



# 中國休閒食品集團有限公司

CHINA LIFESTYLE FOOD AND BEVERAGES GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)

Stock Code: 1262

# GLOBAL OFFERING



Sole Global Coordinator and Sole Sponsor



Joint Bookrunners



BOC INTERNATIONAL

Joint Lead Managers



BOC INTERNATIONAL



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

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## IMPORTANT

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If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



# China Lifestyle Food and Beverages Group Limited

## 中國休閒食品集團有限公司

(incorporated in Bermuda with limited liability)

### GLOBAL OFFERING

|   |  |
|---|--|
| <b>Number of Offer Shares</b>               | <b>: 282,000,000 Shares, comprising 225,600,000 New Shares to be offered by the Company and 56,400,000 Sale Shares to be offered by the Selling Shareholders (subject to adjustment and the Over-allotment Option)</b> |
| <b>Number of Hong Kong Offer Shares</b>     | <b>: 28,200,000 Shares (subject to adjustment)</b>   |
| <b>Number of International Offer Shares</b> | <b>: 253,800,000 Shares, comprising 197,400,000 New Shares to be offered by the Company and 56,400,000 Sale Shares to be offered by the Selling Shareholders (subject to adjustment and the Over-allotment Option)</b> |
| <b>Offer Price</b>                          | <b>: HK\$2.65 per Offer Share payable in full on application, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%</b>  |
| <b>Nominal Value</b>                        | <b>: US\$0.05 per Share</b>  |
| <b>Stock Code</b>                           | <b>: 1262</b>  |

Sole Global Coordinator and Sole Sponsor



Joint Bookrunners



BOC INTERNATIONAL

Joint Lead Managers



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國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). A copy of this prospectus, together with copies of the Application Forms, has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act of Bermuda. The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of this prospectus or any other document referred to above.

The Joint Bookrunners (on behalf of the Underwriters, and with our consent (for ourselves and the Selling Shareholders)) may reduce the number of Offer Shares below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares will be published in The Standard (in English), Hong Kong Economic Times (in Chinese) and on the Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company website ([www.lbxsgroup.com](http://www.lbxsgroup.com)) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all the information set forth in this prospectus, including but not limited to the risk factors set forth in the section headed "Risk Factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

November 29, 2011

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## EXPECTED TIMETABLE<sup>(1)</sup>

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|   |                                |
|---|--------------------------------|
| Latest time to complete electronic application under <b>HK eIPO White Form</b> service through the designed website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(3)</sup> .....   | 11:30 a.m. on December 2, 2011 |
| Application lists open <sup>(2)</sup> .....   | 11:45 a.m. on December 2, 2011 |
| Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms .....   | 12:00 noon on December 2, 2011 |
| Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....  | 12:00 noon on December 2, 2011 |
| Latest time to complete electronic applications under <b>HK eIPO White Form</b> service by effecting Internet banking transfer(s) or PPS payment transfer(s) .....  | 12:00 noon on December 2, 2011 |
| Application lists close .....   | 12:00 noon on December 2, 2011 |
| (1) Announcement of   |                                |
| • the level of applications in the Hong Kong Public Offering;   |                                |
| • the level of indications of interest in the International Offering; and   |                                |
| • the basis of allotment of the Hong Kong Offer Shares, to be published in The Standard (in English) and Hong Kong Economic Times (in Chinese) on or before .....   | December 8, 2011               |
| (2) Results of allocations of the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed "Results of Allocations" in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus) from ..... | December 8, 2011               |
| A full announcement of the Public Offer containing (1) and (2) above to be published on our Company's website at <a href="http://www.lbxgroup.com">www.lbxgroup.com</a> and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> from .....  | December 8, 2011               |
| Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> , with a "search by ID" function .....  | December 8, 2011               |
| Dispatch of <b>HK eIPO White Form</b> e-Auto Refund payment instructions/ refund cheques on or before <sup>(5)</sup> .....  | December 8, 2011               |
| Dispatch of share certificates on or before <sup>(5)</sup> .....  | December 8, 2011               |
| Dealings in Shares on the Stock Exchange expected to commence on .....  | December 9, 2011               |

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on December 2, 2011, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — When to apply for the Hong Kong Offer Shares — Effect of Bad Weather Conditions on the Opening of the Application Lists” in this prospectus.
- (3) You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) If you apply by giving **electronic application instructions** to HKSCC, you should refer to the section headed “How to Apply for Hong Kong Offer Shares — How to apply by giving electronic application instructions to HKSCC” in this prospectus.
- (5) We will issue refund cheques to you if your application is wholly or partially unsuccessful. We will dispatch share certificates and refund cheques by ordinary post to you at your own risk to the address you specified in your Application Form unless you have elected for personal collection. If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have indicated in your Application Form that you wish to collect refund cheques and/or Share certificates personally, you may collect refund cheques and/or share certificates from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on December 8, 2011 or any other place and date we announce in the newspapers as the place and date of dispatch of share certificates/e-Auto Refund payment instructions/refund cheques. If you are an individual applicant and you have elected for personal collection, you may not authorize any other person to collect on your behalf. If you are a corporate applicant and you have elected for personal collection, you must attend by your authorized representative with your letter of authorization stamped with your corporate chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you fail to collect within the time specified for collection, we will dispatch uncollected share certificates and refund cheques by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — How to apply using a **WHITE** or **YELLOW** Application Form” in this prospectus.

**Share certificates will only become valid certificates of title provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised, which is scheduled to be at 8:00 a.m. on December 9, 2011. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed “Structure of the Global Offering.”

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*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.*

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## SUMMARY

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

### OVERVIEW

We are a snack food provider in China with a leading position in the jelly products market. According to Euromonitor, we were the second largest manufacturer of jelly products in China with a market share of 10.3% in 2010 in terms of retail sales value. We market our products under our core brand, “” (“Labixiaoxin”) as well as other sub-brands. Our “Labixiaoxin” brand is a well-recognized snack food brand in China and was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC in 2007. We offer a broad range of quality snack food products. Our main products are jelly products, which comprise jelly snacks and jelly beverages. We also market and sell confectionary products, which primarily include lollipops, milk candies, gummy candies and chocolates. Our other products primarily comprise powdered milk tea. For the year ended December 31, 2010, sales from our jelly products, confectionary products and other products accounted for 83.3%, 11.4% and 5.3% of our sales, respectively.

Over the last 10 years, we have established an extensive distribution network. As of October 31, 2011, we worked with over 190 independent wholesale distributors, covering 31 provinces, municipalities and autonomous regions in China, which on-sell our products to secondary distributors and retailers. We have also established good business relationships with a number of large and well-known retailers in China, which we consider to be our key account customers. Over 90% of our sales during the Track Record Period was generated domestically through our established nationwide distribution network, while the remainder was generated from export sales through our export agents. To facilitate our nationwide sales, we have established three major production facilities located in strategic areas, namely Jinjiang, Fujian Province, Tianjin Municipality and Chengdu, Sichuan Province, giving us convenient access to major markets in different regions in China. We have commenced the construction of our fourth production facility in Chuzhou, Anhui Province. We manufacture all of our jelly products and powdered milk tea and outsource the manufacture of confectionary products and the remainder of other products to third parties through OEM arrangements.

We are committed to high standards of quality in all our products and follow stringent quality control procedures throughout our production processes. We obtained QS Food Production Permits (食品生產許可證) for all our production facilities and ISO 9001 and HACCP certifications for our Fujian and Tianjin production facilities. We believe we have strong research and product development capabilities. We adjust our product offerings and introduce new and improved products in response to changing consumer preferences and demand. We believe our product development capabilities will help to strengthen our competitiveness through product differentiation and innovation.

We believe that we are well positioned to benefit from the rapid economic growth of China. From 2003 to 2010, China’s real GDP grew at a CAGR of 11.0%, and the level of per capita disposable income in the PRC increased significantly, with a CAGR of 12.3% and 12.3% from 2003 to 2010 for urban and

## SUMMARY

rural residents, respectively. We expect such historical trends will sustain in the near future, and believe consumer spending on snack food will also increase. According to Euromonitor, the estimated retail sales value of jelly products and confectionary products represented 7.5% and 51.5% of the snack food market in China in 2010, respectively, and the retail sales value of jelly products and confectionary products are expected to increase with a CAGR of 14.2% and 7.4% from 2010 to 2013, respectively.

Our sales grew from RMB721.1 million in 2008 to RMB771.4 million in 2009 and RMB931.7 million in 2010 and, according to Euromonitor, our share of the total jelly products retail sales value in China grew steadily from 9.0% in 2008 to 9.6% in 2009 and 10.3% in 2010. Our sales grew by 46.6% from RMB414.4 million for the five months ended May 31, 2010 to RMB607.4 million for the five months ended May 31, 2011. The table below sets forth our sales and percentage contribution to sales by product segment for the periods indicated:

| Product segments                       | Year ended December 31, |               |                | Five months ended May 31, |                |               |                |               |                |               |
|--|-------------------------|---------------|----------------|---------------------------|----------------|---------------|----------------|---------------|----------------|---------------|
|  | 2008                    | 2009          | 2010           | 2010                      | 2011           |               |                |               |                |               |
| (unaudited)                            |                         |               |                |                           |                |               |                |               |                |               |
| (RMB in thousands, except percentages) |                         |               |                |                           |                |               |                |               |                |               |
| Jelly products . . . . .               | 595,627                 | 82.6%         | 669,609        | 86.8%                     | 775,815        | 83.3%         | 356,756        | 86.1%         | 503,327        | 82.9%         |
| Confectionary products . .             | 107,005                 | 14.8%         | 73,563         | 9.5%                      | 106,115        | 11.4%         | 40,100         | 9.7%          | 62,127         | 10.2%         |
| Other products . . . . .               | 18,508                  | 2.6%          | 28,188         | 3.7%                      | 49,750         | 5.3%          | 17,563         | 4.2%          | 41,990         | 6.9%          |
| <b>Total . . . . .</b>                 | <b>721,140</b>          | <b>100.0%</b> | <b>771,360</b> | <b>100.0%</b>             | <b>931,680</b> | <b>100.0%</b> | <b>414,419</b> | <b>100.0%</b> | <b>607,444</b> | <b>100.0%</b> |

### OUR COMPETITIVE STRENGTHS

- Strong brand recognition in China’s snack food industry
- Extensive distribution network in China and strong relationships with wholesale distributors and key account customers
- Commitment to stringent quality standards and control
- Strong product development capabilities and proven track record of product innovation
- Experienced management team with a proven track record

### OUR BUSINESS STRATEGIES

- Continue to strengthen our brand recognition and to enhance our market position
- Continue to broaden and strengthen our distribution network in China and further enhance our relationships with wholesale distributors and key account customers
- Expand and enhance our product offerings through continued product development efforts
- Strengthen our market position through strategic production capacity expansion



## SUMMARY

### SUMMARY FINANCIAL INFORMATION

The following tables summarize our consolidated historical financial information during the Track Record Period. The summary of consolidated balance sheets data as of December 31, 2008, 2009 and 2010 and May 31, 2011 and the summary of consolidated statements of comprehensive income data for the years ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 included in the following tables are extracted from, and should be read in conjunction with, our audited consolidated financial information included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

