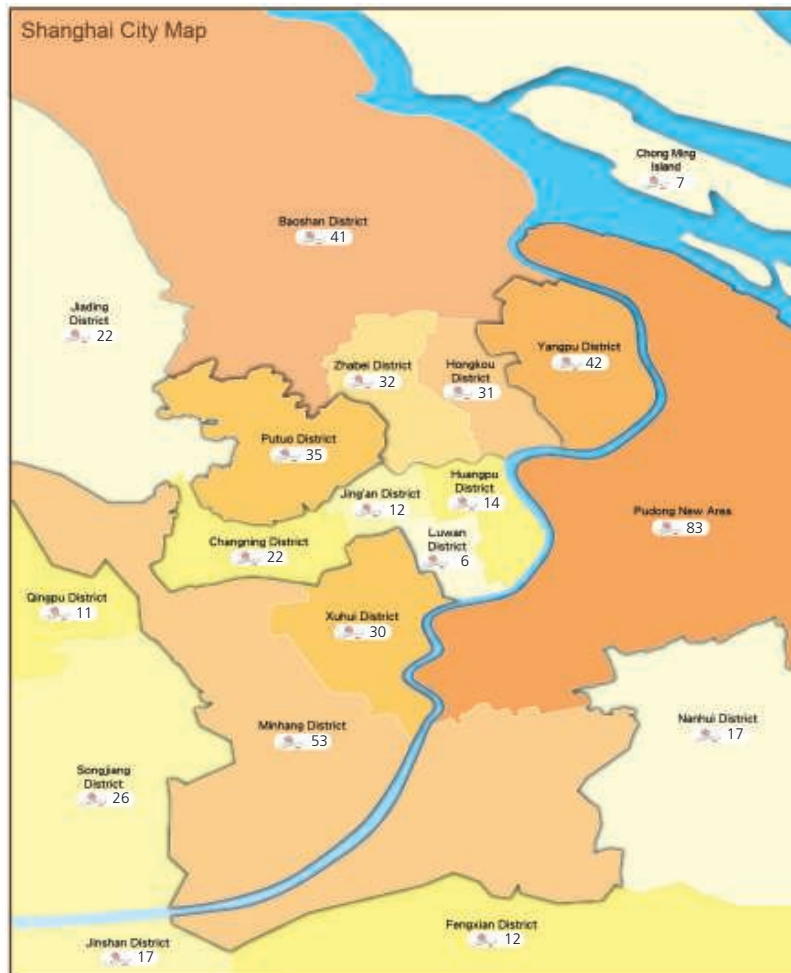
OUR BUSINESS

The following map shows the number and approximate location of retail outlets in the Yangtze River Delta Region as of December 31, 2011:



Note: The above graphical presentation as to the number of outlets is not drawn to scale.

The following map shows the number and approximate location of retail outlets in Shanghai as of December 31, 2011:



OUR BUSINESS

We currently plan to expand our retail network to around 1,200 retail outlets by the end of 2013. In addition, we may also consider expanding into other regions of China in the future. The following table sets forth the number of retail outlets opened and expected to be opened by our Group in 2011, 2012 and 2013, respectively, broken down by store type:

	For the years ending December 31,		
	2011	2012	2013
Good Neighbor Stores	105	90	77
Subway Stores	11	24	17
European Style Fresh-bake Stores	8	43	69
Total	124	157	163

The following table sets forth our estimated capital expenditure for our retail outlets opened and expected to be opened by our Group in 2011, 2012 and 2013, respectively, broken down by store type:

	For the years ending December 31,		
	2011	2012	2013
	(RMB million)		
Good Neighbor Stores	16.1	14.7	13.3
Subway Stores	1.3	2.3	1.7
European Style Fresh-bake Stores	3.6	34.7	58.5
Total	21.0	51.7	73.5

OUR PRODUCTS

Overview

Our diverse product line is subject to constant innovation to meet the demands of our customers. We have introduced over 2,200 varieties of products since 1993. As of September 30, 2011, we offered around 1,333 varieties of bread and cake, around 29 varieties of moon cakes and around 194 varieties of pastries. Each of our retail outlets offered an average of over 100 different items a day. In addition, we also produce and sell a range of other food products, such as GABA milk and konjac jelly.

OUR BUSINESS

The following table shows the amount of annual sales and percentage of our total sales represented by our product categories during the Track Record Period:

	For the years ended December 31,						For the nine months ended September 30,	
	2008		2009		2010		2011	
	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues
Bread and cakes	702.9	70.2%	715.4	68.1%	889.3	69.2%	643.6	65.2%
Moon cakes	175.4	17.5%	203.2	19.4%	181.0	14.1%	182.5	18.5%
Pastries	105.7	10.6%	91.3	8.7%	155.4	12.1%	118.5	12.0%
Other ⁽¹⁾	16.7	1.7%	40.2	3.8%	58.8	4.6%	41.9	4.3%
Total	<u>1,000.7</u>	<u>100.0%</u>	<u>1,050.1</u>	<u>100.0%</u>	<u>1,284.5</u>	<u>100.0%</u>	<u>986.5</u>	<u>100.0%</u>

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

Bakery Products

We have been engaged in the production of bakery products in the PRC since 1993. We initially produced primarily bread and cakes, but over the years we have developed and introduced a wide range of additional bakery items, including varieties of moon cakes and pastries and other bakery products. Our principal bakery products are bread, cakes, moon cakes and pastries. We also produce and market a line of products featuring GABA, which is a type of γ -Aminobutyric acid. GABA plays a role in regulating neuronal excitability throughout the nervous system. It has relaxing effects and helps to improve immune system. We utilize soy beans in the production of our GABA products, allowing such products to be used as a substitute for certain milk products. So far as our Directors are aware, based on their best knowledge, we have not used DEHP or any other prohibited additive in the production of our products, and according to the reports issued by various governmental or non-governmental laboratories to date, none of our products contains DEHP or any other prohibited additive.

OUR BUSINESS

The following table provides the variety of our bakery products by category and the gross profit for each category during the Track Record Period:

	For the years ended December 31,						For the nine months ended September 30, 2011	
	2008		2009		2010		Varieties	Gross Profit (RMB million)
	Varieties	Gross Profit (RMB million)	Varieties	Gross Profit (RMB million)	Varieties	Gross Profit (RMB million)		
Breads and cakes . . .	310	395.6	686	355.4	959	394.5	1,333	277.6
Moon cakes	24	120.6	26	150.5	31	132.5	29	138.6
Pastries	186	45.5	157	41.2	216	86.8	194	73.1
Other ⁽¹⁾	8	2.2	11	19.4	13	34.5	686	28.0
Total	<u>528</u>	<u>563.9</u>	<u>880</u>	<u>566.5</u>	<u>1,219</u>	<u>648.3</u>	<u>2,242</u>	<u>517.3</u>

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

Bread and cakes

Since we began our production of bakery products in 1993, we have developed and introduced a wide variety of bread and cake items to meet the ever changing tastes and preferences of our customers. We are developing a new series of products featuring the European-style bread that is made with less butter and salt, reflecting the changing preference and increasing health awareness of our customers. As of the Latest Practicable Date, we offered 382 varieties of bread products, including buns, croissants and toast and offered 735 types of cakes including those tailored to the needs of customers for different holiday or festive occasions. Bread and cake products accounted for 70.2% of our revenue for the year ended December 31, 2008, 68.1% of our revenue for the year ended December 31, 2009, 69.2% of revenue for the year ended December 31, 2010, and 65.2% of revenue for the nine months ended September 30, 2011.

Moon cakes

We primarily produce and sell moon cakes for the Chinese Mid-Autumn Festival from August to early October. In 2007, we began producing and marketing moon cakes containing wheat germ and konjac jelly. As of the Latest Practicable Date, we offered 29 varieties of moon cakes (which are offered only during the mid-autumn festival season). Sales of moon cakes accounted for 17.5% of our revenue for the year ended December 31, 2008, 19.4% of our revenue for the year ended December 31, 2009, 14.1% of revenue for the year ended December 31, 2010, and 18.5% for the nine months ended September 30, 2011.

We recorded sales of moon cakes of approximately RMB175.4 million for the year ended December 31, 2008, RMB203.2 million for the year ended December 31, 2009, RMB181.0 million for the year ended December 31, 2010, and RMB182.5 million for the nine months period ended September 30, 2011.

OUR BUSINESS

Pastries

Since we began our production of bakery products in 1993, we have developed and introduced a wide variety of pastries. Our key pastry products include crab pie, eggroll, annual ring cake, Dorayaki, flaky pastries and cookies. We have developed new and innovative ways to market our pastry products; for example, we currently are testing the concept of packaging our pastries to be used as “Door Gifts” by our customers. As of the Latest Practicable Date, we offered over 156 varieties of pastries. Pastry products accounted for 10.6% of our revenue for the year ended December 31, 2008, 8.7% of our revenue for the year ended December 31, 2009, 12.1% of revenue for the year ended December 31, 2010, and 12.0% of revenue for the nine months ended September 30, 2011.

Other Products

We have produced and sold non-bakery products in the PRC since 2008. We initially produced products such as GABA milk to supplement our bakery offerings, but we are increasingly introducing new, high-margin non-bakery items as distinct product lines. Our principle non-bakery products include GABA milk and konjac jelly.

Pricing

Our price structure is determined on a cost-plus basis, taking into consideration prices charged by our competitors for similar products. We review and adjust our pricing periodically based on these factors and other general market conditions.

Product Inventory Control

We maintain an inventory control policy to regulate the inventory of our finished products at each of our production facilities. Under our inventory control policy, our accounting personnel conduct an audit of the amount of inventory at the end of each month. If any discrepancy is found between the recorded and the physical inventory amounts, we investigate the causes and immediately report such information to the manager of the financial department and the general manager for further review and examination.

Our retail outlets check the shelf life of product inventory on a daily basis. If any product inventory is found to be overdue, we require them to remove such product from the shelf and return it to our central bakeries to be destroyed.

OUR BUSINESS

CUSTOMERS, SALES CHANNELS AND MARKETING

Customers

We target our bakery products at the mid-to high-end of the retail consumer segment. The majority of our bakery products are sold to retail customers through our retail outlets. Our customers are mainly individual walk-in customers. In addition, we have developed a number of corporate customers for our products, in particular the moon cake products, and are planning to pursue cooperation with wholesale customers, such as large supermarket or convenience store chains.

Most of our sales are aimed at customers located in the Yangtze River Delta Region, which includes Shanghai, Jiangsu and Zhejiang provinces. The following table shows our revenue by region from sales of our products for the periods indicated.

	For the years ended December 31,						For the nine months ended September 30,			
	2008		2009		2010		2010		2011	
	RMB million	% of total	RMB million	% of total	RMB million	% of total	RMB million	% of total	RMB million	% of total
	(unaudited)									
Shanghai	792.3	79.2%	797.6	76.0%	884.8	68.9%	628.6	70.2%	643.3	65.2%
Jiangsu . .	181.9	18.2%	205.5	19.6%	257.3	20.0%	176.8	19.8%	225.5	22.9%
Zhejiang .	26.5	2.6%	47.0	4.4%	142.4	11.1%	89.4	10.0%	117.7	11.9%
Total . . .	<u>1,000.7</u>	<u>100.0%</u>	<u>1,050.1</u>	<u>100.0%</u>	<u>1,284.5</u>	<u>100.0%</u>	<u>894.8</u>	<u>100.0%</u>	<u>986.5</u>	<u>100.0%</u>

Sales Channels

During the Track Record Period, our sales were primarily from cash sales at our retail outlets, as well as the redemption of our coupons (including paper coupons and pre-paid cards). Approximately 48.8%, 42.9%, 44.2%, and 43.1% of our total sales for the three years ended December 31, 2010 and the nine months ended September 30, 2011, respectively, were generated from our cash sales. Our revenues from sales derived from coupon redemptions or other sales channels were approximately RMB511.9 million, or 51.2% of our total revenue, for the year ended December 31, 2008, RMB599.5 million, or 57.1% of our total revenue, for the year ended December 31, 2009, RMB717.1 million, or 55.8% of our total revenue, for the year ended December 31, 2010, and RMB561.1 million, or 56.9% of our total revenue, for the nine months ended September 30, 2011.

OUR BUSINESS

The following table shows our revenue generated from each of our major sales channels for the periods indicated:

	For the years ended December 31,						For the nine months ended September 30,	
	2008		2009		2010		2011	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
	(RMB in thousands, except for percentages)							
Cash	488,739	48.8	450,665	42.9	567,347	44.2	425,372	43.1
Paper coupons	458,613	45.8	517,976	49.3	567,279	44.1	391,976	39.7
Pre-paid cards	16,495	1.7	42,727	4.1	104,840	8.2	132,581	13.5
Cash consumer cards	36,813	3.7	38,772	3.7	44,992	3.5	36,527	3.7
Total	<u>1,000,660</u>	<u>100.0</u>	<u>1,050,140</u>	<u>100.0</u>	<u>1,284,458</u>	<u>100.0</u>	<u>986,456</u>	<u>100.0</u>

The Group's accounting policy on revenue recognition is consistent across all sales channels, i.e., revenue from the sale of goods is recognized when goods are delivered and title has passed to customers.