#### *Summary Data of Consolidated Statements of Comprehensive Income*

|   | Year ended December 31, |               |                | Five months ended May 31, |                |
|---|-------------------------|---------------|----------------|---------------------------|----------------|
|   | 2008                    | 2009          | 2010           | 2010                      | 2011           |
|   | (unaudited)             |               |                |                           |                |
|   | (RMB in thousands)      |               |                |                           |                |
| Sales . . . . .   | 721,140                 | 771,360       | 931,680        | 414,419                   | 607,444        |
| Cost of sales . . . . .   | (438,427)               | (482,910)     | (589,682)      | (262,255)                 | (360,115)      |
| Gross profit . . . . .  | 282,713                 | 288,450       | 341,998        | 152,164                   | 247,329        |
| Other income . . . . .  | 3,488                   | 2,765         | 1,573          | 635                       | 560            |
| Selling and distribution expenses . .   | (114,835)               | (133,138)     | (134,790)      | (62,583)                  | (76,394)       |
| Administrative expenses . . . . .   | (53,750)                | (48,260)      | (44,854)       | (15,686)                  | (23,811)       |
| Other (losses)/gains, net . . . . .   | (10,384)                | 283           | 2,314          | 738                       | (456)          |
| Operating profit . . . . .  | 107,232                 | 110,100       | 166,241        | 75,268                    | 147,228        |
| Finance costs . . . . .   | (2,040)                 | (3,014)       | (3,518)        | (1,386)                   | (3,316)        |
| Share of loss of an associated<br>company . . . . .                                   | (2,593)                 | (4,145)       | –              | –                         | –              |
| Provision for impairment of<br>investment in an associated<br>company . . . . .       | –                       | (5,128)       | –              | –                         | –              |
| Provision for impairment of loans<br>to an associated company . . . . .               | –                       | (1,999)       | (1,778)        | (1,778)                   | –              |
| Share of loss of a jointly<br>controlled entity . . . . .                             | (1,731)                 | (1,632)       | (432)          | (432)                     | –              |
| Provision for impairment of<br>investment in a jointly<br>controlled entity . . . . . | (5,000)                 | –             | –              | –                         | –              |
| Gain on disposal of investment<br>in a jointly controlled entity . . . .              | –                       | –             | 344            | –                         | –              |
| Profit before income tax . . . . .  | 95,868                  | 94,182        | 160,857        | 71,672                    | 143,912        |
| Income tax expense . . . . .  | (27,237)                | (40,694)      | (13,019)       | (13,076)                  | (28,334)       |
| Profit and total comprehensive<br>income for the year/period . . . . .                | <u>68,631</u>           | <u>53,488</u> | <u>147,838</u> | <u>58,596</u>             | <u>115,578</u> |

## SUMMARY

Our profit for the year decreased to RMB53.5 million in 2009 from RMB68.6 million in 2008, primarily attributable to a one-off inventory write-off of RMB19.3 million due to a change in labeling requirements under the new Food Safety Law of the PRC (中華人民共和國食品安全法) in 2009, and an income tax expense provision we made pursuant to the Notice on Enterprise Income Tax Treatment of Enterprise Reorganization (關於企業重組業務企業所得稅處理若干問題的通知), or Notice No. 59 (Notice No 59), partially offset by an increase in our sales and operating profit. Pursuant to Notice No. 59, which was issued on April 30, 2009 but took retrospective effect on January 1, 2008, LBXX Tianjin, which enjoyed full tax exemption in 2008 and 2009, would be subject to an income tax rate of 25% in 2008 and 2009 and, therefore, we made a provision for the aggregate income tax liability for 2008 and 2009 amounting to RMB21.4 million in 2009. Our profit for the year increased to RMB147.8 million in 2010 from RMB53.5 million in 2009, primarily due to an increase in our sales and operating profit and the write-back of the aforementioned income tax expense provision that we recorded in 2009 after clarifying our tax position with the relevant PRC tax authorities. Our profit for the period increased to RMB115.6 million for the five months ended May 31, 2011 from RMB58.6 million for the five months ended May 31, 2010. For more information, please see “Financial Information — Results of Operations.”

### *Summary Data of Consolidated Balance Sheets*

|   | As of December 31,    |                       |                       | As of May 31,           |
|---|-----------------------|-----------------------|-----------------------|-------------------------|
|   | 2008                  | 2009                  | 2010                  | 2011                    |
|   | (RMB in thousands)    |                       |                       |                         |
| <b>ASSETS</b>   |                       |                       |                       |                         |
| <b>Non-current assets</b>                               |                       |                       |                       |                         |
| Land use rights . . . . .                               | 113,700               | 112,980               | 110,600               | 156,174                 |
| Property, plant and equipment . . . . .                 | 399,677               | 478,285               | 551,675               | 552,597                 |
| Deposits for property, plant and<br>equipment . . . . . | 18,525                | 33,223                | 26,095                | 66,674                  |
| Investment in an associated company . . . . .           | 9,273                 | –                     | –                     | –                       |
| Loans to an associated company . . . . .                | –                     | 1,778                 | –                     | –                       |
| Investment in a jointly controlled entity . . . . .     | 4,255                 | 2,623                 | –                     | –                       |
| Deferred income tax assets . . . . .                    | 2,515                 | 3,329                 | 2,784                 | 3,328                   |
|   | <u>547,945</u>        | <u>632,218</u>        | <u>691,154</u>        | <u>778,773</u>          |
| <b>Current assets</b>                                   |                       |                       |                       |                         |
| Inventories . . . . .                                   | 77,506                | 61,497                | 76,860                | 78,560                  |
| Trade receivables . . . . .                             | 58,828                | 106,572               | 147,615               | 210,881                 |
| Prepayments and other receivables . . . . .             | 13,276                | 10,700                | 31,968                | 39,071                  |
| Pledged bank deposits . . . . .                         | 10,485                | 16,653                | 27,904                | 29,073                  |
| Cash and cash equivalents . . . . .                     | 34,311                | 10,879                | 18,236                | 146,005                 |
|   | <u>194,406</u>        | <u>206,301</u>        | <u>302,583</u>        | <u>503,590</u>          |
| <b>Total assets</b> . . . . .                           | <u><u>742,351</u></u> | <u><u>838,519</u></u> | <u><u>993,737</u></u> | <u><u>1,282,363</u></u> |

## SUMMARY

|   | As of December 31, |                 |                 | As of May 31,    |
|---|--------------------|-----------------|-----------------|------------------|
|   | 2008               | 2009            | 2010            | 2011             |
|   | (RMB in thousands) |                 |                 |                  |
| <b>EQUITY</b>   |                    |                 |                 |                  |
| <b>Capital and reserves attributable to equity holders of the Company</b> |                    |                 |                 |                  |
| Share capital . . . . .   | 205,644            | 205,644         | 205,644         | 220,056          |
| Share premium . . . . .   | 151,230            | 151,230         | 151,230         | 275,948          |
| Other reserves . . . . .  | (25,387)           | (33,638)        | (26,435)        | (26,435)         |
| Retained earnings . . . . .   | 192,682            | 259,278         | 323,263         | 398,841          |
| <b>Total equity</b> . . . . .   | <u>524,169</u>     | <u>582,514</u>  | <u>653,702</u>  | <u>868,410</u>   |
| <b>LIABILITIES</b>  |                    |                 |                 |                  |
| <b>Non-current liability</b>  |                    |                 |                 |                  |
| Deferred income tax liabilities . . . . .                                 | 3,104              | 2,052           | 7,011           | 6,070            |
| <b>Current liabilities</b>  |                    |                 |                 |                  |
| Trade and other payables . . . . .  | 171,525            | 162,920         | 229,684         | 257,761          |
| Dividend payable . . . . .  | 180                | 180             | –               | –                |
| Borrowings . . . . .  | 37,500             | 57,500          | 92,000          | 139,000          |
| Current income tax liabilities . . . . .                                  | 5,873              | 33,353          | 11,340          | 11,122           |
|   | <u>215,078</u>     | <u>253,953</u>  | <u>333,024</u>  | <u>407,883</u>   |
| <b>Total liabilities</b> . . . . .  | <u>218,182</u>     | <u>256,005</u>  | <u>340,035</u>  | <u>413,953</u>   |
| <b>Total equity and liabilities</b> . . . . .                             | <u>742,351</u>     | <u>838,519</u>  | <u>993,737</u>  | <u>1,282,363</u> |
| <b>Net current (liabilities)/assets</b> . . . . .                         | <u>(20,672)</u>    | <u>(47,652)</u> | <u>(30,441)</u> | <u>95,707</u>    |
| <b>Total assets less current liabilities</b> . . . . .                    | <u>527,273</u>     | <u>584,566</u>  | <u>660,713</u>  | <u>874,480</u>   |

### PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

On the bases and assumptions set out in the section headed “Profit Forecast” in Appendix III to this prospectus and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending December 31, 2011 is set out below:

Forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011<sup>(1)</sup> . . . . . not less than RMB205.0 million (approximately HK\$251.2 million)<sup>(3)</sup>

Unaudited pro forma forecast earnings per Share for the year ending December 31, 2011 on a fully diluted basis<sup>(2)</sup> . . . . . not less than RMB0.182 (approximately HK\$0.223)<sup>(3)</sup>

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## SUMMARY

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Notes:

- (1) The forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011 is extracted from the section headed “Financial Information — Profit Forecast” in this prospectus. The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011 based on our audited consolidated results of the Group for the five months ended May 31, 2011, unaudited results based on unaudited management accounts for the four months ended September 30, 2011 and a forecast of our consolidated results of the Group for the remaining three months ending December 31, 2011. The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in Note 3 of Section I of the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.
- (2) The unaudited pro forma forecast earnings per Share for the year ending December 31, 2011 on a fully diluted basis is calculated by dividing the forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011, by 1,125,600,000 Shares on the assumptions that these Shares were in issue during the entire period and the Capitalization Issue and the Global Offering had been completed on January 1, 2011. The calculation takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by our Company pursuant to the general mandate or the Buyback Mandate.
- (3) For the purpose of forecast consolidated profit attributable to equity holders of the Company and unaudited pro forma forecast earnings per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2255. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

### OFFER STATISTICS

We have prepared the following offer statistics without taking into account the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed no exercise of the Over-allotment Option.

|   | <u>Based on Offer Price<br/>per Share of HK\$2.65</u> |
|---|---|
| Market capitalization of our Shares <sup>(1)</sup> . . . . .                                    | HK\$2,982.8 million                                   |
| Prospective price/earnings multiple on a pro forma fully diluted basis <sup>(2)</sup> . . . . . | 11.9 times  |
| Unaudited pro forma adjusted net tangible assets per Share <sup>(3)</sup> . . . . .             | RMB1.16<br>(approximately HK\$1.43)                   |

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Notes:

- (1) The calculation of market capitalization of our Shares is based on 1,125,600,000 Shares expected to be in issue immediately upon completion of the Capitalization Issue and the Global Offering.
- (2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the Offer Price of HK\$2.65 and the forecast earnings per Share for the year ending December 31, 2011 on a pro forma diluted basis on the assumption that the Capitalization Issue and the Global Offering have taken place since January 1, 2011 with a total number of 1,125,600,000 Shares in issue since January 1, 2011.
- (3) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to in the paragraph headed “Unaudited pro forma statement of adjusted net tangible assets” under the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis of 1,125,600,000 Shares in issue at the Offer Price of HK\$2.65 per Share immediately following completion of the Capitalization Issue and the Global Offering.