Paper Coupon Sales

We started our sales through paper coupons in 1999 to attract customers and maintain our competitiveness. Since then, we have developed a comprehensive coupon sales model to support our volume sales. We issue three types of paper coupons: general coupons, cake coupons and moon cake coupons. Our general coupons have face values. Our customers can buy any of our products available at any of our retail outlets with general coupons. Our cake coupons and moon cake coupons can only be redeemed to purchase our cakes or moon cakes, respectively. Our cake and moon cake coupons do not have face value, but indicate the types of cakes or moon cakes which can be redeemed. We set price for each type of the cake and moon cakes. The price information is available to public and is published in each retail outlet of our Group. We issue paper coupons at various discounts, ranging from 5% to 29%, for bulk purchases depending on the volume of the paper coupons our customers purchase.

Our customers can redeem the general coupons with an equivalent face value at any of our retail outlets typically for a period up to two years following the date of issuance, but must redeem the moon cake coupons during the months between August and October of the current year, our sales seasons for moon cakes. Our Directors believe that the redemption periods of our paper coupons and pre-paid cards are consistent with other major market players within the regions where we operate. With respect to paper coupons and pre-paid cards that have expired, we are not obligated to accept and redeem them. However, we generally give a three-month grace period for customers to redeem the expired paper coupons and pre-paid cards. Furthermore, if customers present the paper coupons for redemption after the fixed term and the three-month grace period, we may still accept the redemption of such paper coupons with further extension of grace period for up to 12 months on an ad hoc basis when they apply for such extension at our customer service department at a cost of coupon printing. The cost of printing that we charge for expired paper coupons is RMB0.5 per paper coupon, which is recorded as other income in our consolidated statement of comprehensive income.

OUR BUSINESS

We outsource the design and printing of our paper coupons to an independent third party. To ensure the revenue from coupon sales is recognized properly, we have a specific customized system to maintain the detailed information of each individual paper coupon from issuance until redemption. Each paper coupon is bar coded to enable us to quantify liabilities for unredeemed paper coupons and to help authenticate our paper coupons. We closely monitor the printing of paper coupons by the independent third party. All paper coupons shall be printed strictly according to our requests, and any inconsistencies shall be checked and recorded by us. In addition, all paper coupons bear bar codes provided by us. After the paper coupons are delivered to us, we will record each paper coupon by filing its bar code into our system, so that we are able to track such paper coupons.

Pre-paid Cards

We commenced issuing coupons in the form of pre-paid cards since August, 2007. While our pre-paid cards are generally issued by us and used by our customers in the same way with similar terms as our coupons, our pre-paid cards are with higher face values and could be used for multiple times. Our pre-paid cards have face values ranging from RMB100 to RMB1,000. Our pre-paid cards offer purchase flexibility, allow convenient use as compare to carrying cash and enhance customer loyalty. To ensure safe use, each pre-paid card bears a twelve-digital serial number, the first four digitals of which represent our Company and the following serial numbers generated by the computer system. After such pre-paid cards are delivered to us, we also record each pre-paid card by filing its twelve-digital serial number into our system, which is operated on a service platform provided by an independent third party.

Our customers can purchase our products with the balances in the pre-paid cards at any of our retail outlets typically for a period ranging from two years to three years following the date of issuance. However, due to the nature of our pre-paid card, which can be used for multiple times, we generally allow the holders of our pre-paid cards to re-activate the expired cards at a cost of RMB5 per card. As of September 30, 2011, we have not recorded any unused balances as other income in our consolidated statement of comprehensive income.

Cash Consumer Cards

In order to attract customers and maintain our competitiveness, we accept payment from cash consumer cards issued by independent third parties. As of the Latest Practicable Date, we had agreements with six cash consumer card issuers. Our customers may purchase our products using cash consumer cards issued by these third parties. We agreed to pay to the card issuers a service fee ranging from 0.8% to 2.7% of sales revenues generated from payment with cards issued by the respective card issuers. We settle such payments with the respective card issuers and are paid by the respective card issuers on a daily or monthly basis. The terms of the agreements vary approximately from one year to two years, renewable automatically or based on the mutual agreement of the parties upon expiration of the relevant agreements. The income derived from the redemption of the cash consumer cards constituted approximately 3.7% of our total revenue for the nine months ended September 30, 2011.

OUR BUSINESS

Our income derived from the redemption of the cash consumer cards was approximately RMB36.8 million for the year ended December 31, 2008, RMB38.8 million for the year ended December 31, 2009, RMB45.0 million for the year ended December 31, 2010 and RMB36.5 million for the nine months ended September 30, 2011.

Other Sales Channels

Our other sales channels are comprised of online sales and wholesalers. We commenced the sales of our products through our own website in January 2009. We primarily sell products with longer shelf lives through our online store, such as moon cakes and other pastries, and certain fresh products, such as refrigerated cakes. Once a customer places an order of more than RMB500 through our online store, we will deliver that order to the customer in two days for free. If the order is less than RMB500, the customer may choose to pick up the order from a nearby retail outlet on the second day.

Seasonality

We typically experience much higher sales of our moon cakes in the period prior to and during the traditional Chinese Mid-Autumn Festival from August to late September and our cakes and gift packs during the Chinese New Year, New Year and National Day Holiday week. Our operating results may also fluctuate significantly during the course of a financial year for a number of other reasons, including the timing of launching new products and advertising and promotional campaigns, which may result in losses in certain period in a financial year.

Brand Building and Marketing

Our marketing programs are designed to promote the brand and image of our products to reflect our corporate image and culture. It is our objective to become the largest bakery retail chain operator in the PRC. We believe that our strong brand and reputation have been instrumental to our success. Since we commenced our operations in Shanghai, the PRC in 1993, and particularly in recent years, we have sought to build strong brand recognition for our “Christine” brand.

We focus more on event-related marketing programs rather than traditional marketing programs, such as advertisements on television and in newspapers. We distribute product brochures and other promotional materials during various events. For example, we have sponsored the Photography Exhibition for the 2007 Special Olympic Games. We also engage in other advertising channels, including advertisements on Shanghai subways, radio, internet, buses, highway billboards, consumer magazines and our own trucks. For our seasonal products, such as moon cakes, and new products, we typically launch mass advertising campaigns during the holiday periods in order to boost sales of such products during such seasons. We have also undertaken efforts to market our brand through major national events. For instance, we were an official bread and pastry supplier for the World Expo 2010 Shanghai, with 20 retail outlets opened at the site of the World Expo 2010 Shanghai and RMB12 million sponsorship of the event. We believe that these efforts support our branding strategy and solidifies our position as a top retail bakery chain in the PRC.

To enhance the attractiveness of our brand, we plan to renovate some of our retail outlets with a more trendy and fashionable style. We believe this will give our stores a more modern, youthful image, which will in turn lead to greater customer attention and consumption. In addition, we have set up a brand building and marketing unit to coordinate employee trainings and market promotions. Furthermore, we plan to provide a performance-based incentive plan to our store managers, which we believe will have positive impact on the performance of our retail outlets.

OUR BUSINESS

Our advertisement and promotion expenses were approximately RMB15.6 million, or 1.6% of our total sales, for the year ended December 31, 2008, RMB14.8 million, or 1.4% of our total sales, for the year ended December 31, 2009, RMB25.1 million, or 2.0% of our total sales, for the year ended December 31, 2010, and RMB14.5 million, or 1.5% of our total sales, for the nine months ended September 30, 2011.

INGREDIENTS AND SUPPLIERS

Ingredients

Our principal ingredients include the ingredients we use in the production of our bakery products and packaging materials. Major ingredients include flour, eggs, sugar and oil. Apart from these major ingredients, the other ingredients in our products include butter, meat, fruits, vegetables, and chocolate. We generally purchase our ingredients domestically in the PRC. Our principal packaging materials include paper bags, plastic bags and plastic film.

The following table shows the percentage of flour, eggs, sugar oil and packaging materials to our total cost of sales for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,
	2008	2009	2010	2011
Flour	5.0%	4.4%	4.3%	5.3%
Eggs	9.8%	7.3%	6.7%	7.4%
Sugar	2.7%	2.4%	3.3%	3.9%
Oil	12.3%	10.1%	11.8%	12.1%
Packaging materials	15.4%	15.0%	10.1%	11.3%
Total	<u>45.2%</u>	<u>39.2%</u>	<u>36.3%</u>	<u>40.0%</u>

We centralize the procurement of our principal ingredients to take advantage of our economies of scale and to maximize our bargaining power with suppliers. This centralized procurement system enables us to obtain high quality ingredients at competitive prices. Prices for our ingredients fluctuate and are dependent on a number of factors, including the weather, crop production, transportation and processing costs, government regulations and policies, and the supply and demand for such commodities. We have not purchased and do not plan to purchase ingredients through forward purchase and commodity futures contracts. While we expect prices of our ingredients to fluctuate, we believe these ingredients are readily and widely available.

Suppliers

We maintain a list of qualified suppliers for each of our principal ingredients and periodically invite them to tender for supply contracts. Each of the new suppliers is required to pass our internal quality control procedures, which involve provision of samples for testing and trial production. We generally enter into annual contracts with our principal ingredients suppliers, which are renewed on an annual basis. In addition, our supply contracts with our suppliers typically do not specify the annual minimum purchase amount or volume. Instead, the purchase

OUR BUSINESS

volume is determined by the purchase orders that we send to our suppliers from time to time. Pursuant to the supply contracts, in the event that prices offered by our suppliers are higher than the then prevailing market prices, we are entitled to terminate the supply contracts. Under the contracts, our suppliers usually provide us with a credit term of 45 or 60 days.

For the three years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, our five largest suppliers accounted for 44.6%, 46.5%, 42.6% and 39.0% of our total purchases, respectively. Our largest supplier accounted for 16.0%, 21.6%, 19.9% and 16.6% of our total purchases for the year ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. Among our five largest suppliers, Yi Pin Xuan, Marubeni (Shanghai) Co., Ltd. (“丸紅(上海)有限公司”), Shanghai Meixin Trade Co., Ltd. and Nanjing Christine S&T Hose Co., Ltd. (“南京克莉絲汀科技軟管實業公司”) (“Christine Hose”) are our connected parties.

Yi Pin Xuan

The entire equity interest of Yi Pin Xuan is owned by Gourmet Holding Co., Ltd., which is held by Ms. Ching-Ying Huang Lo, being the sister of Mr. Tien-An Lo, our Chairman. Accordingly, Yi Pin Xuan is a connected person of our Company, pursuant to the Listing Rules.

Background and reasons for Ms. Ching-Ying Huang Lo's acquisition of Yi Pin Xuan

Pursuant to various share transfer forms between the original four shareholders of Gourmet Holding Co., Ltd. and Ms. Ching-Ying Huang Lo dated November 13, 2008, Ms. Ching-Ying Huang Lo, through Gourmet Holding Co., Ltd., indirectly acquired the entire equity interest in Yi Pin Xuan and became its beneficial owner.

As advised by Ms. Ching-Ying Huang Lo, she decided to acquire Yi Pin Xuan to pursue her personal business endeavors, as she found such acquisition to be an attractive business opportunity and that her experience in the operation of Shuang Hong's central bakery would help enhance the operation efficiency of Yi Pin Xuan. The acquisition of Yi Pin Xuan through Gourmet Holding Co., Ltd. was solely funded by Ms. Ching-Ying Huang Lo without relying on any bank loans.

Processing agreement with Yi Pin Xuan

Pursuant to a processing agreement dated January 29, 2007 between Shanghai Christine and Yi Pin Xuan, Yi Pin Xuan produces various bakery products under our “Christine” brand name, which are supplied to our Group on normal commercial terms.

We have engaged Yi Pin Xuan since 2007 and have established a long-term business relationship with Yi Pin Xuan. Our Directors therefore view our continued engagement of Yi Pin Xuan as beneficial to our Group. Having engaged Yi Pin Xuan since 2007, our Group regards Yi Pin Xuan as a reliable supplier with knowledge of our product requirements as well as our requirements in terms of quality, which in turn allows us to achieve consistency in the products produced by Yi Pin Xuan. In addition, by centralizing our procurement of “Christine” branded products from Yi Pin Xuan, our Group is able to have a better bargaining position with respect to the procurement of products from Yi Pin Xuan. For such reasons, we will continue to engage Yi Pin Xuan.

OUR BUSINESS

Historical figures

Yi Pin Xuan was our single largest supplier in 2010. The aggregate amount Yi Pin Xuan charged us was RMB6.8 million, RMB83.9 million, RMB100.3 million and RMB68.2 million for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. Yi Pin Xuan's factories were under renovation during 2008 and were operating under full capacity only in 2009; hence the amount paid by our Group to Yi Pin Xuan in 2008 was low in comparison to the amounts paid in 2009 and 2010.

Christine Hose

Mr. Tien-An Lo, our Chairman, indirectly holds approximately 34.2% of the registered capital of Christine Hose. Accordingly, Christine Hose is an associate of Mr. Tien-An Lo and a connected person of our Company pursuant to the Listing Rules. Christine Hose supplies certain packaging materials which we use in the packaging of our products. In addition, we also purchase certain equipment used in the production of our products from Christine Hose. The aggregate amount Christine Hose charged us was RMB11.1 million, RMB7.1 million, RMB15.1 million and RMB4.0 million for the fiscal years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. This transaction with Christine Hose will cease prior to the Listing.

Shanghai Meixin

Mr. Dun-Ching Hung, our Director, is the family member of the persons who beneficially own 100.0% of the registered capital of one of our principal suppliers, Shanghai Meixin Trade Co., Ltd. Accordingly, Shanghai Meixin is an associate of Mr. Dun-Ching Hung and thus a connected person of our Company pursuant to the Listing Rules. Shanghai Meixin supplies certain ingredients which we use in the production of bread, cakes and other bakery products, such as butter, milk powder, sugar, dried fruit and honey, to us. The aggregate transaction amount between us and this supplier was approximately RMB33.8 million, RMB25.1 million, RMB28.4 million and RMB17.6 million for the fiscal years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. Please see the section headed "Connected Transactions – Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements – Connected Transaction with Shanghai Meixin Trade Co., Ltd." in this prospectus for details.

Marubeni Shanghai

Marubeni (Shanghai) Co., Ltd. is a wholly-owned subsidiary of one of our shareholders, Marubeni Corporation. This supplier supplies certain ingredients used in the production of bread, cakes and other bakery products, such as flour, oils and egg whites and egg mix to us. The aggregate transaction amount between us and this supplier was approximately RMB36.3 million, RMB39.5 million, RMB45.9 million and RMB37.7 million for the fiscal years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. Please see the section headed "Connected Transactions – Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements – Connected Transaction with Marubeni Shanghai Co., Ltd." in this prospectus for details.

Please see the section headed "Connected Transactions" in this prospectus for details of the transaction between the Group and Yi Pin Xuan, Marubeni Corporation, Marubeni (Shanghai) Co., Ltd. and Shanghai Meixin Trade Co., Ltd.

OUR BUSINESS

OUR INTEGRATED INFRASTRUCTURE

Production Facilities

We have five central bakeries in the Yangtze River Delta region, including Shanghai, Nanjing and Hangzhou. These facilities are equipped with modern production lines to produce bakery products for distribution to and sale primarily through our retail outlets. In addition, we also invested in automated production equipment in our central bakeries to achieve better quality control and higher cost efficiency. We have not experienced any material production equipment or machinery failures or malfunctions at any of our central bakeries during the Track Record Period.

The table below show the annual production capacity and the annual utilization rate of each central bakery for the periods indicated:

Major Products	For the years ended December 31,								For the period from January 1, 2012 to the Latest Practicable Date ⁽¹⁾		Whether need to be upgraded	
	2008		2009		2010		2011		Production			
	Production Capacity (units in million)	Utilization Rate	Production Capacity (units in million)	Utilization Rate	Production Capacity (units in million)	Utilization Rate	Production Capacity (units in million)	Utilization Rate	(units in million)	Rate		
Ji Yuan De	Moon cakes and pastries	38.5	87.8%	33.7	85.2%	40.5	91.9%	45.8	92.1%	4.2	98.9%	Yes
Long Wu	Bread and cakes	85.5	89.1%	85.2	83.8%	69.0	86.7%	26.4	66.5%	2.2	79.8%	Yes
Shuang Hong Bakery	Bread	26.7	83.0%	20.2	83.7%	33.9	84.0%	83.4	69.0%	6.9	57.5%	Yes
Dan Bi (Hangzhou)	Bread, cakes and pastries	n/a	n/a	16.3	83.4%	16.3	85.1%	16.3	82.5%	1.4	73.2%	Yes
Jiang Ning (Nanjing)	Bread, moon cakes, cakes, pastries, konjac jelly and GABA milk	8.2	32.5%	91.4	28.9%	107.7	46.7%	145.6	44.6%	12.1	38.6%	Yes

Note:

(1) The numbers of production capacity and utilization rate represent the numbers calculated based on the production capacity and actual output from January 1, 2012 to the Latest Practicable Date.

We calculate our annual utilization rate by dividing the actual output (units) of our central bakery by its annual production capacity (units). Since each of our central bakeries may produce different categories of products, production capacity of each of our central bakeries is defined as follows:

- For Ji Yuan De central bakery, the production capacity is calculated based on the assumption that the production facility for moon cakes and pasties is under operation 20 hours per day;

OUR BUSINESS

- For Long Wu central bakery, the production capacity is calculated based on the assumption that the production facility for bread, cakes and pasties is under operation 16 hours, 14 hours and 18 hours per day, respectively;
- For Shuang Hong central bakery, the production capacity is calculated based on the assumption that the production facility for bread is under operation 16 hours per day;
- For Dan Bi (Hangzhou), the production capacity is calculated based on the assumption that the production facilities for bread, cakes and pastries is under operation 18 hours per day; and
- For Jiang Ning (Nanjing), the production capacity is calculated based on the assumption that the production facilities for bread, cakes, pastries, konjac jelly and GABA milk is under operation 20 hours per day.

Our annual utilization rate may be affected by changes in market demand, improvement of production process, procurement of new facilities and internal reallocation of productions among the central bakeries.

Ji Yuan De (Shanghai)

The Ji Yuan De central bakery is located at No. 201 Taigu Road, Waigaoqiao Bonded Logistics Zone, Shanghai, PRC and is owned by Shanghai Ji Yuan De, our wholly-owned subsidiary. The bakery premises occupy a total gross floor area of 12,969 square meters. We own the premises and the land use rights to the site on which the premises is located. As of the Latest Practicable Date, the Ji Yuan De central bakery had seventeen production lines comprising equipment imported from Taiwan and Japan, representing production capacity of 34.3 million units and operating at utilization rate of 82.9% for the nine months ended as of September 30, 2011. The Ji Yuan De central bakery commenced production of moon cakes and pastries in 2003. In addition, it is one of our two central bakeries that produce moon cakes. According to our PRC legal advisor, King & Wood, Ji Yuan De central bakery has obtained all the relevant and required permits, approvals, licenses, and qualifications for operation.

Long Wu (Shanghai)

The Long Wu central bakery is located at No. 388 Yindu Road, Shanghai, PRC. We built this central bakery in 2005. The bakery premises occupy a total gross floor area of 10,137 square meters. We have leased the premises from an independent third party since July 2005. Pursuant to an agreement dated June 25, 2008 entered into between the Group and the relevant lessor, the lease term of the Long Wu central bakery premises, which expired on July 9, 2008, was renewed for a period of six years. The current lease term expires on July 9, 2014. The annual rental for these six years are approximately RMB2.8 million, RMB3.0 million, RMB3.1 million, RMB3.3 million, RMB3.5 million and RMB3.7 million, respectively. The lessor of the premises on which the Long Wu central bakery is situated has registered this lease agreement with the relevant PRC authorities and has provided us with the relevant title ownership certificates. As of August 31, 2011, this central bakery had six production lines, representing production capacity of 19.7 million units and operating at utilization rate of 62.8% for the nine months ended as of September 30, 2011.

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The major products produced at the Long Wu central bakery are bread and cakes. According to our PRC legal advisor, King & Wood, Long Wu central bakery has obtained all the relevant and required permits, approvals, licenses and qualifications for operation. The utilization rate of our Long Wu central bakery decreased from 85.2 million units in 2009 to 69.0 million units in 2010, which was primarily due to the integration of the production capacity of our central bakeries. In 2009, our Long Wu central bakery produced both bread products and cake products. To better allocate our internal resources and to further enhance our production efficiency, our Long Wu central bakery started to focus on the production of cake products and the production of the bread products was shifted to the Shuanghong and Jiangning central bakeries from 2010.

Shuang Hong (Shanghai)

The Shuang Hong central bakery is located at No. 2715 Long Wu Road, Shanghai, PRC, and is owned by Shanghai Shuanghong Bakery Co., Ltd., our wholly-owned subsidiary. The bakery premises occupy a total gross floor area of 9,540 square meters. We have leased the premises from an independent third party in February 2010 for a four-year term from May 1, 2010 until July 9, 2014. We lease the premises at a quarterly rental rate of RMB0.70 million until April 30, 2013 and then at a quarterly rental rate of RMB0.78 million until July 9, 2014. The lease of Shuang Hong central bakery has not previously been renewed. As of August 31, 2011, this central bakery had three production lines, representing production capacity of 62.5 million units and operating at utilization rate of 63.8% for the nine months ended as of September 30, 2011. This central bakery is mainly engaged in the production of bread. According to our PRC legal advisor, King & Wood, Shuang Hong central bakery has obtained all the relevant and required permits, approvals, licenses, and qualifications for operation.

Dan Bi (Hangzhou)

The Dan Bi (Hangzhou) central bakery is located at No.52, Block 1, Jianhua Village, Penbu Town, Jianggan District (杭州江幹區彭埠鎮建華一區52號), and we have leased the premises from an independent third party since March 2009 at an average annual rental rate of RMB405,968.5 for a term of 10 years expiring on March 30, 2019. The bakery premises occupy a total gross floor area of around 3,800 square meters. The lease has not previously been renewed. The bakery was acquired as part of our acquisition of Hangzhou Danbi. As of August 31, 2011, this central bakery had six production lines, representing production capacity of 12.2 million units and operating at utilization rate of 77.9% for the nine months ended as of September 30, 2011. This central bakery is mainly engaged in the production of bread, cake, and pastry. According to our PRC legal advisor, King & Wood, the Dan Bi (Hangzhou) central bakery has obtained all the relevant and required permits, approvals, licenses, and qualifications for operation. We are currently in the process of identifying alternative locations to relocate the Dan Bi (Hangzhou) central bakery. We do not expect that such relocation will affect our production ability.

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Jiang Ning (Nanjing)

The Jiang Ning central bakery is located at No. 189 Moling Street Qingshuiting West Road, Jiangning District (江甯區秣陵街道清水亭西路189號). We own the titles to the seven premises, which have a total gross floor area of 51,229 square meters. We also own the land use rights to the 79,981 square meters of land where the seven premises are located. This bakery is our largest and newest facility. Construction was completed in two phases, with the last phase completed in 2010. As of August 31, 2011, this central bakery had 12 production lines, which incorporates technology from France, Germany, Japan, Taiwan, as well as other countries, representing production capacity of 109.2 million units and operating at utilization rate of 42.3% for the nine months ended as of September 30, 2011. It houses all of our GABA milk production facilities, as well as the production facilities for konjac jelly. The Jiang Ning facility is also our primary R&D center.

According to our PRC legal advisor, King & Wood, the Jiang Ning central bakery has obtained all the relevant and required permits, approvals, licenses, and qualifications for operation. Our Jiangning central bakery currently has seven production lines under operation and five production lines under construction. We plan to complete the construction of the rest production lines at our Jiangning central bakery and to further upgrade our automated production lines to increase its production capacity and utilization rate in anticipation of increasing demand of our products as we are expanding our retail outlet network and planning to pursue cooperation with large supermarket and convenience store chains to diversify our sales channels. Although the utilization rate of this central bakery is relatively low during the Track Record Period, with the development of new products and the increasing demand as a result of the expansion and potential cooperation with large supermarket and convenience store chains to diversify our sales channels, we expect the utilization rate will increase.

Outsourcing

We outsource the processing and production of certain Christine-branded products to Yi Pin Xuan. We have established the stable outsourcing arrangement with Yi Pin Xuan, which offered us flexibility to manage our production and resource allocation.

To further ensure stable supply of, and consistency in, the products processed by Yi Pin Xuan, we entered into with Yi Pin Xuan a master processing agreement on January 1, 2011. For more details, please see the section headed “Connected Transactions – Connected transaction with Yi Pin Xuan” in this prospectus. For further details of Yi Pin Xuan, please also see the section headed “Our Business – Suppliers – Yi Pin Xuan” in this prospectus.

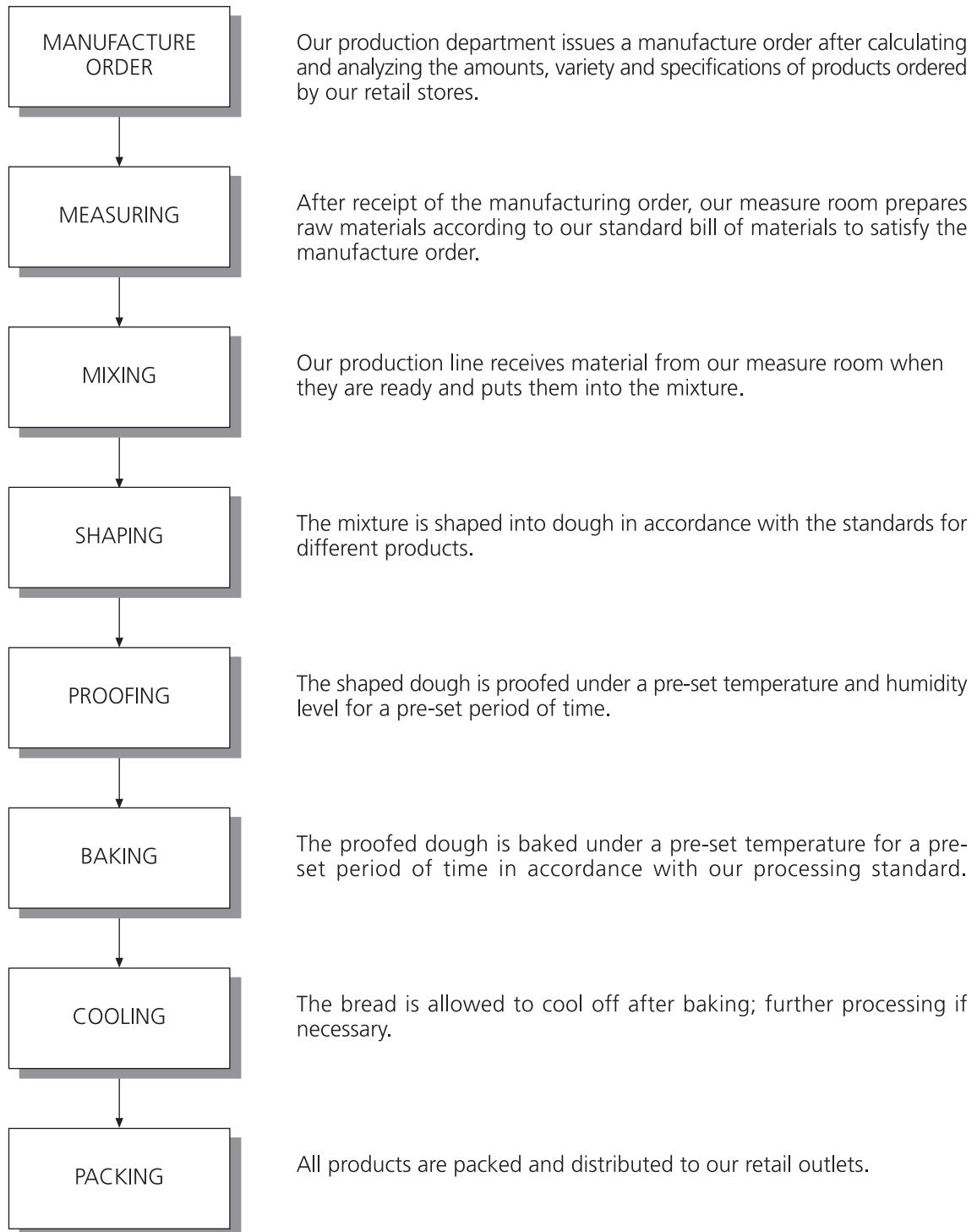
Production Process

The chart below illustrates the production process of our bakery products.