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## SUMMARY

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### **DIVIDEND POLICY**

Pursuant to the Companies Act and our Bye-laws, we, through a general meeting, may declare final dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be paid out of profits of the Company available for distribution or contributed surplus in accordance with the Companies Act.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements which we or our subsidiaries may enter into in the future.

After the Listing, our Directors intend to recommend for distribution of not less than 20% of our profits available for dividend distribution for each financial year. The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has an absolute discretion to recommend any dividend for any year. There is no assurance that dividends of any amount will be declared or distributed in any year.

### **PRE-IPO INVESTMENT WITH COFCO BVI AND STRATEGIC COOPERATION RELATIONSHIP WITH COFCO**

On March 21, 2011, our Company entered into the Subscription Agreement with COFCO BVI, pursuant to which our Company agreed to allot and issue to COFCO BVI, and COFCO BVI agreed to subscribe for an aggregate of 43,754,922 Shares, representing approximately 8.0% of the then enlarged issued share capital of our Company immediately following completion of the Pre-IPO Investment, and approximately 6.4% of the then enlarged issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of options which may be granted under the Share Option Scheme). The total consideration COFCO BVI paid for the Shares pursuant to the Subscription Agreement was approximately RMB139.1 million (equivalent to HK\$164.8 million based on the specified exchange rate of HK\$1.00 to RMB0.8440), and we received the proceeds in relation to the Subscription Agreement on March 24, 2011. For more information, please see “History and Corporate Structure — Pre-IPO Investment.”

With a view to developing a long-term strategic cooperation with COFCO Corporation, we entered into a strategic cooperation framework agreement with COFCO on August 8, 2011, which is a memorandum pursuant to which the parties intend to enter into future specific agreements. Under this document, COFCO agreed to, among others, (i) assure the quality of and supply us with raw materials for our jelly products such as syrup and flavoring essence and prioritize our purchase orders in the event of a shortage of raw materials; (ii) jointly develop new products with us; (iii) share information relating to the food and beverage industry, including, without limitation, the policies promulgated by the PRC government; (iv) grant us favorable and flexible payment terms; and (v) share information relating to business resources. For further information, please see “History and Corporate Structure — Strategic Cooperation Relationship with COFCO.”

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## SUMMARY

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COFCO BVI is an indirectly wholly owned subsidiary of COFCO Corporation, which is a wholly stated-owned company incorporated in the PRC currently under the purview of the State-owned Assets Supervision and Administration Commission. COFCO Corporation is a leading diversified agricultural and food products and services supplier in China. Given the experience in food and beverage investment and operations of COFCO Corporation, COFCO BVI and/or their associates in the PRC, we believe that COFCO BVI's investment and our strategic cooperation with COFCO will further enhance our corporate governance standards, as well as provide strategic input and guidance in our Group's mid-term and long-term development.

### FUTURE PLANS AND USE OF PROCEEDS

The net proceeds of the Global Offering (excluding the net proceeds from the sale of the Sale Shares) we expect to receive (after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$541.9 million, based on the Offer Price of HK\$2.65 per Share. If the Over-allotment Option is exercised in full, we estimate the net proceeds to us from the Global Offering will be HK\$649.5 million, based on the Offer Price of HK\$2.65 per Share.

Assuming the Over-allotment Option is not exercised and based on the Offer Price of HK\$2.65 per Offer Share, the net proceeds of the Global Offering we expect to receive would be approximately HK\$541.9 million which we presently plan to use as follows:

- Approximately 50%, or approximately HK\$270.9 million, will be used for capital expenditure for plant and equipment. We plan to increase our production capacity by constructing new production facilities and replacing the existing production equipment with more advanced models;
- Approximately 20%, or approximately HK\$108.4 million, will be used to further enhance our brand awareness via various advertising and promotional activities such as prime-time television advertisements, on-site displays, advertisements on delivery trucks and festive promotional activities;
- Approximately 10%, or approximately HK\$54.2 million, will be used to support the expansion of our distribution network by paying the initial start-up fees and other subsequent handling fees charged by new retail outlets that we penetrate into, as well as the in-store renovation and display costs in such retail outlets. We also plan to expand the operating scale of our sales and marketing department by employing experienced personnel in order to strengthen our collaboration with an increasing number of wholesale distributors and key account customers;
- Approximately 10%, or approximately HK\$54.2 million, will be used to improve our research and development capabilities, and to develop and promote new products. We plan to continuously launch new products with health and other features including low-sugar or low-calorie jelly products. We also plan to arrange various targeted advertising and marketing activities to promote our new products; and
- Approximately 10%, or approximately HK\$54.2 million, will be used for working capital and general corporate purposes.



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## SUMMARY

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We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. Based on the Offer Price of HK\$2.65 per Share, the Selling Shareholders will receive approximately HK\$135.5 million, after deducting underwriting fees and other expenses relating to the Global Offering payable by the Selling Shareholders.

If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$107.6 million, and our Directors intend to apply all the additional net proceeds proportionately to the above items.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

### WORKING CAPITAL

We have funded our working capital requirements through a combination of cash inflow from our operations, bank borrowings and capital contributions from our Shareholders. We recorded net current liabilities as of December 31, 2008, 2009 and 2010. The construction of our Sichuan production facility as part of our production expansion plan resulted in a large amount of capital expenditures in 2008, 2009 and 2010, which was partially funded by incurring short-term bank borrowings. However, we recorded strong operating cash inflows during the Track Record Period, in the amount of RMB103.4 million, RMB96.5 million, RMB165.5 million and RMB92.9 million for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. As of September 30, 2011, we recorded net current assets of RMB69.9 million and had unutilized banking facilities in the amount of RMB138.7 million. Taking into account the net proceeds we received in March 2011 from the Pre-IPO Investment of approximately RMB139.1 million (equivalent to HK\$164.8 million based on the specified exchange rate of HK\$1.00 to RMB0.8440), our estimated net proceeds from the Global Offering of approximately HK\$541.9 million (assuming the Over-allotment Option is not exercised), banking facilities available to us and cash flows from our operations, our Directors believe that we have sufficient working capital to service our bank borrowings and our capital commitments, and to satisfy our reasonably foreseeable cash requirements in our operations for at least the next 12 months from the date of this prospectus. The basis of our Directors' conclusion includes, but is not limited to, (i) the forecast of demand in our products based on the Chinese economy's expected growth, (ii) the assumption that we can successfully execute our business strategies, (iii) our planned capital expenditures, (iv) the assumption that there will be no material changes in our ability to manage our working capital, and (v) the assumption that there will be no material change in our operating environment in the PRC or other countries to which we export our products.

### DELISTING FROM SGX-ST

We were listed on the SGX-ST on August 26, 2005 and remained listed on the SGX-ST for more than four years. On December 9, 2009, our Company and Rise Mount announced the Delisting Offer. We were subsequently delisted from the SGX-ST on May 6, 2010. Please see "History and Corporate Structure — Delisting from SGX-ST" for further details about our listing on the SGX-ST and the Delisting.

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## SUMMARY

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### OUR “LABIXIAOXIN” TRADEMARK

We distribute our products under our core brand  “Labixiaoxin.” We completed the registrations of our “Labixiaoxin” trademark in the PRC in classes covering our jelly products in 2000 (with registration number 1470228) and confectionary products in 2002 (with registration number 1954434). At the time we applied for the registrations of our “Labixiaoxin” trademark, the trademark was not identical or similar to any then existing registered trademarks in China and was approved by the Trademark Appeal Board of State Administration for Industry and Commerce of the PRC (國家工商行政管理總局商標評審委員會) (the “Trademark Board”), and therefore our PRC legal adviser, Jingtian & Gongcheng, has confirmed that our trademark was legally registered in the PRC.

We are aware that “Crayon Shinchan,” a Japanese manga series, is commonly perceived to be known as “蠟筆小新” or “蜡笔小新” in Chinese (or “*labixiaoxin*” in pinyin). Trademarks incorporating the manga series’ main character’s image or the Chinese characters “蠟筆小新” or “蜡笔小新” rendered in different artistic styles have been registered by third parties unrelated to us in various countries and regions, including the PRC, Taiwan and Hong Kong. We do not use the image of the “Crayon Shinchan” manga series’ main character in our trademarks, nor do we use that image to market our products. In 2005 and in 2007, Futabasha Publishers Ltd. (株式會社雙葉社) (“Futabasha”) applied to the Trademark Board, the regulatory authority responsible for handling trademark disputes in the PRC, for the revocation of our “Labixiaoxin” trademark registrations primarily on the grounds that our trademark infringed copyrights owned by Futabasha in the “Crayon Shinchan” manga series. The Trademark Board ruled in our favor in 2009 and 2010 on the following grounds:

- Our “Labixiaoxin” trademark does not contain the Chinese characters “蜡笔小新” rendered in the same artistic style as that used in Futabasha’s trademark, and thus it is not similar or identical thereto, and we do not use the image of the “Crayon Shinchan” manga series’ main character in our trademark.
- The registrations of our “Labixiaoxin” trademark in classes covering our jelly products and confectionary products received regulatory approvals in 2000 and in 2002, respectively, before news and articles about the “Crayon Shinchan” manga series and the related merchandise first appeared in China, in 2003, and therefore before Futabasha’s trademark could have become a well-known trademark in China, which would otherwise have prevented similar marks from being registered in the same or other classes.
- Our “Labixiaoxin” trademark was not registered through improper means or with malicious intentions.

Furthermore, according to the Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”), there is generally a five-year time limit to challenge an approved trademark registration starting from the registration date. Since the “Labixiaoxin” trademark was registered in classes covering our jelly products in 2000 (with registration number 1470228) and our confectionary products in 2002 (with registration number 1954434), the respective time limits have lapsed. We and our PRC legal adviser, Jingtian & Gongcheng, are of the view that (i) we have completed all legal procedures in the PRC necessary to register our core “Labixiaoxin” trademark in classes covering our jelly products in 2000 (with registration number 1470228) and confectionary products in 2002 (with registration number 1954434), and the SAIC has approved such trademark registrations before Futabasha completed its trademark

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## SUMMARY

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registrations, (ii) such use has not infringed the intellectual property rights of any third parties, and (iii) it is unlikely that there will be any foreseeable complaint, claim, dispute or litigation made against us in connection with our “Labixiaoxin” trademark. In addition, our “Labixiaoxin” trademark does not use the image of the “Crayon Shinchan” manga series’ main character and presents the Chinese characters “蜡笔小新” vertically, while Futabasha’s trademarks may use such image and present the Chinese characters “蜡笔小新” horizontally in artistic styles different from ours. As such, our “Labixiaoxin” trademark and Futabasha’s trademarks are clearly distinguishable and not considered similar or identical. Furthermore, based on searches conducted on the PRC Trademark Bureau’s online database, (i) Futabasha received approvals to register its trademarks beginning in 2003, and (ii) our “Labixiaoxin” trademark and Futabasha’s trademarks are registered in different classes in the PRC, with the exception of class 30, where our “Labixiaoxin” trademarks and Futabasha’s trademark are registered in different sub-classes. We further believe that our continuous use of the “Labixiaoxin” trademark will not infringe the intellectual property rights of any third parties in the future, and the risk of our not being able to use the “Labixiaoxin” trademark or brand name is remote.