OUR BUSINESS

Bread

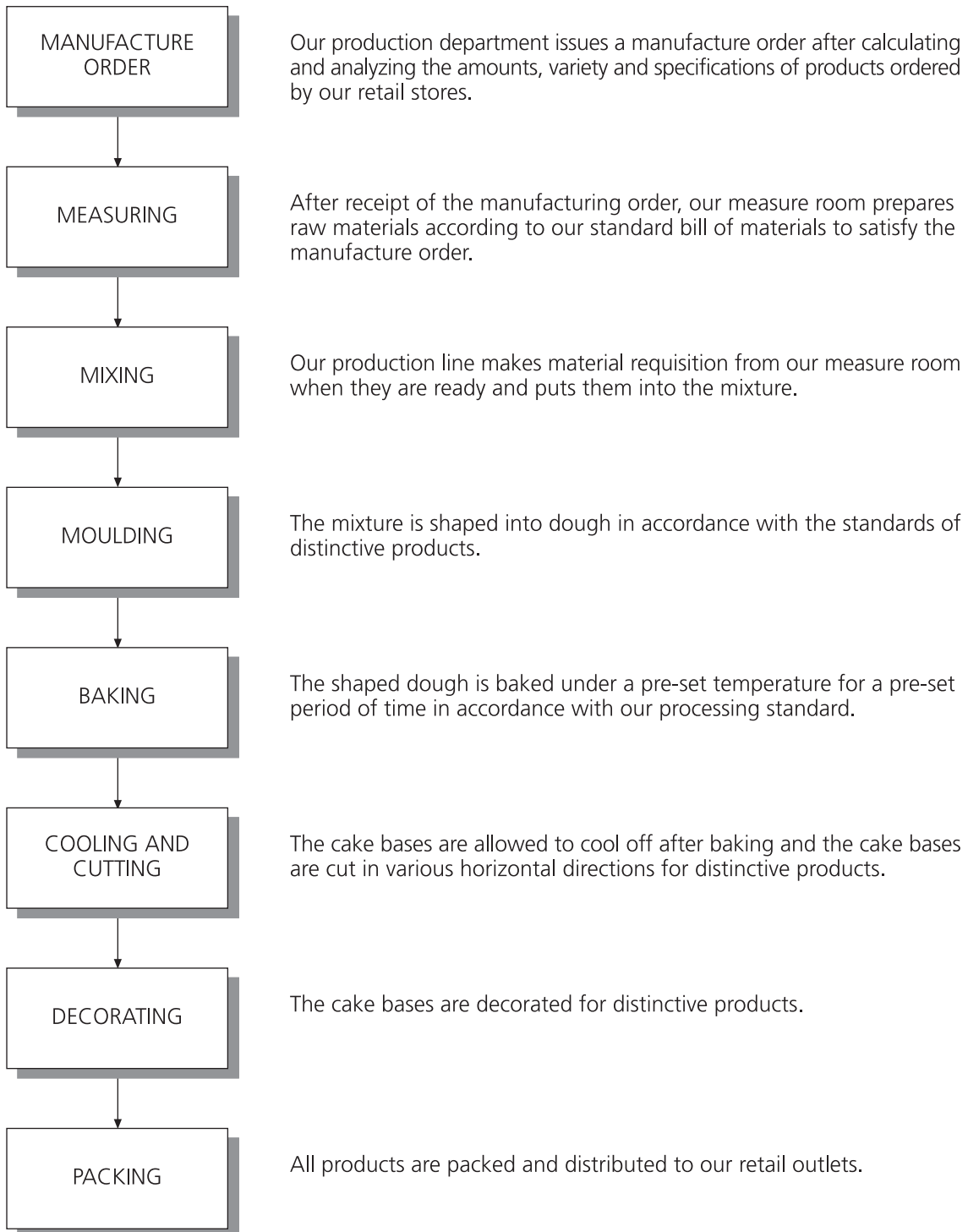
The typical production process of our bread products is as follows:



OUR BUSINESS

Cakes

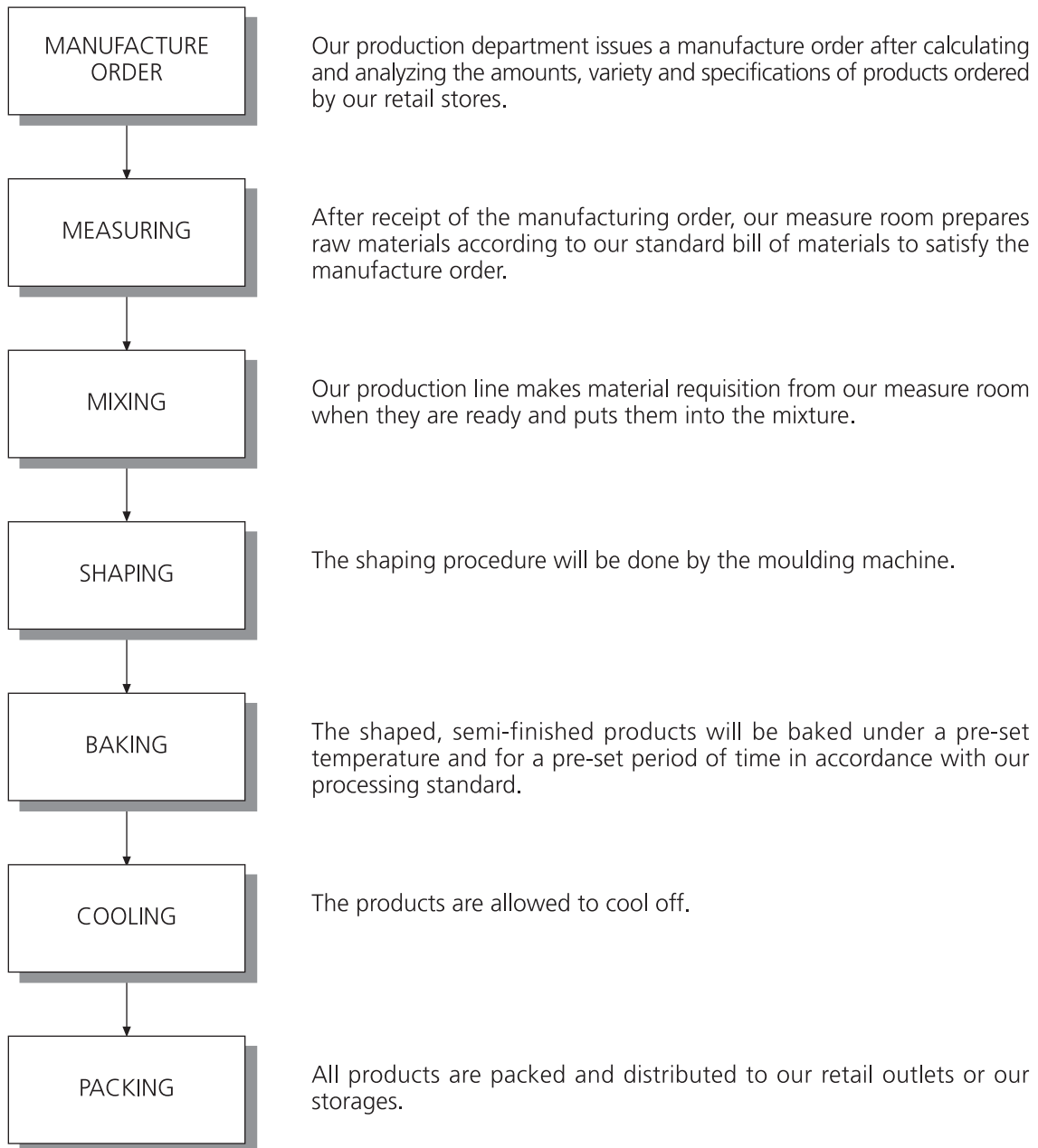
The typical production process of our cake products is as follows:



OUR BUSINESS

Pastries

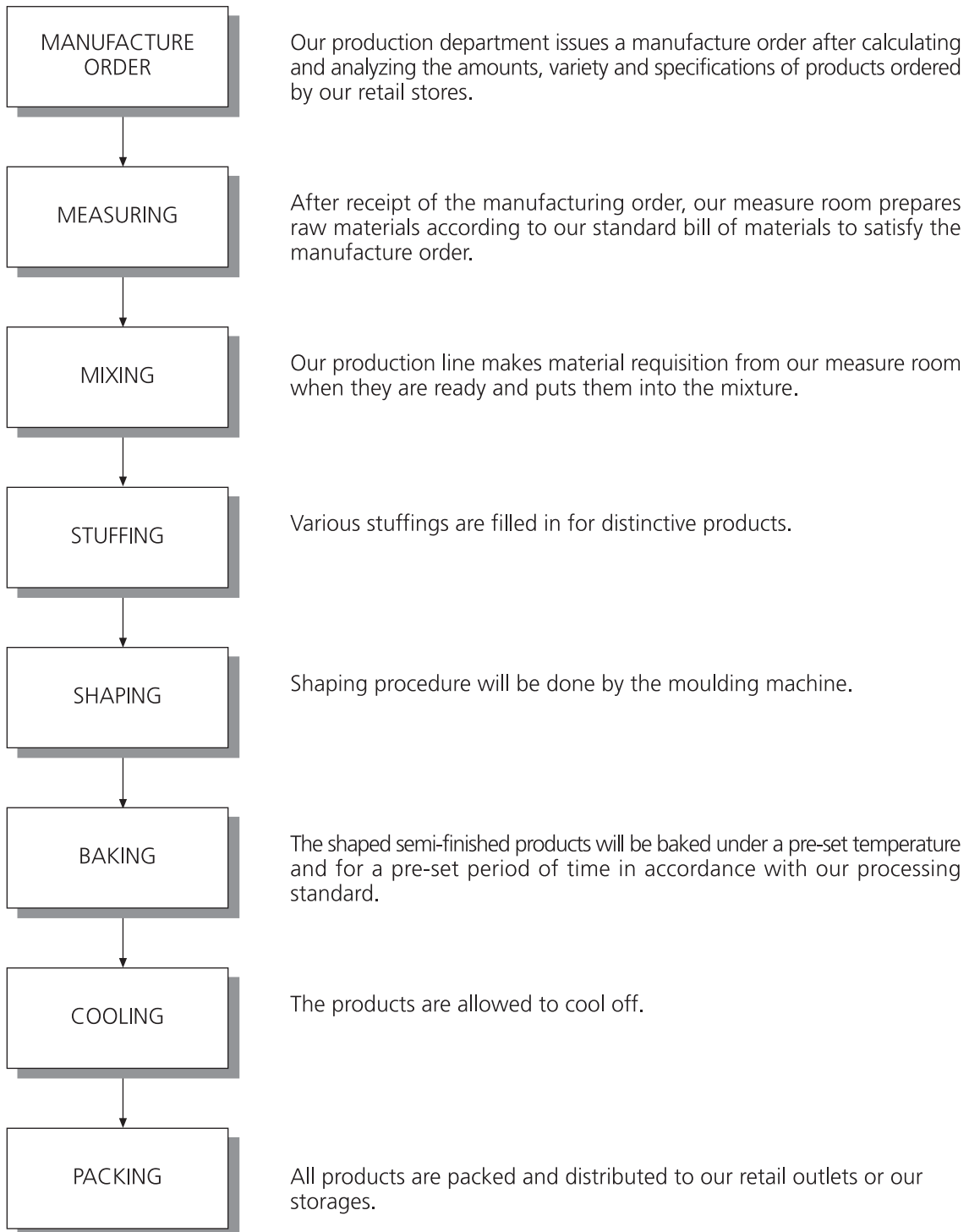
The typical production process of our pastries products is as follows:



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Moon cakes

The typical production process of our moon cakes is as follows:



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LOGISTICS AND DISTRIBUTION

We have a well-established transportation and logistics system designed to ensure timely delivery of bakery products produced in our central bakeries to our retail outlets. With the exception of certain non-bakery products such as GABA milk, deliveries are generally made within a 200 kilometer radius of a central bakery. We mainly rely on third party logistics providers for distribution of our bakery products to our retail outlets, while maintaining our own transportation logistics team in Shanghai to reduce our reliance on third party logistics providers within the Shanghai area and to enable us to make urgent deliveries on short notice. During the Track Record Period, we received very few complaints regarding delays in delivery.

Transportation in downtown Shanghai during the daytime by truck or long vehicle is subject to obtaining a transportation permit, which is issued by the relevant governmental authority and requires renewal every six months. As of the Latest Practicable Date, we possessed 24 transportation permits which allow our trucks or long vehicles to enter into the downtown areas of Shanghai. We have not encountered any impediment for renewal of the transportation permits. Please see the section headed “Risk Factors – Risk Factors Relating to Our Business – Delays in delivery or poor handling by us or third party transport operators may affect our sales and damage our reputation” in this prospectus.

For long distance deliveries from our central bakeries in Shanghai and all other deliveries outside Shanghai, we outsource all of our product transportation to third party logistics companies. Our logistics providers are required to transport our goods to the location designated by us in our delivery orders. They are responsible for the loading and offloading of the goods. As of September 30, 2011, approximately 57.5% of our logistics services in Shanghai were provided by third party logistic companies. Under the terms of our contracts with these logistic companies, we pay a monthly service fee based on the time, mileage, weight and volume of the goods transported. The service fees cover the wages for drivers, gasoline, and all relevant costs and expenses. Shanghai Jiaoyun Hubei Logistics Development Co., Ltd. (“上海交運滬北物流發展有限公司”), Shanghai Kashi Refrigeration Logistics Co., Ltd. (“上海卡士冷藏物流有限公司”) and Shanghai Jieleng Logistics Co., Ltd. (“上海捷冷物流有限公司”) are required to bear all other associated costs, such as maintenance, fares, fines, insurance and parking fees. We are entitled to terminate the contracts if our service providers fail to deliver according to the agreed standards and requirements.

We review and assess the performance of our logistics provider on a monthly basis according to key performance indicators. We discuss with our logistics providers the results of our assessment and the areas upon which they may need to improve. Our transportation and logistics expenses were approximately RMB10.4 million for the year ended December 31, 2008, RMB15.8 million for the year ended December 31, 2009, RMB17.7 million for the year ended December 31, 2010 and RMB16.3 million for the nine months ended September 30, 2011.

QUALITY CONTROL

Our quality control programs cover all of our operations, including raw material sourcing, the baking process at our central bakeries, and sales at our retail outlets. We have a dedicated team of customer service personnel of nine staff. Our company policy requires all quality-related complaints to be responded to within 24 hours of receiving the complaint, and we maintain a customer service hotline to ensure a speedy response to any quality-related

OUR BUSINESS

complaints or any other customer concerns. In particular, our quality control systems allow us to track the finished products and investigate complaints related to them. According to our company policy, all finished products once proved to be defective will be returned to our central bakeries and destroyed. During the Track Record Period, we received no material complaints related to our product quality.

Before being displayed on shelves, all of our products would be checked and labeled by our retail outlets. At the close of business of each day, our staff in each retail outlets review the products on shelves to identify any expired ones in accordance with their respective shelf life. Any expired products will be returned to the central bakeries and then destroyed by us.

Our Ji Yuan De central bakery and Long Wu central bakery have received ISO 9001 and ISO 22000 certifications from Shanghai Audit Center of Quality System in 2010. Our Jiang Ning central bakery has received ISO 9001 and ISO 22000 certifications from China Quality Certification Center in July 2011. ISO 9001 is standard and guideline relating to quality management systems, and represents an international consensus on good quality management practices. ISO 9001 is maintained by the International Organization for Standardization, or ISO, and is administered by accreditation and certification organizations. ISO 22000 is a management system which addresses food safety through the analysis and control of biological, chemical and physical hazards from raw material production, procurement and handling to manufacturing, distribution and consumption of finished products. In addition, we have satisfied all quality control measures as required by the PRC General Administration of Quality Supervision, Inspection and Quarantine (“國家質量監督檢驗檢疫總局”), including obtaining of the required production permits (“生產許可證”) and food circulation permits (“食品流通許可證”). All of the certifications and permits show that our quality management system meets both domestic and international standards and attest to the high quality of our products.

Below is an overview of our quality control procedures applicable to our raw material sourcing, baking process and retail outlets.

Quality control procedures applicable to raw material sourcing

We maintain a list of qualified suppliers for each of our principal ingredients, and we conduct annual inspections and evaluations of suppliers. With respect to new suppliers, we test use ingredients they supply before we commit to a bulk purchase from them. We have also implemented a raw material control system whereby all ingredients delivered to our production facilities are sampled for testing before they are put into our production process. Our testing equipment is sophisticated and the testing of products is conducted in accordance with that required by the PRC government standards and our standard. In addition, due to recent concerns on improper food additives, such as DEHP, and to ensure food safety we have strengthened our quality control procedures for purchasing raw materials and during our production process. In particular, in addition to sampling and testing the materials we receive from our suppliers, we also require our suppliers to provide us with laboratory reports certifying that the raw materials provided by them do not contain DEHP or other prohibited additives.

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Quality control procedures applicable to our baking process

All of our products undergo inspection at each stage of the production process, promptly after production and immediately before distribution for sale. Products in storage or in the course of distribution are also subject to regular quality audits and we have standards in place for storage conditions. We have implemented a system of recording the details of the entire production process that each individual product has gone through, from ingredients to production, warehousing, transportation, and finally to end-consumers. This system allows us to ensure that any defective products can be traced and, if necessary, removed prior to distributing to the market. In addition, we have adopted strict hygiene standards at all of our central bakeries. Access to our production plants is controlled and each employee is required to be sanitized before entering the production plants and is assigned to a designated post within the production plant.

Quality control procedures applicable to our retail outlets

We conduct random tasting and visual inspections at our retail outlets to ensure the quality of our products is maintained. We track the shelf life of our products by checking and labeling them before they are put on the shelves. At the close of business of each day, our staff in each retail outlet is required to review the products on the shelves to identify any expired products in accordance with their respective shelf life. Any expired products are immediately removed from the shelves and returned to the central bakeries for destruction by us. Employees at our retail outlets who fail to implement this policy will be penalized. We also conduct regular review sessions with our staff to determine causes that have resulted in a particular item not meeting our required standards. These review sessions are part of our on-going training and quality control process.

During the Track Record Period and as of the Latest Practicable Date, we did not experience any material dispute related to product quality or other quality control related issues nor did we experience any customer complaints that had a material adverse effect on our business or results of operations.

CASH MANAGEMENT SYSTEM

Our retail outlets handle large amounts of cash daily. We have implemented a checks and balances system at all our retail outlets to ensure that our cash receipts are accounted for each day, including the handling of cash by the cashier only, daily reconciliation of sales records with the actual amount of cash and daily deposits of cash in the bank by each standalone retail outlet. Each retail outlet manager and cashier are responsible for ensuring that the day's sales and expenses have been properly recorded and accounted for at the close of business each day. Cash-in-vault of the Group is checked everyday and the amount of cash-in-vault should be in line with the balance on the statement of cash in treasury. In addition, the limitation on the amount of cash-in-vault is strictly applied. The excess cash shall be deposited into the bank. Sales proceeds from retail outlets located in departments stores are normally collected and paid to us by the department stores within 30 to 60 days after the sales of our bakery products. Our finance department will conduct a monthly reconciliation of the bank deposit slips and the sales records. We have implemented the point of sales (POS) cashier monitoring system in our retail outlets. During the Track Record Period, we have not experienced any incidents involving loss or theft of cash.

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In addition, to better manage our cash position, we may from time to time enter into demand deposit or purchase certain financial assets as short-term investments, which primarily refer to the structure deposits linked to government bonds and treasury bills issued by the PRC government and arranged by certain local banks in the PRC where we operate. For details of our policy governing investment in financial instruments, please see the section headed “Financial Information – Liquidity and Capital Resources” in this prospectus.

RESEARCH AND DEVELOPMENT

We have been committed to R&D since our inception. The diversity and innovative nature of our product offerings is an important contributor to our success. We have introduced over 2,200 varieties of bakery products since 1993. As of September 30, 2011, we offered around 1,333 varieties of bread and cake, around 29 varieties of moon cakes and around 194 varieties of pastries. Each of our retail outlets offered an average of over 100 different items a day.

We established a R&D center in Nanjing in 2009 to conduct product development activities, and are currently seeking to qualify this laboratory as a national level laboratory. We also plan to recruit research and technical personnel in the bakery, food, and bio-technology industries to assist our R&D activities. Our R&D expenses associated with our R&D center were approximately RMB0.2 million, RMB0.2 million, RMB0.2 million and RMB0.2 million for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively.

Our R&D activities give emphasis to developing new products and new varieties of our existing products as well as to improving the quality of our existing products. New products that are developed by our research center are catalogued in a library. These new products are rotated into productions to replace unpopular items of a similar nature and price range when needed. We have a proven track record of consistently introducing new varieties of products that cater to the changing needs of our customers. In 2010, we introduced an average of about ten new items per month. In addition, we continue to improve our R&D and technology capabilities through various means, including planning to engage famous US or Japanese bakeries to provide consulting services. As of the Latest Practicable Date, we have 2,345 products in our pipeline.

COMPETITION

The bakery products industry in the PRC is highly competitive. We compete with large foreign and national bakeries, regional operators, small retail bakeries, supermarkets with their own bakeries, grocery stores and diversified food companies. Our competitors differentiate themselves through location, customer service, price, product quality, brand image, ability to appeal to changing consumer tastes and preferences and other factors. The bakery industry is also impacted by various other factors including economic and market conditions, demographic trends, traffic patterns, employee availability and benefits and regulatory developments.

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Given that the barriers to entry for traditional bakeries is low, we also face competition from new market entrants for our traditional bakery products. Some of our competitors adopt a different operational model from ours. Under that model, products are baked at the retail outlets. Each retail outlet is divided into two areas, the production area and the service area. The production area is where bakery products are baked and processed. The service area is where bakery products are displayed and customers are served. We, however, generally produce our bakery products in our five central bakeries, and distribute them to our retail outlets overnight. We believe that our centralized production model and highly automated production facilities at our central bakeries contribute to the high quality of our products and enable us to rapidly expand our retail outlets network because we do not need to equip our retail outlets with production facilities and allows us to efficiently serve the large volume of purchase orders of our products. However, the products from our central bakeries are typically delivered to the shelf after three to four hours after they are baked, which could reduce their freshness compared to the bakery products made in the retail outlets of some of our competitors. For risks relating to competition, please see the section headed “Risk Factors – Risk Factors Relating to Bakery Industry – Competition from both domestic and foreign companies may adversely affect our market share and profit margins” in this prospectus.

INFORMATION TECHNOLOGY SYSTEMS

We believe that our information technology system plays an important role in our operations. During the Track Record Period, we spent an aggregate of approximately RMB5.2 million installing new and updating old information technology system hardware and software. We adopted the Shenzhou ERP and POS system in 2009. The ERP system provides instant and direct access to the information of accounts, procurement, production and sales. It also provides an optimal scheme in concentration and management of various enterprise information of our Group. It records and tracks the information regarding our human resources, capital, equipment, technology, information, customers and timelines and etc. It also analyzes such information and creates real time report to our management based on customized needs. Each of our retail outlets has an on-site server that records its financial and operating data on a real-time basis. Data of individual store is compiled and transmitted to the central servers located in our headquarter. Our information system allows us to access the financial and operating data of all central bakeries and retail outlets, and monitor and analyze their performance on a real-time basis. Key components of our ERP system include, among others, (a) manufacturing management, which records orders for our products, ingredients to be consumed, and the associated costs, (b) logistics management, which records the needs and purchase of ingredients, the products to be delivered, inventory and inventory checking, (c) accounting management, which records our payable and receivables, fixed assets, as well as our general accounts and books, and (d) human resources, which records attendance, salary, disciplines of our employees and etc. In light of our planned business expansion in future, we expect an increasing need for enterprise information collection and analysis relating to our ingredients procurement, products production, sales and storage.

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OUR PROPERTIES

Owned properties

As of November 30, 2011, we owned land use rights to five parcels of land with an aggregate area of approximately 161,183 square meters for industrial use located in Shanghai and Nanjing, the PRC.

As of November 30, 2011, we owned titles to the following properties with an aggregate gross floor area of approximately 74,583 square meters: portions of two commercial buildings, six retail shops, 12 industrial-use buildings, two villas, three apartments and 11 car parking spaces in a building. Such properties include the Ji Yuan De central bakery and Jiang Ning central bakery, whose titles we own. These are all occupied for industrial, commercial and office purposes. We are in the process of applying for the building ownership certificates for three buildings with a total gross floor area of approximately 26,278 square meters erected on a parcel of land covering an aggregate area of approximately 62,958 square meters, located in the Jiangning Development District. We have obtained the land use rights for this parcel of land and, as advised by PRC legal advisor, King & Wood, there is no legal impediment for us to occupy and use these three properties. In addition, we have a construction site for which we have obtained the construction planning permit. As of the Latest Practicable Date, we had not obtained the construction permit from relevant PRC authority. As advised by our PRC legal advisor, King & Wood, we are not required to obtain such construction permit before the construction work commences.