To protect our intellectual property rights, we undertake proactive anti-counterfeiting measures, including (i) timely registration of marks we intend to use as trademarks in relevant jurisdictions, (ii) active monitoring of the market for potential infringement activities, and (iii) frequent communications with our wholesale distributors to respond to potential infringement activities they have identified in their respective distribution areas. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any infringement of our intellectual property rights which would have a material adverse effect on our business. For more details, please see “Risk Factors — Risks Relating to Our Business — We may face challenges to our intellectual property rights and market confusion regarding our ‘Labixiaoxin’ brand name” and “Business — Intellectual Property — Intellectual Property Owned or Under Application.”

## PRODUCT QUALITY

We are committed to food safety and the highest level of quality standards in our products and implement stringent quality control procedures throughout our manufacturing processes. We also seek to promptly address any potential food safety concerns. In May 2011, incidents of illegal usage of certain plasticizers as food additives were publicized in Taiwan, which raised public concerns regarding the safety of certain food and beverage products. We have taken proactive measures to verify and confirm that none of our products contains plasticizers (whether as a result of contamination during the production processes or migration from packaging materials), and none of the packaging materials we use contains plasticizers exceeding levels permitted under relevant PRC laws and regulations. There are no uniform international standards regulating the levels of plasticizers in packaging materials, and as of the Latest Practicable Date we had not received any governmental notices or inquiries from countries to which we export our products with regard to the usage of plasticizers in packaging materials. In addition, we have obtained confirmation letters from our raw materials suppliers and OEM partners in favor of us, warranting that they have not used any additives or adjuvants in raw materials supplied to us or OEM products manufactured on our behalf in violation of relevant laws and regulations, and agreeing to indemnify us for any loss incurred as a result of such violations. We believe that the plasticizer incident has had no material adverse effect on our business, results of operations and financial conditions. For more information, please see “Business — Quality Control.”

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## SUMMARY

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### RISK FACTORS

#### *Risks Relating to Our Business*

- We may face challenges to our intellectual property rights and market confusion regarding our “Labixiaoxin” brand name.
- Sales of our products are subject to changes in consumer perception, preferences and tastes.
- We may be subject to product liability claims.
- We face intense competition from other manufacturers of jelly products as well as other snack food products.
- We may be adversely impacted by any negative publicity suffered by the food and beverage industry in China or abroad.
- We may not be able to introduce new products successfully.
- Our expansion plan may not be successful and we may not successfully manage our growth.
- We are susceptible to fluctuations in raw materials prices.
- We depend on wholesale distributors, key account agents and export agents to sell our products.
- We may be unable to effectively manage our wholesale distributors or key account agents.
- We are dependent on a skilled workforce to run our production facilities.
- We rely on third-party manufacturers for the manufacture of some of our products.
- Delays in delivery by independent third-party logistics providers, wholesale distributors, key account agents or export agents may affect our sales and damage our reputation.
- Sales of some of our products are subject to seasonality.
- Counterfeiting or imitation of our products may damage our reputation and brand names as well as lead to higher administrative costs.
- We consider the formulas of our products to be our trade secrets, and our ability to compete could be harmed if such trade secrets were disclosed to third parties.
- Our operations are subject to production malfunctions and other risks and routine shutdowns for maintenance.
- Any disruption in the supply of utilities or an outbreak of fire or other calamities at our production facilities may disrupt our business operations.

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## SUMMARY

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- Our workers are subject to risks of serious injury caused by the use of production equipment and tools.
- The discontinuation of any of the preferential tax treatments currently available would likely increase our enterprise income tax expenses.
- We have limited insurance to cover our potential losses and claims.
- We are reliant on our key management personnel.
- We and entities with which we collaborate to export our products may not be able to meet regulatory requirements imposed by the governments of the PRC or our export destinations.
- We recorded net current liabilities as of each of December 31, 2008, 2009 and 2010 and we cannot assure you that we will not continue to record net current liabilities.
- Our subsidiary LBXX Fujian failed to comply with certain financial covenants under the terms of its short-term bank borrowings during the Track Record Period.

### *Risks Relating to the Food and Beverage Industry in China*

- Changes in the existing food safety laws may affect our business operations.
- We are subject to increasingly stringent environmental protection regulations.
- The enforcement of the PRC Labor Contract Law and increases in labor costs in the PRC may adversely affect our business and our profitability.
- We are required to maintain various licenses and permits to operate our business, and the loss of or failure to renew any or all of these licenses and permits could materially adversely affect our business operations.
- The food and beverage industry in China is significantly impacted by fluctuations in the global economy and financial markets.

### *Risks Relating to the PRC*

- PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects.
- Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.
- We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income. The PRC resident enterprise classification could result in unfavorable tax consequences to us and our non-PRC shareholders.
- The new PRC enterprise income tax law will affect tax exemptions on dividends to be paid by our PRC subsidiaries to us through our Hong Kong subsidiary and we may not be able to obtain certain treaty benefits under the relevant tax treaty.
- We are a holding company that relies heavily on dividend payments from our subsidiaries for funding.

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## SUMMARY

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- Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.
- The national and regional economies in China and our business prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.
- It may be difficult to effect service of process upon us or our Directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.
- PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional contributions or loans to our PRC subsidiaries.
- Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose vehicles by PRC residents may adversely affect our business operations.
- The M&A Rules established more complex procedures for acquisitions by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.
- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

### *Risks Relating to the Global Offering*

- There has been no prior public market for our Shares in Hong Kong.
- The market price of our Shares may be volatile which could result in substantial losses for investors purchasing Shares in the Global Offering.
- Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- Future offerings or sales of our Shares could adversely affect the prevailing market price of our Shares.
- The interests of our Controlling Shareholders may not be aligned with those of our other Shareholders.
- Certain facts and statistics in this prospectus relating to the Chinese economy and the food and beverage industry are derived from various government and official sources and may not be reliable.
- We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from a Euromonitor research study contained in this prospectus.
- We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us for the financial year ended December 31, 2008 and 2010.



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## DEFINITIONS

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

|                                 |   |
|---------------------------------|---|
| “affiliate”                     | person or entity directly or indirectly controlled by, or under the direct or indirect common control of one person or entity   |
| “Alliance Holding”              | Alliance Food And Beverages (Holding) Company Limited, a company incorporated in the BVI with limited liability on December 28, 2004 and is owned as to 28% by Mr. Zheng Yu Long, 28% by Mr. Zheng Yu Shuang, 28% by Mr. Zheng Yu Huan and 16% by Mr. Li Hung Kong                              |
| “Application Form(s)”           | <b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them that is used in connection with the Hong Kong Public Offering   |
| “AQSIQ”                         | PRC General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局)   |
| “Board of Directors” or “Board” | our board of Directors  |
| “BOCI”                          | BOCI Asia Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance)   |
| “business day”                  | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business   |
| “BVI”                           | the British Virgin Islands  |
| “Bye-laws”                      | the Bye-laws of our Company, adopted on September 23, 2011 and as amended from time to time   |
| “CAGR”                          | compound annual growth rate   |
| “Capitalization Issue”          | the issue of Shares to be made upon capitalization of the share premium account of our Company as referred to in “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of the Shareholders of our Company” in Appendix VII to this prospectus |
| “CCASS”                         | the Central Clearing and Settlement System established and operated by HKSCC  |

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## DEFINITIONS

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|---|---|
| “CCASS Clearing Participant”                            | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant  |
| “CCASS Custodian Participant”                           | a person admitted to participate in CCASS as a custodian participant  |
| “CCASS Investor Participant”                            | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation   |
| “CCASS Participant”                                     | a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant   |
| “China” or “the PRC”                                    | the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, Macao and Taiwan  |
| “Chinese government”<br>or “PRC government”             | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them                            |
| “Citi,” “Sole Sponsor” and “Sole<br>Global Coordinator” | Citigroup Global Markets Asia Limited, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 7 (providing automated trading services) regulated activities under the SFO |
| “Coco Foods”  | Coco (Fujian) Foods Company Ltd., a jointly controlled entity before the disposal which took place in June 2010 and an Independent Third Party after completion of the disposal   |
| “COFCO”   | 中糧集團有限公司生化能源事業部 (Bio-energy and Bio-Chemical Division of COFCO Corporation*), a business unit of COFCO Corporation  |
| “COFCO BVI”   | COFCO Agriculture and Food Investment Limited, a limited liability company incorporated in the BVI on July 29, 2010, an indirectly wholly owned subsidiary of COFCO Corporation   |
| “COFCO Corporation”                                     | COFCO Corporation (中糧集團有限公司), a wholly state-owned company incorporated in the PRC  |
| “Companies Act”   | the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time   |

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## DEFINITIONS

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| “Companies Ordinance”        | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Company” or “our Company”   | China Lifestyle Food and Beverages Group Limited (中國休閒食品集團有限公司), an exempted company incorporated in Bermuda with limited liability on May 4, 2004  |
| “Controlling Shareholder(s)” | has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Alliance Holding, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong                          |
| “CSRC”                       | China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets  |
| “Deed of Non-competition”    | a deed of non-competition dated September 23, 2011 given by each of the Controlling Shareholders in favor of our Company  |
| “Delisting”                  | the voluntary delisting of the Company from SGX-ST effective from May 6, 2010, approved in a special general meeting of the Company held on April 7, 2010   |
| “Delisting Offer”            | the exit offer by Rise Mount to purchase all of the ordinary shares of the Company, not otherwise held by Rise Mount, at S\$0.178 per Share to effect the Delisting   |
| “Director(s)”                | the director(s) of our Company  |
| “Euromonitor”                | Euromonitor International Plc.  |
| “FIEs”                       | foreign-invested enterprises  |
| “GB 19299-2003”              | PRC hygienic standards applicable to jelly food, in particular with regard to its raw materials, physical characteristics, chemical composition, microbes, food additives, packaging, labeling, storage and transportation              |
| “GB 19883-2005”              | PRC standards applicable to jelly food, in particular with regard to its classifications, raw materials, sizes, chemical composition, microbes, testing methods, inspection guidelines, packaging, labeling, storage and transportation |

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## DEFINITIONS

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| “GDP”   | gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)  |
| “Global Offering”                             | the Hong Kong Public Offering and the International Offering   |
| “GREEN Application Form”                      | the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider designated by our Company  |
| “Group,” “our Group,” “we” or “us”            | our Company and its subsidiaries or, where the context so requires in respect of period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors   |
| “Guotai Junan”                                | Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO   |
| “HACCP”                                       | Hazard Analysis and Critical Control Points, a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product. HACCP certification is required for export of food products to certain countries |
| “HK\$” or “Hong Kong dollars” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong  |
| “HKSCC”                                       | Hong Kong Securities Clearing Company Limited  |
| “HKSCC Nominees”                              | HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC   |
| “HK eIPO White Form”                          | the application process for Hong Kong Offer Shares with applications issued in the applicant’s own name and submitted online through the designated website of the <b>HK eIPO White Form</b> Service Provider at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>  |
| “HK eIPO White Form Service Provider”         | the <b>HK eIPO White Form</b> Service Provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>   |
| “Hong Kong” or “HK”                           | the Hong Kong Special Administrative Region of the PRC   |