Leased properties

We lease premises for three of our five central bakeries, our R&D center in Shanghai, the PRC and almost all of our retail outlets. As of November 30, 2011, we had 811 leased properties, with an aggregate gross floor area of approximately 103,147 square meters.

Retail outlets situated on leased properties

As of November 30, 2011, 804 of our leased properties are used as retail outlets. For the years ended December 31, 2008, 2009, 2010 and the nine months ended September 30, 2011, we recorded monthly rental expenses for our leased retail outlets in the amount of RMB7.1 million, RMB8.2 million, RMB10.4 million and RMB11.6 million, respectively.

As of November 30, 2011, the average remaining term of lease of all of our leased properties was approximately 24.7 months. The following table sets forth a summary of the remaining terms of leases of the retail outlets of the Group, which does not take into account prospective renewal of any lease upon the expiry of its term.

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Summary of remaining terms of leases of the retail outlets of the Group as of November 30, 2011

No.	Region	No. of Leased Retail Outlets	Average Remaining Term of Lease of All Retail Outlets (in Months)
1	Shanghai City.	441	21.5
2	Jiangsu province.	222	28.9
3	Zhejiang province.	141	28.0
Total		804	24.7

Note:

* It represents the average remaining term of the lease of total leased retail outlets.

Out of the 804 leased properties on which our retail outlet are situated, the relevant lessors or landlords of 120 leased properties with an aggregate gross floor area of approximately 11,355 square meters, which represents 15.5% of the total floor areas of all of our leased retail outlets, have registered the respective lease agreements with the relevant PRC authorities and have provided us with the relevant title ownership certificates or documents evidencing the authorization or consent of the owners of such properties.

Out of the 756 and 804 leased properties on which our retail outlet are situated as of March 31 and November 30, 2011, respectively, the relevant lessors or landlords of 714 and 684 leased properties had failed to register the respective lease agreements with the relevant PRC authorities. These 684 leased retail outlets as of November 30, 2011, with an aggregate gross floor area of approximately 62,121 square meters, represented 84.5% of the total floor areas of all of our leased retail outlets. Such lease agreements are not registered primarily due to the following reasons: (i) some of the lessors or landlords are unwilling to apply for registration of the leases; and (ii) in the event of subleases, some of the lease agreements between the landlords and the sub-lessors have not been registered, which resulted in the sublease agreements between the sub-lessors and us not being able to be registered.

According to King & Wood, our PRC legal advisor, the non-registration of lease agreements has not and will not affect the legality and validity of the lease agreements and we remain legally entitled to occupy and use these properties. The lessors or landlords of the respective properties have represented and warranted to us that the properties have not been, and will not be leased to third parties during the remaining terms of the leases. As of the Latest Practicable Date, none of our leases have been challenged on the grounds of non-registration, whether by third parties or the relevant government authorities, and we have not been subject to any fines or administrative penalties for such non-registered leases. We may be subject to fines ranging from RMB1,000 to RMB10,000 for failure to register the lease agreements within the required registration period. We are further advised by King & Wood that it is unlikely that the Group, as lessee to respective unregistered leases, will be subject to penalty for the lessors' failure to register the lease agreements.

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Out of the 684 leased properties for which the relevant lessors or landlords failed to register the respective lease agreements with the relevant PRC authorities as of November 30, 2011, 18 of which were with an aggregate gross floor area of approximately 1,791 square meters, representing 2.4% of the total floor areas of all of our leased retail outlets, as the relevant lessors or landlords have not provided us with the relevant title ownership certificates or documents evidencing the authorization or consent of the owners of such properties. The reasons for the lessors that could not provide the land use right certificates, building ownership certificates or the letters that the building owner agrees to sublet his property primarily include: (1) the lessor has been in actual possession and use of the property for many years, but have not applied for or can not obtain relevant property title certificates due to various reasons; and (2) in the event of subleases, the Company as the lessee can only have direct contact with the sub-lessor rather than the property owner. The Group has always requested our prospective lessors or landlords to provide us with the relevant title documents before entering into any lease agreement with them. Our Group used to view commercial terms, mainly rent and property location, as key considerations when entering into leases for retail outlets. As a result, we had entered into lease agreements with certain lessors and landlords who failed to provide us with the relevant title documents prior to the execution of the lease agreements, based on the understanding that such lessors or landlords will provide the title documents in due course. Our Company will further strengthen its internal control measures and ensure that lease agreements entered into by us in the future comply with all relevant laws and regulations. The shortest, the longest and the average terms of these leases without title ownership certificates are 23 months, 108 months and 61 months, respectively.

Our PRC legal advisor, King & Wood, has advised us that we will not be subject to penalty as a result of the relevant lessors' or landlords' failure to provide title ownership certificates. However, there is a possibility that we might need to vacate the property in the event the party who has proper title certificates claims its right in respect of such leased properties. Please see the section headed "Risk Factors – Risk Factors Relating to Our Business – Our rights to use our leased premises for certain of our retail outlets could be challenged by property owners or other third parties, and some of our leases could be terminated before the lease expire, which may result in a disruption of our operations" in this prospectus for details. We are advised by King & Wood that we are entitled to claim against the lessors for any loss and damages as set out in the lease agreements or in accordance with applicable laws if our rights to use these properties are challenged by third parties, as a result of the lessors' defective title to the properties. As of the Latest Practicable Date, the business operations of the Company have not been disrupted due to the lack of title certificates or proof of authorization from the lessors for the properties leased by us.

If our rights to use these leased properties are challenged by third parties, the time required for relocating a retail outlet is estimated to be ten to 15 days. As of November 30, 2011, we have not experienced any incident where we were required to evict from the leased properties in which the relevant lessors or landlords do not have the relevant title ownership certificates.

We believe that most of the leased properties occupied by us can, if necessary, be replaced by other comparable alternative premises without any adverse effect to our operations and none of the properties with title defects is crucial to our business.

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In addition to those 804 leased properties, we have not been provided with title ownership certificates with respect to our 33 retail outlets located in subway stations as of November 30, 2011 because, in practice, there are no such title ownership certificates issued in relation to the premises located in the subway stations in the PRC. As advised by our PRC legal advisor, King & Wood, the premises located in the subway stations without title ownership certificates have not effected, and will not affect, the legality and validity of the agreements between us and the relevant subway operators, and we remain legally entitled to occupy and use these premises.

Other leased properties

As of November 30, 2011, seven of our leased properties were used for purposes other than retail outlets. Five of these properties used for production purpose are on the premises of our Long Wu, Shuang Hong and Dan Bi (Hangzhou) central bakeries. Our Directors are of the view that these five leased properties are crucial to our business and operations. The other leased properties used for non-production purposes are our R&D center located on Yindu Road, Shanghai, and our office located in Yangzhou. During the Track Record Period, these two leased properties did not contribute to any of our direct profit. Therefore, our Directors are of the view that they are not crucial to our business and operations.

Out of the seven leased properties which are used by us for purposes other than retail outlets, the relevant lessors or landlords of three leased properties with an aggregate gross floor area of approximately 6,975 square meters, which represents 6.8% of the total gross floor area of our leased properties in the PRC, have failed to register the respective lease agreements with the relevant PRC authorities, but have provided us with the relevant title ownership certificates or documents evidencing the authorization or consent of the owners of such properties. Of these three leased properties, one is used for production purposes, one is used for office use and one is sub-leased to Yi Pin Xuan. On April 15, 2008, we entered into a lease agreement with the legal owner of such premises, pursuant to which we have the right to occupy and use such premises from January 1, 2011 to December 31, 2017 and have the right to sub-lease the premises to Yi Pin Xuan.

Out of the seven leased properties which are used by us for purposes other than retail outlets, the relevant lessor or landlord of one leased property with an aggregate gross floor area of approximately 1,100 square meters, which represents 1.1% of the total gross floor area of our leased properties in the PRC, has not provided us with the relevant title ownership certificates or documents evidencing the authorization or consent of the owners of such properties. Such leased property is used for Dan Bi (Hangzhou) production purposes. We are currently in the process of identifying alternative location for our Danbi (Hangzhou) central bakery and expect to relocate Danbi (Hangzhou) central bakery by the end of 2012. If necessary, we may also consider acquiring proper land parcel and build the facilities for Danbi (Hangzhou). We believe that this leased property occupied by us can, if necessary, be replaced by other comparable alternative premises without any material adverse effect to our operations.

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Material Property Analysis

According to the investigation of Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, the proportion of carry amount of all the properties held by the Group is very small comparing to the total assets of the Group, except for an industrial property located in Nanjing City, Jiangsu province, PRC. Apart from this industrial property, none of the properties has a carry amount which is over 15% of the total assets. Please refer to property No. 11 in “Appendix IV – Property Valuation” for details. Moreover, none of each property contributes a significant portion of revenue to the Group. Jones Lang LaSalle Corporate Appraisal and Advisory Limited also has not found any encumbrances, liens, pledges, mortgages against the property or use of the property that may, impact the operations of the Group. Jones Lang LaSalle Corporate Appraisal and Advisory Limited is of the view that except the industrial property located in Nanjing City, there is no material property held by the Group.

The table below shows a summary of the property interests rented and occupied by the Group which are not covered in “Appendix IV – Property Valuation”:

No.	Use and name/brief description of properties	Gross floor area/ leasable area (sq.m.)	Number of buildings/ units	Lessor	Lessee	Terms of tenure (year of leasehold expiry)	Year of completion/ expected completion date	Number of storey of the building	Number of storey of the property	Average effective rent (as required under Rule 5.06(2))
1.	441 leased properties for retail use located in Shanghai The PRC	37,161.13	441	N/A	N/A	expiry dates between January 4, 2012 and March 30, 2020	between 1924 and 2011	N/A	N/A	average daily rent of approximately RMB5.07 per sq.m.
2.	222 leased properties for retail use located in Jiangsu province The PRC	22,544.18	222	N/A	N/A	expiry dates between January 5, 2012 and April 28, 2020	between 1979 and 2011	N/A	N/A	average daily rent of approximately RMB3.46 per sq.m.
3.	141 leased properties for retail use located in Zhejiang province The PRC	13,770.85	141	N/A	N/A	expiry dates between January 22, 2012 and April 7, 2018	between 1975 and 2011	N/A	N/A	average daily rent of approximately RMB3.40 per sq.m.
4.	An industrial property located at Levels 1 to 3, Block 2 Guangang Science and Technology Zone No. 2715 Longwu Road Xuhui District Shanghai The PRC	9,540.00	N/A	Shanghai Guangang Science and Technology Development Company Limited	Shanghai Christine Foodstuff Company Limited	commencing from May 1, 2010 and expiring on July 9, 2014	2006	4	Levels 1 to 3	annual rent of RMB2,785,680 for the first 3 years and RMB3,733,479 for the remaining period

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No.	Use and name/brief description of properties	Gross floor area/ leasable area (sq.m.)	Number of buildings/ units	Lessor	Lessee	Terms of tenure (year of leasehold expiry)	Year of completion/ expected completion date	Number of storey of the building	Number of storey of the property	Average effective rent (as required under Rule 5.06(2))
5.	An industrial property located at Block 3, Guangang Science and Technology Zone No. 388 Yindu Road Xuhui District Shanghai The PRC	10,137.24	1	Shanghai Guangang Science and Technology Development Company Limited	Shanghai Christine Foodstuff Company Limited	commencing from July 10, 2008 and expiring on July 9, 2014	2006	4	levels 1 to 4	annual rent of RMB3,145,078.71 for the year 2011, RMB3,330,083.34 for the year 2012, RMB3,515,087.97 for the year 2013, and RMB3,700,092.60 for the last year
6.	An industrial property located a Block 15, Phase II Guangang Science and Technology Zone No. 388, Yindu Road Xuhui District Shanghai The PRC	1,918.82	1	Shanghai Guangang Science and Technology Development Company Limited	Shanghai Christine Foodstuff Company Limited	commencing from December 1, 2010 and expiring on November 30, 2013	2010	4	levels 1 to 4	annual rent of RMB854,451 for the first year, RMB910,480 for the second year and RMB966,510 for the last year
7.	An industrial property comprise a parcel of land, a building and various structures No. 52, Area 1 Jianhua Village Pengbu Town Jianggan District Hangzhou City Zhejiang province The PRC	1,100.00	1	Hangzhou Qianhang Industrial Company Limited	Hangzhou Danbi Foodstuff Industry Company Limited	commencing on March 31, 2009 and expiring on March 30, 2019	2006	1	1	annual rent of RMB52,000 for the parcel of land, RMB308,000 for the building for the first years, thereafter, the annual rent for the building will be increased by 6% annually
8.	An industrial property comprise a parcel of land, 2 buildings and various structures located besides Zhong Gong Miao Sub Road and Zhong Gong Miao Street Yinzhou District Ningbo City Zhejiang province The PRC	1,600.00	2	Ningbo Yinzhou Surface Treatment Material Factory	Hangzhou Danbi Foodstuff Industry Company Limited	commencing from March 20, 2004 and expiring on March 19, 2019	2003	2	levels 1 to 2	annual rent of RMB160,000 for the first 2 years, thereafter, the annual rental will be increased by 2% annually
9.	A commercial unit No. 56, South Daxue Road Development Zone Yangzhou City Jiangsu province The PRC	207.36	1	Lin Shenzhou	Yangzhou Christine Commerce and Trading Co., Ltd.	commencing from March 25, 2009 and expiring on March 24, 2014	2008	2	levels 1 to 2	annual rent of RMB110,000 for the 1st year, RMB118,800 for the 2nd year, RMB128,300 for the 3rd year, RMB138,600 for the 4th year, and RMB149,600 for the last year
10.	An industrial property comprise a parcel of land, 4 buildings and various structures No. 2806 Jiahang Highway Tanghang Town Jiading District Shanghai The PRC	5,167.77	4	Shanghai Yuanshen Industrial and Trading Company Limited	Shanghai Christine Foodstuff Company Limited	commencing on January 1, 2011 and expiring on December 31, 2017	2002	3	levels 1 to 3	annual rental of RMB1,080,000

OUR BUSINESS

INSURANCE

We contribute to social insurance for our employees as required by PRC social security regulations, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, and a retirement insurance plan.