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## DEFINITIONS

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| “Hong Kong Offer Shares”           | 28,200,000 Offer Shares being initially offered by our Company pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus  |
| “Hong Kong Public Offering”        | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms  |
| “Hong Kong Share Registrar”        | Tricor Investor Services Limited  |
| “Hong Kong Underwriters”           | the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus   |
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated November 28, 2011 relating to the Hong Kong Public Offering entered into, among others, our Company, the Joint Bookrunners and the Hong Kong Underwriters  |
| “IASB”                             | the International Accounting Standard Board   |
| “IFRS”                             | the International Financial Reporting Standards   |
| “Independent Third Party(ies)”     | a person(s) or company(ies) who or which is or are independent of, and not connected with any Director, chief executive or substantial shareholder of our Company or any of our subsidiaries or any of their respective associates  |
| “International Offer Shares”       | 253,800,000 Offer Shares, comprising 197,400,000 New Shares to be offered by our Company and 56,400,000 Sale Shares to be offered by the Selling Shareholders pursuant to the International Offering, together with any additional Shares offered pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Offering”           | the offer of International Offer Shares outside the United States to institutional and professional investors in offshore transactions as defined in and in accordance with Regulation S, and in the United States to QIBs in reliance on Rule 144A, as further described in the section headed “Structure of the Global Offering” in this prospectus   |
| “International Underwriters”       | the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement  |

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## DEFINITIONS

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| “International Underwriting Agreement” | the underwriting agreement relating to the International Offering, which is expected to be entered into, among others, our Company, the Selling Shareholders, the Joint Bookrunners and the International Underwriters on or around December 2, 2011  |
| “Investment Agreement”                 | an investment agreement dated March 24, 2011 entered into among Alliance Holding, COFCO BVI, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hong Kung in relation to the rights and obligations of COFCO BVI in respect of its subscription of 43,754,922 Shares under the Subscription Agreement, details of which are set out in the section headed “History and Corporate Structure — Pre-IPO Investment” in this prospectus |
| “ISO 14001:2004”                       | a standard of the ISO 14000 series, which specifies a framework of control for an environmental management system against which an organization can be certified by a third party   |
| “ISO 9001”                             | a set of standards that specifies the basic requirements for a quality management system that an organization must fulfill to demonstrate its ability to consistently provide products (which include services) that enhance customer satisfaction and meet applicable statutory and regulatory requirements  |
| “ISO 9001:2000”,<br>“ISO 9001:2008”    | a standard of the ISO 9000 quality management series, which specifies the requirements for a quality management system where an organization demonstrates its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements  |
| “Joint Bookrunners”                    | Citi and BOCI   |
| “Joint Lead Managers”                  | Citi, BOCI and Guotai Junan   |
| “Latest Practicable Date”              | November 22, 2011, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication   |
| “LBXX Anhui”                           | 蠟筆小新(安徽)有限公司 (Labixiaoxin (Anhui) Co., Ltd.*), a limited liability company established in the PRC on November 3, 2010 and our indirect wholly owned subsidiary  |



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| “LBXX Fujian”        | 蠟筆小新(福建)食品工業有限公司 (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.*), a limited liability company established in the PRC on March 15, 2000 and our indirect wholly owned subsidiary                 |
| “LBXX Holdings”      | Labixiaoxin Holdings Company Limited (蠟筆小新控股有限公司), a limited liability company incorporated in Hong Kong on October 8, 2007 and our wholly owned subsidiary   |
| “LBXX International” | Labixiaoxin International Company Limited (蠟筆小新國際有限公司*), formerly known as Alfie Ventures Inc., a limited liability company incorporated in the BVI on March 22, 2006 and our wholly owned subsidiary |
| “LBXX Investments”   | Labixiaoxin Investments Company Limited (蠟筆小新投資有限公司), a limited liability company incorporated in Hong Kong on October 8, 2007 and our wholly owned subsidiary  |
| “LBXX Sichuan”       | 蠟筆小新(四川)有限公司 (Labixiaoxin (Sichuan) Co., Ltd.*), a limited liability company established in the PRC on January 17, 2008 and our indirect wholly owned subsidiary                                      |
| “LBXX Tianjin”       | 蠟筆小新(天津)有限公司 (Labixiaoxin (Tianjin) Co., Ltd.*), a limited liability company established in the PRC on January 24, 2006 and our indirect wholly owned subsidiary                                      |
| “Listing”            | listing of our Shares on the Main Board of the Stock Exchange   |
| “Listing Committee”  | the listing sub-committee of the board of directors of the Stock Exchange   |
| “Listing Date”       | the date expected to be on or about December 9, 2011, on which dealings in our Shares first commence on the Stock Exchange  |
| “Listing Rules”      | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time  |
| “M&A Rules”          | The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)   |
| “Macao”              | the Macao Special Administrative Region of the PRC  |

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## DEFINITIONS

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| “Main Board”                                | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange  |
| “Memorandum” or “Memorandum of Association” | the memorandum of association of our Company, as supplemented, amended or otherwise modified from time to time  |
| “Ministry of Finance” or “MOF”              | the PRC Ministry of Finance (中華人民共和國財政部)  |
| “MOFCOM”                                    | the PRC Ministry of Commerce (中華人民共和國商務部)   |
| “New Shares”                                | the new Shares being offered for subscription at the Offer Price under the Global Offering  |
| “NHTE”                                      | “New and Hi-Tech Enterprises” (高新技術企業) as defined in the Administrative Measures for Determination of New and High-Tech Enterprises   |
| “NHTE Notice”                               | the Notice of the Implementation Rules Regarding Designation and Management of New and High Tech Enterprises in Fujian Province (關於印發福建省高新技術企業認定管理實施細則(試行)的通知), jointly issued by Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office, SAT (福建省國家稅務局) and Fujian Provincial Local Taxation Bureau (福建省地方稅務局) in December 2008 |
| “Ningxia Yin’ou”                            | 寧夏銀鷗超間食品有限公司 (Ningxia Yin’ou Super Lifestyle Food Co., Ltd.*), a limited liability company established in the PRC on March 27, 2008 and is held as to 50% by Super Lifestyle Food and as to 50% by 寧夏佳立生物科技公司 (Ningxia Jiali Bio-Tech Co., Ltd.*), an Independent Third Party   |
| “NPC” or “National People’s Congress”       | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) and its Standing Committee  |
| “OEM”                                       | acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others  |
| “Offer Price”                               | the price of HK\$2.65 per Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%)  |
| “Offer Shares”                              | the Hong Kong Offer Shares and the International Offer Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option  |

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## DEFINITIONS

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| “Over-allotment Option” | the option to be granted by our Company to expected International Underwriters, exercisable by the Stabilizing Manager (after having consulted with, and obtaining the agreement of, the Joint Bookrunners (such agreement not to be unreasonably withheld)) pursuant to the International Underwriting Agreement, to be exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 42,300,000 additional Offer Shares representing 15% of the initial Offer Shares, at Offer Price to cover, among other things, over-allocation in the International Offering, if any |
| “PBOC”                  | the People’s Bank of China (中國人民銀行), the central bank of the PRC   |
| “Po Sang Group”         | Po Sang Group Limited, a limited liability company incorporated in the BVI on November 28, 2006, and an Independent Third Party  |
| “PRC Company Law”       | the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time  |
| “Pre-IPO Investment”    | the investment made by COFCO BVI in our Group pursuant to the terms set out in the Subscription Agreement, details of which are set out in the section headed “History and Corporate Structure — Pre-IPO Investment” in this prospectus  |
| “QIB”                   | a “qualified institutional buyer” within the meaning of Rule 144A  |
| “Regulation S”          | Regulation S under the U.S. Securities Act   |
| “Rise Mount”            | Rise Mount Group Limited, a limited liability company incorporated in the BVI on April 11, 2008  |
| “RMB” or “Renminbi”     | Renminbi, the lawful currency of the PRC   |
| “Rule 144A”             | Rule 144A under the U.S. Securities Act  |
| “SAFE”                  | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)   |
| “SAIC”                  | the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)  |

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## DEFINITIONS

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| “Sale Shares”   | the 56,400,000 Shares to be offered for sale by the Selling Shareholders at the Offer Price under the International Offering   |
| “SAT”   | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)  |
| “Selling Shareholders”  | Alliance Holding, Kangta Investments Limited, Po Sang Group (holding Shares through its nominee, Merrill Lynch (Singapore) Pte Ltd.), Ms. Sun Kam Ching and Mr. Or Hon Fai who or which are selling the Sale Shares in the Global Offering                             |
| “SFC”   | the Securities and Futures Commission of Hong Kong   |
| “SFO”   | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “SGX-ST”  | Singapore Exchange Securities Trading Limited  |
| “Share(s)”  | ordinary share(s) of nominal value US\$0.05 each in the share capital of our Company   |
| “Share Option Scheme”   | the share option scheme conditionally adopted by our Company on September 23, 2011, the principal terms of which are summarized in the section headed “Statutory and General Information — Other Information — Share Option Scheme” in Appendix VII to this prospectus |
| “Shareholder(s)”  | holder(s) of Share(s)  |
| “Singapore”   | The Republic of Singapore  |
| “Singapore dollars” or “S\$”  | Singapore dollars, the lawful currency of Singapore  |
| “SKU”   | stock keeping unit; a unique identifier for each distinct product and service that can be purchased  |
| “Stabilizing Manager”   | Citi   |
| “State-owned Assets Supervision and Administration Commission” or “SASAC” | the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)  |

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## DEFINITIONS

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| “Stock Borrowing Agreement”        | a stock borrowing agreement expected to be entered into between the Stabilizing Manager and Alliance Holding on or about December 2, 2011  |
| “Stock Exchange”                   | The Stock Exchange of Hong Kong Limited  |
| “Subscription Agreement”           | a share subscription agreement dated March 21, 2011 entered into between our Company and COFCO BVI in respect of the subscription of 43,754,922 Shares by COFCO BVI, details of which are set out in the section headed “History and Corporate Structure — Pre-IPO Investment” in this prospectus  |
| “subsidiary(ies)”                  | has the meaning ascribed thereto in section 2 of the Companies Ordinance   |
| “Super Lifestyle Food”             | 天津超間食品發展有限公司 (Tianjin Super Lifestyle Food Development Co., Ltd.*), a limited liability company established in the PRC on December 22, 2006 and is held as to 50% by Super Coffeemix Manufacturing Ltd, an Independent Third Party, as to 32% by LBXX International, and as to 18% by Chance Cove Group Limited, a company wholly owned by Mr. Zheng Yu Long   |
| “Timeluck”                         | Timeluck International Limited (時運國際有限公司), a limited liability company incorporated in the BVI on March 20, 2003 and our wholly owned subsidiary   |
| “Track Record Period”              | the period comprising the three financial years ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011  |
| “Underwriters”                     | the Hong Kong Underwriters and the International Underwriters  |
| “Underwriting Agreements”          | the Hong Kong Underwriting Agreement and the International Underwriting Agreement  |
| “United States” or “U.S.”          | the United States of America   |
| “United States or Canadian Person” | any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person), and shall include any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person |
| “US\$” or “U.S. dollars”           | United States dollars, the lawful currency of the United States  |

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## DEFINITIONS

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| “U.S. Exchange Act”   | the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder          |
| “%”                   | per cent  |

\* *for identification purpose only*

In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “subsidiary” and “substantial shareholder” shall have the meanings ascribed to them under the Listing Rules, unless the context otherwise requires.

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

Totals presented in this prospectus may not total correctly because of rounding of numbers.



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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect,” “believe,” “plan,” “intend,” “estimate,” “project,” “anticipate,” “seek,” “may,” “will,” “would” and “could” or similar words or statements, in particular, in the sections headed “Business” and “Financial Information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- our business strategy and plan of operation and our ability to implement such strategies;
- the amount and nature of, and potential for, future development of our business;
- our business prospects, including business expansion plans;
- various business opportunities that we may pursue;
- our dividend policy;
- the interpretation and implementation of the existing rules and regulations governing our industry;
- information regarding our imbedded value, including our financial condition and results of operations;
- the prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our capital commitment and budget plans;
- the performance and future development of the food and beverage industry in China, particularly in the regions where we operate;
- the industry regulatory environment as well as the industry outlook generally;
- changes in political, economic, legal and social conditions in the PRC, including specific policies of the PRC government and the local authorities in the regions where we operate;
- changes in competitive conditions and our ability to compete under these conditions;

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## FORWARD-LOOKING STATEMENTS

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- the performance of the obligations of our future partners and our overall relationship with them;
- exchange rate fluctuations and restrictions; and
- factors beyond our control such as catastrophic losses from accidents and natural disasters.

We and our Directors have taken reasonable care in making the forward-looking statements in this prospectus. We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as of the date of this prospectus. Any such intentions may potentially change in light of future developments.

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## RISK FACTORS

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*You should consider carefully all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. The occurrence of any of the following events could harm us. If these events occur, the trading price of our Shares could decline and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

*We may face challenges to our intellectual property rights and market confusion regarding our “Labixiaoxin” brand name.*

We distribute our products under the core brand . We are dependent on the general recognition of the “Labixiaoxin” brand name. We have registered some of our trademarks, including the “Labixiaoxin” brand name, in the PRC and Hong Kong, and we have also applied for registration of such trademarks in other countries such as India and Mexico. Furthermore, our “Labixiaoxin” brand was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC in 2007. For further details, please see “Business — Intellectual Property — Intellectual Property Owned or Under Application.”

We are aware that “Crayon Shinchan,” a Japanese manga series, is commonly perceived to be known as “蠟筆小新” or “蜡笔小新” in Chinese (or “labixiaoxin” in pinyin). Trademarks incorporating the manga series’ main character’s image or the Chinese characters “蠟筆小新” or “蜡笔小新” rendered in different artistic styles have been registered by third parties unrelated to us in various countries and regions, including the PRC, Taiwan and Hong Kong. Futabasha is the copyright owner of Crayon Shinchan, and has registered various trademarks incorporating the image of the manga series’ main character and the Chinese characters “蜡笔小新” rendered in particular artistic styles in China since 2002. Futabasha has brought a number of civil lawsuits against a number of defendants in China, which are unrelated to us, claiming intellectual property infringement. Futabasha has also brought a number of administrative lawsuits against the PRC Trademark Bureau (國家商標局), challenging the latter’s decisions to grant trademark registrations containing the image of the manga series’ main character and the Chinese characters “蠟筆小新” or “蜡笔小新” rendered in different artistic styles to a number of registrants, which are unrelated to us. For instance, Futabasha has brought such an administrative lawsuit to challenge the registered trademarks of a PRC company in Guangzhou that is unrelated to us. The company in Guangzhou has registered trademarks in classes that encompass products such as drawing instruments, spectacles, certain toy products, roller skates, Christmas tree ornaments and eyewear products. As of the Latest Practicable Date, a number of these suits were ongoing.

Our “Labixiaoxin” trademark does not use the image of the “Crayon Shinchan” manga series’ main character and presents the Chinese characters “蜡笔小新” vertically, while Futabasha’s trademarks may use such image and present the Chinese characters “蜡笔小新” horizontally in artistic styles different from ours. As such, our “Labixiaoxin” trademark and Futabasha’s trademarks are clearly distinguishable and not considered similar or identical. For further details about our trademarks, please refer to “Statutory and General Information — Information about the Business — Intellectual property rights of the Group — Trademarks” in Appendix VII to this prospectus. We consider our business inseparable from the use of the “Labixiaoxin” brand name. During the Track Record Period, substantially all of our domestic sales were generated under the “Labixiaoxin” core brand. Although we have registered our “Labixiaoxin” trademark in the PRC in classes covering our jelly products in 2000 and confectionary products in 2002, and our trademark registrations have not been successfully challenged, we cannot assure you that parties claiming

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## RISK FACTORS

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to have intellectual property rights in connection with the image of the manga series' main character or the Chinese characters “蠟筆小新” or “蜡笔小新” rendered in different artistic styles will not bring claims or other proceedings against us in the PRC or other jurisdictions where we sell our products under current or future intellectual property laws or other laws. Any claims or proceedings against us, whether with or without merit, could be costly and time-consuming to defend, and result in the diversion of the attention of our management personnel, thereby adversely affecting our operational and financial positions. In addition, there is no certainty as to the outcome of such claims or proceedings.

Moreover, there may be market confusion regarding our “Labixiaoxin” brand name because it may appear similar to brand names used by other Independent Third Parties. In the event that other brand names similar to ours become unpopular or affected by any negative publicity, our “Labixiaoxin” brand name may be adversely affected, which could have a material adverse effect on our reputation, business, results of operations and financial position.

In addition to registrations in connection with our “Labixiaoxin” trademark, we had 110 registered trademarks in China as of the Latest Practicable Date, some of which we do not use in the marking of our products. We cannot assure you that these trademarks will not infringe the intellectual rights owned by third parties, or that third parties will not assert claims to our trademarks. If a third party brings an intellectual property claim against us, even if it is without merit, it will require substantial managerial and financial resources to defend, which could have a material adverse effect on our reputation, business, results of operations and financial position.

***Sales of our products are subject to changes in consumer perception, preferences and tastes.***

The snack food industry is subject to changes in consumer perception, preferences and tastes. Our business and financial performance depends on factors which may affect the level and pattern of consumer spending in China. Such factors include consumer preferences and tastes, consumer confidence, consumer incomes and consumer perceptions of the safety and quality of our products. Media coverage regarding the safety or quality of, or diet or health issues relating to, food, beverages, raw materials or additives that are used or involved in the manufacturing process may damage consumer confidence in these products. A general decline in the consumption of our products could also occur as a result of a change in consumer preferences, perceptions and spending habits at any time. Our future success will depend partly on our ability to anticipate or adapt to such changes and to offer, on a timely basis, new products that meet consumer preferences. Any failure to adapt our products to respond to such changes may result in a decrease in our sales. Any changes in consumer preferences and tastes could result in lower sales of our products, put pressure on pricing or lead to increased levels of advertising and promotional expenses, thereby materially and adversely affecting our business, results of operations and financial position.

***We may be subject to product liability claims.***

We, like other food manufacturers, may face product liability claims. The consumption of certain food products may cause illness, injury or, in extreme cases, death. Such illness, injury or death may result from unauthorized tampering by third parties or product contamination or degeneration, including the presence of foreign contaminants, chemical substances or other agents or residues during the various stages of the procurement, production, transportation and storage processes. Such illegal or harmful substances that we are not able to detect or identify using our standard procedures may exist in the raw materials or be brought into the production process due to failure of our employees to follow our production policies, or may result from improper handling during transit or by the distributors or retailers.

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In addition, we export a small amount of our products from China to our foreign customers both under OEM arrangements and our own brand, and we rely on other entities such as our PRC export agents and our foreign customers to complete the export sales. Since our export contracts do not address risk allocation regarding product liability, and which party is at fault would be determined based on facts and circumstances of each claim and relevant PRC and foreign laws and regulations, we may be exposed to product liability claims in the PRC or overseas.

Although as of the Latest Practicable Date there had not been any product liability claims against us, in the event that our products are found to be unfit for human consumption or detrimental to human health, resulting in illnesses or deaths of any persons, we may be subject to regulatory investigations, product liability claims and be required to compensate affected parties. While we are subject to government inspections and regulations, we cannot assure you that our products will not be found to be unfit for consumption, or that we will not be subject to claims for significant damages or lawsuits relating to such matters. Furthermore, even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity arising from any assertions that our products may be harmful or unfit for human consumption could adversely affect our reputation and brand image.

***We face intense competition from other manufacturers of jelly products as well as other snack food products.***

Competition in the snack food industry in the PRC is intense. There are a large number of domestic and international manufacturers of products similar to ours. In addition, as we expand our business and diversify our product offerings, we may face competition for our new snack products in different markets. Competition is primarily manifested in the form of pricing concessions, rapid new product introduction, and intensive advertising campaigns. Some of our competitors may have a longer operating history than we do and may have substantially greater financial resources or research and development capabilities than us. To sustain our competitive edge, we need to invest continuously in product research and development, advertising and promotional activities and, as the case may require, reduce our cost of sales. We cannot assure you that our current or potential competitors will not provide products comparable or superior to those we provide or adapt more quickly than we do to evolving industry trends or changing market preferences. If we are unable to compete effectively with local and foreign competitors, our business, results of operations and financial position will be materially and adversely affected.

In particular, we price our products based on a combination of different factors, including our ability to differentiate our products from those of our competitors and the extent of market competition. We have historically maintained our sales prices at desired levels and differentiate our products from our competitors' by regularly introducing new or improved products. If we are unable to continue to compete effectively, our ability to continue to price our products at desired levels may be materially and adversely affected, resulting in an adverse impact to our business, our results of operations and financial performance.

***We may be adversely impacted by any negative publicity suffered by the food and beverage industry in China or abroad.***

The food and beverage industry in China has in the past experienced problems related to contamination and food safety due to adulterated supplies of raw materials and inadequate enforcement of food safety regulations and inspection procedures. For example, in 2008 a significant proportion of the

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supply of milk and infant formula in China was contaminated with melamine, which affected hundreds of thousands of consumers, and caused the deaths of several infants and illness in thousands of young children. The 2008 melamine incident also resulted in large scale product recalls, the closure of one of China's largest dairy products manufacturers, and significantly reduced consumer confidence in dairy and dairy-related products, thereby causing a significant decline in the sales of dairy and dairy-related products in China. We use dairy products and other raw materials which may be potentially exposed to contamination to manufacture our confectionary products. During the height of the melamine incident in early 2009, sales of our candies containing milk experienced a sharp decrease in sales volume, which caused the revenue of our confectionary products to drop by 31.3% from 2008 to 2009 compared to the previous year. Moreover, in May 2011, governmental authorities in Taiwan determined that certain local suppliers had been illegally using certain types of plasticizers as additives in their raw materials, which were used to manufacture a variety of processed food and beverages, including snack food products. Although our food and beverage products do not contain such plasticizers (whether as a result of contamination during the production processes or migration from packaging materials), and the packaging materials we use do not contain plasticizers exceeding levels permitted under relevant PRC laws and regulations, contamination or food safety incidents similar to the melamine or the plasticizer incident in the future could affect consumer perception of the safety of snack food products generally, which may in turn materially and adversely harm our business, results of operation and financial position.