We do not maintain product liability insurance or business interruption insurance. Based on industry practice in the PRC, our experience in running our business and the insurance products available in the PRC, our Directors are of the view that we have sufficient insurance coverage for our current operations.

INTELLECTUAL PROPERTY

Our intellectual property

We believe that our intellectual property is of material importance to our business. As of the Latest Practicable Date, we had three trademarks registered with Trade Mark Registry Intellectual Department of HKSAR, being “Christine” (“克莉絲汀”), “Annual Ring” (“年輪”) and “Crab Pie” (“蟹派”). We also had 30 trademarks registered with the Trademark Office of the State Administration for Industry and Commerce in the PRC, including the trademark for our brand name “Christine”, “Ji Yuan De” (“吉元德”), “Geund” and the trademarks for the products “Annual Ring Cake” and “Crab Pie”. We have filed a trademark application for our product GABA milk. We obtained an utility model patent with respect to sandwich production equipment in PRC on February 16, 2011. On May 30, 2007, we entered into an agreement with Soda Nikka Co., Ltd., or Soda Nikka, a Japanese company and an independent third party, to purchase GABA milk production equipment and related technologies, including GABA production technologies, with an aggregate consideration of JPY500 million.

Under the agreement, Soda Nikka Co., Ltd. provides installation, testing, training and other related services. Under our arrangement with Soda Nikka, we are not required to pay on-going royalty and do not have any profit-sharing arrangement with Soda Nikka. In addition, according to our agreement with Soda Nikka, we are not permitted to sell the technologies to any other person in the PRC within three years after the effectiveness of the agreement.

We have been advised by our PRC legal advisor, King & Wood, that except the business license and certificates required for all milk production enterprises, the production of “GABA” milk does not require government approvals. Nanjing Christine has obtained all business and sanitation licenses required for all milk production enterprises. We produce all of our GABA milk products at our Nanjing facility.

Please see “Appendix VI – Statutory and General Information – B. Further Information about Our Business – Intellectual Property Rights” in this prospectus for more details regarding our intellectual property rights.

Protection of our intellectual property

We rely on intellectual property laws in the PRC and other jurisdictions to protect our intellectual property rights. We also rely on a combination of trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights. All of our R&D personnel are required to enter into confidentiality and non-competition agreement with us upon the termination of their employment.

OUR BUSINESS

EMPLOYEES

We had 5,835, 7,010 and 7,652 employees as of December 31, 2008, 2009 and 2010, respectively.

The following table shows a breakdown of our employees as of September 30, 2011 by functions:

Function	Number of Employees
Production	1,837
Sales and marketing	4,999
Management and other administration	399
Research and development	15
Quality assurance	54
Finance and accounting	67
Purchase and supply	18
Logistics	309
Total	<u>7,698</u>

All of our employees are paid a fixed salary and may be granted other allowances and a discretionary year-end bonus based on their position and performance. Sales staffs are also eligible for commissions. We review the performance of all our employees once a year, the results of which are used in their annual salary review and promotion appraisal. We conduct research on remuneration packages offered to similar positions in our industry, which we believe that allows us to remain competitive in the labor market.

We invest in continuing education and training programs for our employees with a view to upgrade their skills and knowledge on a continuing basis. We provide our employees with internal training in various areas, including an induction program and on-the-job training. All employees of our operational divisions are also provided with training tailored to their area of work. We also arrange for our employees to attend external professional training programs.

In accordance with applicable PRC regulations on social insurance, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, and a retirement insurance plan for our employees. We comply with all statutory social insurance and housing provident fund obligations applicable to us under PRC laws.

We have labor unions which organize various activities to safeguard the legitimate rights of our employees and improve their quality of life. We have not experienced any major strikes, labor disputes or industrial actions that have a material adverse effect on our business.

ENVIRONMENTAL MATTERS

Our bakery operations generate waste water and noise. We are subject to PRC national and local environmental laws and regulations, including "The Environmental Protection Law of the PRC" ("中華人民共和國環境保護法") and "The Law on the Prevention and Treatment of Water Contamination of the PRC" ("中華人民共和國水污染防治法") in this prospectus.

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We are subject to annual inspections by the PRC regulatory authorities for compliance with these laws and regulations. We have never received any notice of material non-compliance regarding such laws or regulations since we commenced operations in 1993. We believe that our current environmental compliance programs adequately address environmental compliance concerns, and that we are in substantial compliance with PRC environmental laws and regulations.

King & Wood, our PRC legal advisor, confirmed that we have obtained all the required permits and environmental approvals for our production facilities.

We have set up standards regarding environmental protection in accordance with the statutory measures issued by the PRC government. Our measures include the operational standards regarding waste water issued by Shanghai and the operational standards regarding noise pollution issued by the PRC. To implement our standards, we invest in improving our technology in respect of waste water treatment and prevention of noise pollution. All of our Ji Yuan De, Jiang Ning and Dan Bi (Hangzhou) central bakery are installed with waste water treatment systems. In addition, our central bakeries are located away from residential areas to avoid noise pollution. Our central bakeries are carefully zoned, established with the consideration of noise pollution prevention and installed with noise-absorbers. Furthermore, we have formulated detailed operational measures in treatment of solid waste. We are also in constant communication with the local environmental protection authorities, such as the local administrations for environmental protection, regarding formulating and implementing the environmental protection measures.

Our management is familiar with the environmental protection requirements in the bakery industry. They place high importance on the formulation and implementation of environmental protection measures. All of the central bakeries have their own supervisory teams with experience in quality assurance and construction to monitor and inspect potential environmental pollution, and perform inspection and onsite training in respect of environmental protection measures. Such team members have environmental protection knowledge in connection with quality assurance and construction. In addition, we provide training to our employees regarding our environmental protection measures, and we believe they have the requisite knowledge in implementing our environmental protection measures.

We are formulating and implementing further internal environmental protection measures in accordance with ISO 9001 and ISO 22000 to ensure compliance with the applicable PRC environmental protection laws. We plan to strengthen our communication with the PRC environmental authorities for their guidance in order to reduce the risk of violating applicable PRC environmental protection laws. In addition, we plan to further enhance the efficiency and effectiveness of our manufacturing equipment to reduce and minimize pollution and waste generation, and to strengthen internal supervision and training in respect of environmental protection measures.

For our compliance with PRC environmental laws and regulations, we expended approximately RMB0.1 million, RMB0.3 million, RMB0.2 million and RMB0.8 million for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively.

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AWARDS, HONORS AND RECOGNITIONS

We have received various awards, honors and recognitions for our Company and our products since our inception, including:

Prize Winning

Prize Winning Unit	Year	Award	Awarding Unit
Shanghai Christine	From 2007 to 2010	Famous Trademark in Shanghai 上海著名商標	Shanghai Administration for Industry and Commerce 上海工商行政管理局
Shanghai Christine	2007	2007 Top 10 Most Competitive Brands in China's Bakery Industry 2007年中國烘焙業十大最具競爭力品牌	The China Food Industry Association 中國食品工業協會
Shanghai Christine	2008	2008 Most Influential Moon Cake Brand in China 2008年中國月餅行業最具影響力品牌	The China Association of Bakery & Confectionery Industry 中國焙烤食品糖製品工業協會
Shanghai Christine	2008	2008 Famous-Brand Product Prize (Chinese & Western Pastries) in Shanghai 2008年上海市名牌產品 – 中西糕點獎牌	Shanghai Famous Brand Recommendation Committee 上海市名牌產品推薦委員會
Shanghai Christine	2008	2008 Leading Enterprises in Food Safety 2008年度食品安全先進單位	Xuhui Associate for Food Safety 徐匯區食品安全協會
Shanghai Christine	2008	Customer-Oriented Enterprise 以客為本獎	CBN 第一財經

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Prize Winning

Unit	Year	Award	Awarding Unit
Shanghai Christine	2009	2009 Top 100 Enterprises in China Bakery & Confectionery Industry 2009年中國焙烤食品糖 製品行業百強企業	The China Association of Bakery & Confectionery Industry 中國焙烤食品糖製品工 業協會
Shanghai Christine	From 2009 to 2010	Excellent Enterprise 優秀企業	Shanghai Food Association 上海食品協會
Shanghai Christine	2010	2010 Gold-medal Moon Cake Prize in the China Moon Cake Culture Festival 2010年中國月餅文化節 金牌月餅獎牌	The China Association of Bakery & Confectionery Industry 中國焙烤食品糖製品工 業協會
Shanghai Christine	2010	2010 Leading Enterprises in China Moon Cake Industry 2010年中國月餅行業龍 頭企業	The China Association of Bakery & Confectionery Industry 中國焙烤食品糖製品工 業協會
Shanghai Christine	From 2008 to 2010	the China Social Responsible Enterprises 中國社會責任企業	China Business News 中國商報
Shanghai Christine	From October 2011 to October 2014	Special Food of Travelling in Shanghai – Drip Coffee 上海特色旅遊食品 – 滴落式咖啡	Shanghai Food Association 上海食品協會

In addition, our Chairman, Mr. Tien-An Lo, and our chief executive officer, Ms. Xiuping Zhu, have received numerous awards in recognition of their entrepreneurial talents and their standing in the bakery/food industry. For example, Mr. Lo was named “Entrepreneur of the Year” (“年度創業人物”) in 2007 by Forbes China. Ms. Zhu was designated as an “Outstanding Entrepreneur” (“優秀企業家”) for 2003 and 2004 by the Shanghai Sugar and Food Industry Association (“上海市糖製食品工業專業協會”). Both Forbes China and Shanghai Sugar and Food Industry Association are independent third parties.

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LABOR AND SAFETY MATTERS

The PRC laws and regulations applicable to us in relation to labor and safety are the Labor Law of PRC (“中華人民共和國勞動法”), the Labor Contract Law of PRC (“中華人民共和國勞動合同法”), the Regulations on Work Injury Insurance (“工傷保險條例”) and the Provisional Regulations on Collection of Social Insurance Premiums (“社會保險費徵繳暫行條例”). We have maintained a relatively clean safety record without occurrence of any major work-related injury, and our operations are in compliance with the current applicable labor laws and safety regulations.

We amended our labor policies in respect of social insurance, salary and vacations for employees to comply with applicable laws and regulations. Our human resources department also closely monitors the issuance of any new laws and regulations. Furthermore, we provide safety and labor-related training to all employees and keep each individual employee’s training records, to promote safety awareness. The human resources department oversees all employees to ensure they are in compliance with all internal safety instructions.

As confirmed by the competent local authorities and according to King & Wood, our PRC legal advisor, we have complied with the relevant laws, regulations and administrative rules on labor, social insurance and safety matters. No penalties have been imposed by the relevant regulatory authorities in the PRC on the Group during the Track Record Period.

INTERNAL CONTROL

Some of our retail outlets have not obtained certain licenses and permits which require for our business operations. For further details, please see the sections headed “Business – Compliance and Licensing Matters” and “Risk Factors – Failure to comply with government regulations relating to business licenses, food safety and fire safety could adversely affect our business and operating results” in this prospectus.

For all the new and existing retail outlets, according to our internal policy, the legal department had devised a checklist setting out all the relevant licenses to be applied for by any new retail outlet to be opened for operation and to be renewed by any existing retail outlets. The checklist had been reviewed by the Company’s PRC legal advisor before adoption to ensure the completeness. The market development department of our Group is responsible for the application and the renewal of relevant licenses, permits and filings and the legal department of our Group is responsible for reviewing lease contracts. The head of our legal department, Yan Yang, and our vice presidents responsible for sales and management in Shanghai, Nanjing and Zhejiang, Qiuyi Yu, Yuping Jiang and Liping Huang, will cooperate to make sure that all retail outlets comply with the requirements imposed by PRC laws and regulations and report to our Board of Directors every quarter. In addition, the legal department, by following the checklist, is able to closely monitor the application and the renewal progress of the licenses. After the market development department confirms that all the licenses have been obtained or renewed, the legal department will need to do a final inspection of and sign off in respect of the checklist before passing it to our Company’s management for final approval prior to the store opening or the relevant time for renewal. Further, it is contemplated that any non-compliance matters will be reported to our Board of Directors immediately on any non-compliance or irregular findings noted. Meanwhile, the summary status of the newly set up stores shall be reported to our audit committee on a monthly basis as a final gate keeper. In addition, the independent non-executive directors of the Company will review the Company’s compliance records on the internal control measures and the relevant laws and

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regulations quarterly, and the Company will disclose the independent non-executive directors' review results and confirmation on the Company's compliance records in the Company's future annual reports. As such, our Directors are of the view that the Group's internal control system is adequate and effective to prevent such non-compliance from happening in the future.