*We may not be able to introduce new products successfully.*

A key to our expansion strategy is the development and introduction of new snack food products and additional flavors and types of jelly products to complement our existing product lines. We intend to continue to introduce new snack food products and different flavors, sizes and packaging of existing products in the future, such as egg rolls. The success of the new products we introduce depends on our ability to anticipate the changing tastes of consumers and to offer products that appeal to their preferences. We cannot assure you that we will be able to gain market acceptance or significant market share for our new products. Consumer preferences change, and any new products that we introduce may fail to meet the particular tastes or requirements of consumers, or may be unable to replace their existing preferences. Our failure to anticipate, identify or react to these particular tastes or preferences could result in reduced demand for our products. This could in turn lead to our inability to recover our research and development, production and marketing costs, thereby materially and adversely affecting our business, results of operations and financial position.

*Our expansion plan may not be successful and we may not successfully manage our growth.*

As the scale of our operations grows, we will need to continuously improve our management, operational and financial systems and strengthen our internal procedures and control. Our expansion plans involve widening our product offerings and increasing production volume by expanding our existing production facility in Tianjin Municipality in the next five years. In addition, we have started to construct a new production facility on a parcel of land in Anhui Province which we acquired in 2011. We also plan to continue to expand our distribution network in China and further enhance our relationships with wholesale distributors and key account customers. For more details, please see "Business — Production Process and Production Facilities — Production Expansion Plan" and "Business — Our Business Strategies." As a result, we may be affected by a number of factors which may not be within our control. These factors include fluctuations in domestic and international demand for our products, changes in consumer taste and preference, increasing competition from snack food manufacturers and other industry

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participants. An adverse change in any of these factors may disrupt our expansion plans and have a material adverse effect on our business, results of operations and financial position. Moreover, we cannot assure you that our existing or future management, operational and financial systems, internal procedures and controls (including those relating to corporate governance) will be adequate to support our expansion and future operations or that we will be able to establish or develop business relationships beneficial to our future operations. Further, we may not be able to obtain adequate financing to complete construction and commence commercial operations of our new production facilities. Failure to execute our expansion plan efficiently, scale our business appropriately and manage our growth effectively could have a material adverse effect on our business, results of operations and financial position.

*We are susceptible to fluctuations in raw materials prices.*

Our production costs and profitability depend, in part, on our ability to source and maintain a stable and sufficient supply of raw materials at acceptable prices. Our major raw materials include: jelly powder, sugar, water, canned fruit and packaging materials. We procure all of our raw materials from within the PRC. Our raw material costs (including packaging materials) for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 amounted to RMB393.0 million, RMB394.3 million, RMB497.8 million and RMB301.1 million, respectively, which constituted 89.6%, 81.6%, 84.4% and 83.6%, respectively, of our cost of sales. If we are unable to obtain raw materials in the quantities and of a quality that we require, our volume and/or quality of production will decline, which in turn may have a material adverse effect on our results of operation.

Raw materials we use in our production are subject to price volatility caused by external factors beyond our control, such as climatic and environmental conditions, commodity price fluctuations and changes in government policies which might reduce supply, leading to an increase in supply costs. An increase in the prices of our raw materials, or any inability to source and obtain alternative suppliers, may have a significant impact on our profit margins and hence our profitability. Our total raw material costs are expected to continue to increase in the foreseeable future, consistent with the general trend of rising commodity prices in the PRC. We expect that our raw material costs will continue to fluctuate and be affected by inflation in the future. Price fluctuations in our raw materials may result in unexpected increases in production costs, and if we are unable to manage these costs or to pass on any such increase to our customers, our profitability will decrease. Hence, any significant increase in the price of raw materials may materially and adversely affect our business, results of operations and financial position.

*We depend on wholesale distributors, key account agents and export agents to sell our products.*

We depend on wholesale distributors, key account agents and export agents to sell our products. As of October 31, 2011, we worked with over 190 wholesale distributors covering 31 provinces, municipalities and autonomous regions in China, 10 key account agents that distributed our products to key account customers in China, and through four PRC export agents, we sold our products both under OEM arrangements and our own brand to our foreign customers primarily in Latin America. We do not have long-term contracts with our wholesale distributors, key account agents and export agents, and we typically negotiate and enter into distribution, master sales or agency agreements for a term of one year. As our existing agreements with our wholesale distributors, key account agents or export agents expire, we may be unable to renew these agreements with our desired wholesale distributors, key account agents or export agents on favorable terms or at all. In addition, these agreements do not set forth clauses such as minimum sales commitments, and therefore may not lead to actual sales. Furthermore, it is possible that



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we may lose wholesale distributors and key account agents to our competitors. We may also choose to terminate underperforming wholesale distributors. Any disruption in our relationships with our wholesale distributors, key account agents or export agents, including our failure to renew our existing agreements with any of them, could affect our ability to effectively sell our products and would materially and adversely affect our business, results of operations and financial position.

***We may be unable to effectively manage our wholesale distributors or key account agents.***

We have limited ability to manage the activities of our wholesale distributors and key account agents, which are independent from us. Our wholesale distributors or key account agents may violate their agreements with us through, among other things:

- selling our products outside their designated models, areas or retail outlets, in violation of the exclusive distribution rights of our other distributors;
- failing to adhere to our pricing policies;
- failing to provide proper services to the retailers;
- failing to adequately promote our products; or
- selling products that compete with ours.

Failure to adequately manage our wholesale distributors or key account agents, or non-compliance by our wholesale distributors or key account agents with our agreements could harm our corporate image and disrupt our sales. Furthermore, our wholesale distributors or key account agents may violate applicable laws or otherwise engage in illegal practices, with respect to their sales and marketing of our products. In such case, we could be liable for legal actions taken against them and be required to pay damages or fines, which could materially and adversely affect our business, results of operations and financial position. In addition, our brand and reputation, our sales activities or the price of our products could be adversely affected if we become the target of any negative publicity as a result of any improper action taken by our wholesale distributors or key account agents.

***We are dependent on a skilled workforce to run our production facilities.***

As we expand our operations and invest in other production facilities, we will have to continuously recruit qualified employees to work at our production facilities. If the regions surrounding our production facilities are not able to supply a sufficiently sizable workforce or if the cost of labor increases, we may need to expend additional resources to attract and recruit suitable employees. In addition, our operations depend on the experience of our employees, the training of whom may require considerable resources. We cannot assure you that we will be able to recruit or retain employees with the requisite skills, or that we will have the necessary resources to adequately train our employees, or that we will be able to do so at reasonable costs.



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***We rely on third-party manufacturers for the manufacture of some of our products.***

All of our confectionary products and our other products (except for powdered milk tea) are manufactured by independent third-party manufacturers through OEM arrangements with us. We then sell these products under our own brand names and logos. As of October 31, 2011, we had engaged 11 and three OEM partners to manufacture confectionary products and our other products (except for powdered milk tea), respectively. For more information, please see “Business — Production Process and Production Facilities — OEM Arrangements.” For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, products manufactured through OEM arrangements accounted for approximately 14.8%, 9.5%, 11.6% and 12.5% of our total sales, respectively.

We may not always be able to find OEM partners operating at a standard acceptable to us. Our OEM partners may not always be able to provide us with required quantities of products of sufficiently high quality in a timely manner and at a competitive price. We may, from time to time, and have in the past, rejected products that failed to meet our specifications, resulting in potential delays to our customers. We cannot assure you that all products manufactured by our OEM partners would meet all of our quality standards. If the products manufactured by our OEM partners and sold under our brand names are defective, or are of poor quality, or fail to meet our customers’ expectations, we may be exposed to liability or our reputation may be damaged. This could materially and adversely affect our business, results of operation and financial position.

Moreover, we suggest all our OEM partners to source all of their raw materials from reputable suppliers. The OEM agreements we enter into with our OEM partners generally provide that the OEM partners will manufacture a particular type of product for us for a term of one year for a fixed price. If there are significant increases in the prices quoted by our OEM partners, we may not be able to fully pass these increases on to our customers due to competitive pricing pressures and that could materially and adversely affect our business, results of operations and financial position. In such cases, we may have to seek alternative OEM partners with comparable prices and products which may result in delivery delays to our customers. If we are unable to locate suitable OEM partners or manufacture these products internally, we may have to cease sales of such items, thus materially and adversely affecting our business, results of operation and financial position.

***Delays in delivery by independent third-party logistics providers, wholesale distributors, key account agents or export agents may affect our sales and damage our reputation.***

We rely on a number of independent third-party logistics providers for the transportation and delivery of our products to our wholesale distributors, key account agents and export agents, and we bear the costs of such product delivery. The vast majority of our products are delivered by road with the remainder being delivered by rail from our production facilities to the warehouses of our wholesale distributors, key account agents, or Chinese ports designated by our PRC export agents. The services provided by these logistics providers could be interrupted and could delay the delivery of our products to customers due to unforeseen events. Delivery disruptions may occur for various reasons beyond our control, including poor handling by logistics providers, transportation bottlenecks, adverse weather conditions and natural disasters, social unrest and labor strikes, which could result in delayed or lost deliveries, and may result in loss of revenue and damage to our reputation. Poor handling by logistics providers could also damage our products. In addition, any significant increase in the cost of transportation, such as increased fuel cost, will increase our operating expenses. Furthermore, wholesale

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distributors, key account agents or export agents may experience interruptions or delays in the delivery of our products to secondary distributors, retailers (including our key account customers) or our foreign customers due to factors not within our control, which could indirectly adversely affect us. Any delay or lost deliveries may result in loss of revenue, payments of compensation to customers and damage to our reputation, and may materially and adversely affect our business, results of operations and financial position.

***Sales of some of our products are subject to seasonality.***

The sales of some of our products are subject to seasonality fluctuations. Historically, we have experienced higher sales of our jelly and confectionary products during the traditional Chinese festival and holiday seasons, such as the Chinese New Year, which is typically in the first quarter of our financial year. Seasonal variations may cause fluctuations in our interim sales and profits. As a result, our results of operations fluctuate and our interim results may not proportionately reflect our annual results.