The Company has, as is commonly the case, in preparation for the Listing, engaged an external advisory firm to carry out an internal control review according to the agreed scope, which covers (i) entity-level controls and business process controls over financial closing and reporting, sales, purchases, inventory, treasury, and general information technology controls; and (ii) report to the Company on factual findings and recommendations for improvement on internal controls over the abovementioned processes and procedures. This internal control review does not constitute either an audit or review in accordance with the International Standards of Auditing or any other auditing standards and, consequently, no such assurance has been or will be expressed on the Company's internal controls. The internal control review has been carried out in accordance with the agreed scope as stated above.

The external advisory firm's key findings and recommendations for improvement on internal controls over the abovementioned processes and procedures are related to (i) the formalization of certain policies and procedures for the above mentioned processes and procedures; and (ii) the establishment and implementation of independent review and/or approval of transactions of purchases, inventory, and financial closing and reporting. Subsequently, the same external advisory firm was also engaged to perform a follow-up review of the action plans, which were designed and implemented by the Company management, in remediating the findings. The results of the follow-up review conducted in April 2011 revealed that all of the management action plans have been implemented by the Company during March 2011 to April 2011, and there was no further finding from this follow-up review.

COMPLIANCE AND LICENSING MATTERS

Business license and food circulation permit

To operate any bakery retail outlets in the PRC, we are required by the applicable PRC laws and regulations to (1) apply for and obtain a food circulation permit from a competent local administration department of industry and commerce, and (2) apply for and obtain a business license from a competent local administrative department of industry and commerce. As of March 31, 2011, six of our retail outlets did not obtain the business license and 43 of our retail outlets did not obtain the food circulation permits, and 20 of our retail outlets did not obtain either the business licenses or food circulation permits.

As of the Latest Practicable Date, all of our retail outlets have obtained the business license and the food circulation permit. In addition, as of the Latest Practicable Date, we have not been subject to any administrative penalty for operating a retail outlet without business license and/or food circulation permit. We undertake to comply with the relevant government regulations for all future new and existing retail outlets. We have adopted an internal policy requiring all our new stores to obtain relevant licenses and permits and to make all required filings and registrations prior to their opening. Please see the section headed "Our Business – Internal Control" in this prospectus.

OUR BUSINESS

Fire safety filing and inspection

In terms of fire safety filings and inspections⁽¹⁾, Shanghai, Jiangsu province and Zhejiang province, where our existing retail outlets are located, adopt different standards and implementation rules for the fire safety filing and inspection. According to the Zhejiang Reply, all of our retail outlets located in Zhejiang province are not within the scope of fire safety filings. Retail outlets with a gross floor area below 300 sq.m. are not required to apply for the fire safety filings, and retail outlets with a gross floor area above 200 sq.m. are required to complete fire safety inspection.

According to our PRC legal advisor, King & Wood, the Fire Department of Zhejiang Public Security Bureau is the competent authority and has the legal right to issue the Zhejiang Reply and comment on the fire safety filing and inspection matters regarding Shanghai Christine's retail outlets located in Zhejiang province. Therefore, the Zhejiang Reply is valid. As of March 31, 2011, there was one retail outlet located in Zhejiang province that needs to apply for the fire safety inspection in accordance with the requirements set forth in the Zhejiang Reply. As of the Latest Practicable Date, all the retail outlets located in Zhejiang province have met the requirements of fire safety filings and fire safety inspection.

Our retail outlets in Jiangsu province are subject to fire safety filing and inspection requirements. Also, all of our retail outlets in Shanghai are subject to fire safety filing requirements. In terms of the fire safety inspection for our retail outlets in Shanghai, according to our consultations with the Fire Department of Shanghai Public Security Bureau, other than subway stores, all retail outlets with a gross floor area greater than 300 sq.m. are subject to the fire safety inspection requirement. As of March 31, 2011, 658 of our retail outlets in Shanghai and Jiangsu province did not complete the fire safety filing or fire safety inspection. We were subject to fines of RMB30,000 in 2008 for failure to comply with fire safety filing requirements by three of our retail outlets located in Jiangsu province, and has not been subject to any other fines or administrative penalties for failure to comply with fire safety filing requirements since 2009.

According to the Jiangsu Letter, as of the issuing date of the Jiangsu Letter, all retail outlets of the Company located in Jiangsu province have completed fire safety filing and fire safety inspection procedures in accordance with the relevant fire safety laws and regulations. According to our PRC legal advisor, King and Wood, Fire Department of Jiangsu Public Security Bureau is the competent authority and has the legal right to issue the Jiangsu Letter and comment on the fire safety filing and inspection matters regarding the Company's retail outlets located in Jiangsu province. Therefore, the Jiangsu Letter is valid. Given all of our retail outlets in Jiangsu province, including those three retail outlets which have been penalized for failure to comply fire safety filing requirements in the past, have been rectified according to the Jiangsu Letter, there is no possibility of fines or penalties to be imposed on the Company for the failures to make the fire safety filing or fire safety inspection for such retail outlets (including those three outlets that have been penalized) in the past.

⁽¹⁾ Fire safety inspection is an one-off inspection to be completed when a retail outlet is first opened.

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In addition, as of the Latest Practicable Date, all the retail outlets located in Shanghai have met the requirements of fire safety filing and fire safety inspection. Non-compliance regarding the issue of fire safety filings or inspections is due to our belief at that time that we did not need to make the fire safety filings. The reason for such belief includes, among other things, the relatively small gross floor area of the retail outlets, the low density of people in the retail outlets, and no fresh bakery facilities used in most of the retail outlets. However, according to our PRC legal advisor, King & Wood, all the non-compliant stores in Shanghai, Jiangsu province and Zhejiang province have been rectified after their completion of fire safety filings and inspection, there is no possibility of fines or penalties to be imposed on us for the failures to conduct the fire safety filing or fire safety inspection for such stores during the Track Record Period. Please see the sections headed “Regulation – Fire Safety Filing” and “Regulation – Fire Safety Inspection” in this prospectus for more details on relevant regulations.

Coupon sales, pre-paid cards, cash consumer cards, and online sales

As advised by the PRC legal advisor, the payment method through which we currently accept, including coupon sales, pre-cards, cash consumer cards and online sales, do not violate relevant rules and regulations.

As advised by King & Wood, our PRC legal advisor, the issuance and redemption of our coupons does not violate the relevant PRC laws and regulations and therefore will not impact on the Group’s operation in consideration of the follow factors:

- (1) our coupons can only be used to redeem our own products, which may not be regarded as currency substitutes that can be used to purchase non-specific commodities as defined under the Letter on Affirming the Nature of Shopping Cards (“關於對購物卡性質認定的函”) issued by the PBOC on July 5, 2000;
- (2) the relevant competent governmental authorities in Shanghai and Hangzhou had not required manufacturing enterprises which issued coupons for the purpose of selling their own products to take any rectification measures;
- (3) it is a common practice for companies in the PRC food industry to adopt the coupons sales; and
- (4) as of the Latest Practicable Date, we had not been subject to any administrative punishments since our commencement of coupon sales.

In accordance with the Commercial Pre-paid Cards Notice, the issuance of the general-purpose pre-paid cards, which may be used across different regions, industries or legal persons, are subject to the examination and approval of PBOC pursuant to the Implementation of the Administrative Measures for the Payment Services Provided by Non-financial Institutions (“非金融機構支付服務管理辦法”). With respect to specific-purpose pre-paid cards, which may only be used to purchase goods or services from the issuer or from chain stores under the same brand name with the issuer, the Commercial Pre-paid Cards Notice provides that the competent authorities shall issue administrative measure in an appropriate time and manner to properly regulate such specific-purpose pre-paid cards.

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As of the Latest Practicable Date, no regulation, notice or decree had been issued or came into effect by any competent PRC authorities with respect to the specific-purpose pre-paid cards under the Commercial Pre-paid Cards Notice.

The Commercial Pre-paid Cards Notice also requires that: (1) a registration system for cardholders be set up, i.e., for those who purchase registered commercial cards or non-registered commercial cards exceeding RMB10,000 for one time, the issuer shall register their names; (2) payment be made through bank account transfer when an entity purchases prepaid cards with an aggregate amount exceeding RMB5,000 at one time or an individual purchases the cards exceeding the amount of RMB50,000 at one time; and (3) the par value of non-registered commercial cards do not exceed RMB1,000, while par value of registered commercial cards do not exceed RMB5,000. It is further required that the issuer of the prepaid cards shall strictly abide by laws and regulations relating to invoice issuance when issuing invoices for sales of pre-paid cards. The General Office of Ministry of Commerce issued a Notice on the Implementation of Standardizing the Administration for Commercial Pre-paid Cards (“商務部辦公廳關於貫徹落實規範商業預付卡管理意見的通知”) on August 1, 2011 and a Notice on Launching a Specific Inspection on Specific-Purpose Pre-paid Cards (“商務部辦公廳關於開展單用途預付卡專項檢查工作的通知”) on August 15, 2011, both of which became effective as of their respective issuance date (collectively the “MOC Notices”). The MOC Notices reiterate the necessity of complying with the aforementioned requirements and require the local MOC authorities to launch an initiative to inspect the major issuers of the specific-purpose pre-paid cards. The inspection initiative commenced from August 20, 2011 and is expected to last until October 31, 2011. The issuers of specific-purpose pre-paid cards are required to carry out self-examination and implement remedial measures, if necessary, before September 30, 2011.

King & Wood, our PRC legal advisor, are of the opinion that the issuance of pre-paid cards do not violate the relevant PRC laws and regulations and therefore will not impact on the Group's operation. We have adopted improved and adjusted internal system measures in accordance with the requirements set forth under the Commercial Pre-paid Cards Notice on September 29, 2011.

King & Wood, our PRC legal advisor, has advised us that the validity and legal consequences of the pre-paid card are the same as the coupons issued by us. For risks relating to our coupon sales, please see the section headed “Risk Factors – Risk Factors Relating to Our Business – A substantial portion of our revenue is generated from our coupon sales. If the issuance of coupons is challenged or prohibited, our business, financial condition and results of operations may be adversely affected” in this prospectus. Our Controlling Shareholders have agreed to indemnify our Group against any claims and losses that the Group may suffer as a result of our issuance of coupons and prepaid cards.

In accordance with the Commercial Pre-paid Cards Notice, the issuance of the general-purpose pre-paid cards, which may be used across different regions, industries or legal persons, are subject to the examination and approval of PBOC and should obtain the payment services business license before September 1, 2011 pursuant to the Implementation of the Administrative Measures for the Payment Services Provided by Non-financial Institutions (“非金融機構支付服務管理辦法”).

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Therefore, if the independent third parties consumer cards issuers who entered into the payment services agreements with us fail to obtain the payment services business license before September 1, 2011, these independent third parties will not be permitted to be engaged in payment services. In that case, the relevant payment services agreements may be terminated by operation of law.

However, as advised by King & Wood, our PRC legal advisor, the acceptance of payment through cash consumer cards issued by independent third parties (1) does not violate the relevant laws and regulations; (2) did not have adverse effect on our previous financial condition; and (3) will not cause our Group to be subjected to any administrative penalty in consideration of the follow factors:

- (1) both the legal liability arising from the issuance of cash consumer cards and the legal obligation to obtain the payment services business license shall be borne by the independent third parties consumer cards issuers rather than our Group; and
- (2) based on the payment services agreements signed by the independent third parties consumer cards issuers and our Group, we accepted such payment and settlement services for reasonable consideration, and our legal rights are protected by the payment services agreements; and
- (3) payments are settled with the independent third parties consumer cards issuers on a daily or monthly basis, therefore our risk of not receiving the sales proceeds from the independent third parties consumer cards issuers are insignificant.

As advised by King & Wood, our PRC legal advisor, we have fulfilled all the required administrative procedures for our online sales and do not violate the relevant laws and regulations and therefore will not impact on the Group's operation based on the following reasons:

- (1) our Group uses our own network platform to engage in own-brand products sales; and
- (2) we have effected ICP registration for our selling website with the telecommunications administration authority subject to the requirements under the Notice on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales circulated by the General Office of the Ministry of Commerce (“商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知”).

In addition to our proprietary bakery products, we also provide some other products to certain customers as ingredients. We are also planning to pursue cooperation with large supermarkets and convenience store chains to further expand and diversify our sales channels. We expect our cooperation with large supermarket and convenience store chains to commence in 2012, which we anticipate will significantly increase our sales.

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BUSINESS INTERRUPTIONS

During the Track Record Period, we did not experience any business interruptions, such as fire, flood, power failure and power shortages, hardware and software failure, computer viruses and technical, hygiene or environmental requirements, which would have adversely affected our production and business operations.

LEGAL PROCEEDINGS

We are not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our business or operations. We are not aware of any pending or threatened litigation, arbitration or administrative proceedings that could have a material adverse effect on our business or operations. We had no outstanding claims, actions or legal proceedings as of the Latest Practicable Date. We may from time to time be subject to various legal or administrative proceedings that arise in the ordinary course of our business operations.