***Counterfeiting or imitation of our products may damage our reputation and brand names as well as lead to higher administrative costs.***

China's intellectual property laws are still evolving, and the levels of protection and means of enforcement of intellectual property rights in China differ from those in Hong Kong or other jurisdictions. Counterfeiting and imitation of popular consumer and branded products occur from time to time in China. Most of our products are marketed under our primary "Labixiaoxin" brand, which is a well-recognized brand name for jelly products and is critical to our success. We believe the popularity of our brand name makes it a target of counterfeiting or imitation, with third parties attempting to pass off counterfeit products as our products. In the past, a PRC company used our "Labixiaoxin" trademark on its food products without our authorization. To stop such unauthorized use, we brought a civil action against such company, and made petitions to the SAIC, which recognized our "Labixiaoxin" trademark as a "China Well-Known Trademark" in 2007 and prohibited the unauthorized use by the infringing party. Although we successfully stopped the infringement of our trademark as mentioned above, we cannot assure you that other occurrences of counterfeiting or imitation of our products will not occur in the future and, if they do occur, whether we will be able to detect and deal with them effectively.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any infringement of our intellectual property rights having a material adverse effect on our business. To protect our intellectual property rights, we undertake proactive anti-counterfeiting measures, including (i) timely registration of marks we intend to use as trademarks in relevant jurisdictions, (ii) active monitoring of the market for potential infringement activities, and (iii) frequent communications with our wholesale distributors to respond to potential infringement activities they have identified in their respective distribution areas. However, we cannot assure you that we will be able to promptly detect the presence of counterfeited products on the market, or that our anti-counterfeiting measures in general will prove effective in preventing counterfeiting and imitation. Any occurrence of counterfeiting or imitation could adversely affect our reputation and brand names, leading to loss of consumer confidence in our brand. In addition, counterfeit and imitation products could result in a reduction of our market share, causing a long-term or even permanent decline in our sales and profitability, as well as increasing our administrative costs in respect of detection and prosecution.

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***We consider the formulas of our products to be our trade secrets, and our ability to compete could be harmed if such trade secrets were disclosed to third parties.***

We rely on trade secret protection to secure our proprietary formulas, production processes and packaging of our products. We rely on a combination of contractual responsibilities and confidential restrictions in agreements with employees, OEM partners and other entities to which we disclose our proprietary formulas, and legal and statutory protections to safeguard our proprietary rights, including ingredients, production formulas and packaging of our products. Any breach of confidentiality by our employees, OEM partners or any other entities having access to our formulas and other trade secrets could result in third parties, including our competitors, gaining access to such formulas and trade secrets. If our competitors are able to successfully imitate our proprietary formulas and/or our product packaging while managing to provide comparable products at competitive prices, our market share may decrease. In addition, the intellectual property-related laws and their implementation in the PRC are still developing, which results in a degree of uncertainty as to interpretation and enforcement and may limit the legal protections available to us. In the event that the protection afforded by law does not adequately safeguard our trade secrets and other intellectual property rights, we may suffer significant losses in revenues, and our business, results of operations and financial position could be materially and adversely affected.

***Our operations are subject to production malfunctions and other risks and routine shutdowns for maintenance.***

Our operations are subject to production difficulties such as capacity constraints, mechanical and systems failures, construction and equipment upgrades and delays in the delivery of machineries, any of which could cause suspension of production and reduced output. Scheduled and unscheduled maintenance programs may also affect our production output. We carry out routine maintenance of our production equipment and we also carry out major maintenance work annually. Any significant manufacturing disruption could adversely affect our ability to manufacture and sell products, which could have a material adverse effect on our business, results of operations and financial position.

***Any disruption in the supply of utilities or an outbreak of fire or other calamities at our production facilities may disrupt our business operations.***

The operation of our production facilities depends on a continuous supply of utilities such as electricity and water. In time of excessive demand, the PRC authorities may, as a result of a shortage of power, ration the supply of utilities, such as electricity, and require our production facilities to shut down periodically. In order to reduce the loss of work-in-progress and to resume operational capacity in the event of a power shortage, we maintain backup power systems to provide electricity to our machinery and equipment until they can be safely turned off or switched to backup electricity supplies. However, our backup power systems may not be capable of meeting all of our production needs over a prolonged period of time. Any disruption to the supply of electricity and/or water at our production facilities may disrupt our production, or cause deterioration or loss of our products. This could adversely affect our ability to fulfill our sales orders and consequently may have a material adverse effect on our business, results of operations and financial position.

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In addition, our facilities and operations are subject to operational risks, such as interruption by fire, earthquake, floods, hardware and software failure, computer viruses, equipment obsolescence, malfunction or failure, labor disputes, industrial accidents and other events beyond our control. While we have implemented fire safety measures in accordance with the relevant regulatory requirements in the PRC and employed additional measures to safeguard our production facilities, we cannot assure you that such measures would be sufficient to prevent any outbreak of fire, damage or losses to our assets in the future. In addition, our fixed assets insurance may be insufficient to cover any damage to, or loss of our major assets. In the event that major damage to our production facilities occur, and our insurance coverage is inadequate to compensate us for such damage, we may suffer significant loss and our business, results of operations and financial position may be materially and adversely affected.

***Our workers are subject to risks of serious injury caused by the use of production equipment and tools.***

We use heavy machinery and equipment such as industrial mixing, rolling and compressing machines, boiling cauldron and cutting equipment, which are potentially dangerous in our operations. In addition, certain steps of our production processes involve melting sugar and other raw materials at high temperatures using gas and steam, which could also be hazardous. Any significant accident caused by the use of such equipment or machinery could interrupt our operations and result in legal and regulatory liabilities. While we provide personal injury insurance for our employees, insurance coverage related to accidents resulting from the proper or improper use of such equipment or tools may be inadequate to offset losses arising from claims related to such accidents.

***The discontinuation of any of the preferential tax treatments currently available would likely increase our enterprise income tax expenses.***

The effective enterprise income tax rates for different companies in China may vary depending on the availability of preferential tax treatments or subsidies based on a company's industry or location. In accordance with approvals granted by state and local tax bureaus of the PRC, some of our PRC subsidiaries have enjoyed or are still enjoying certain tax preferential treatments and government subsidies. Our operating subsidiary, LBXX Tianjin, is entitled to an exemption from PRC enterprise income tax for two years starting from its first profit-making year and a 50% reduction in the state enterprise income tax for the following three years. The first profit-making year for LBXX Tianjin was the financial year ended December 31, 2008. Upon the expiration of such tax concession, LBXX Tianjin will be subject to the regular PRC enterprise income tax rate of 25%.

In addition, LBXX Fujian has been designated as an NHTE since 2010 and enjoys a 15% enterprise income tax rate as a result. Such designation as an NHTE is subject to review and renewal every three years. If LBXX Fujian fails to retain its status as an NHTE, then it will be subject to the regular PRC enterprise income tax rate of 25%. Any increase in the enterprise income tax rate applicable to us or discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by our PRC subsidiaries could adversely affect our business, results of operations and financial position. Please see "Financial Information — Factors Affecting our Results of Operations — Taxation" in this prospectus for more information.

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***We have limited insurance to cover our potential losses and claims.***

As is customary in our industry, only some of our production facilities, machinery and equipment, and vehicles, among others, are insured. There is no legal requirement under PRC laws and regulations to insure all production equipment and machinery. However, even if we purchased such comprehensive insurance, certain kinds of losses cannot be insured or insured at a commercially reasonable cost, and our insurance policies are subject to liability limits and exclusions. For example, we do not maintain any product liability insurance coverage with respect to our domestic and export sales. Accordingly, in the event of a successful product liability claim against us, we will be liable for damages and may be ordered to suspend or cease production by the relevant government authorities. This may result in negative publicity and a loss of customer confidence and/or goodwill which could lead to a reduction in sales, cancellation of major contracts or cessation of our business. Any claims by consumers or the government that our snack food products caused injury, illness, or death could have a material adverse effect on our reputation with existing and potential customers and on our business, results of operations and financial position.

In addition, we are not insured against business interruptions resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities. As business interruption insurance is not generally available in China, any interruption to our operations, and the resulting losses or damages, could materially adversely affect our business, results of operations and financial condition.

***We are reliant on our key management personnel.***

Our continued success, to a large extent, depends on our ability to retain the services of our key management and operational personnel. The loss of certain existing key personnel including our executive officers without suitable replacements, or the inability to attract and retain suitably qualified personnel, could adversely affect our results of operations. In particular, the loss of the services of our chairman, Mr. Zheng Yu Long, our chief executive officer, Mr. Zheng Yu Shuang, or our vice-chairman, Mr. Zheng Yu Huan, would have a material adverse impact on our performance as they hold key positions with respect to our overall operations, quality control, sales and marketing, strategic planning and business development. We cannot assure you that we will be able to retain the services of such key executives in the future.

***We and entities with which we collaborate to export our products may not be able to meet regulatory requirements imposed by the governments of the PRC or our export destinations.***

We export a small amount of our products from China to our foreign customers both under OEM arrangements and our own brand. Certain countries to which we export our products may impose technical, hygienic, environmental or other requirements on the export, distribution and sales of our products, which may be different from or more stringent than the standards imposed by the PRC government authorities. In addition to requirements imposed by the PRC government, other countries may also require us and entities with which we collaborate to export our products to obtain various approvals, certificates, registrations or other documentation to conduct our export sales. Although during the Track Record Period and up to the Latest Practicable Date, we had in all material respects complied with all laws and regulations applicable to us and relevant to our export sales in the PRC and in the destination countries to which we export our products by completing all necessary procedures to obtain all relevant health and

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food safety approvals, certificates, registrations or any other legally required documentation from the relevant government authorities in the PRC and in the destination countries with respect to the relevant exported products, we depend on our export agents and our foreign customers to complete our export sales, and they are responsible for complying with other aspects of the relevant PRC and foreign laws and regulations. As such, we cannot assure you that all of our export agents, our foreign customers or any other entities are in compliance with all other aspects of PRC or foreign laws and regulations relevant to our export sales, or that they can meet the relevant standards or obtain the approvals, certificates, registrations or other documentation necessary to our export sales. If we or other entities with which we collaborate with to export our products fail to satisfy the relevant standards adopted by the PRC or the destination countries or obtain the requisite approvals, certificates, registrations or other documentation now or in the future, our ability to export to these markets could be materially and adversely affected. We may also face regulatory actions or claims for significant damages, and there may be a material adverse effect on our business, results of operations and financial position.

***We recorded net current liabilities as of each of December 31, 2008, 2009 and 2010 and we cannot assure you that we will not continue to record net current liabilities.***

We recorded net current liabilities of RMB20.7 million, RMB47.7 million and RMB30.4 million as of December 31, 2008, 2009 and 2010, respectively. Our current liabilities primarily consists of trade and other payables as well as bank borrowings. Our current assets primarily consist of trade receivables and inventories. Our current liabilities exceeded our current assets as of each of December 31, 2008, 2009 and 2010. The construction of our Sichuan production facility as part of our production expansion plan resulted in a large amount of capital expenditures from 2008 to 2010, which was partially funded by incurring short-term bank borrowings. We recorded net current assets of RMB95.7 million as of May 31, 2011 and RMB69.9 million as of September 30, 2011. However, there can be no assurance that the net proceeds from the Global Offering and our internally generated resources will be sufficient to finance all of our capital expenditures and operations in the long run. Thus, it may be necessary for us to resort to additional external financing such as additional bank borrowings. Although we have in place agreed credit limits from our banking facilities, consistent with our experience of Chinese lending practice, the terms of any drawdown thereunder are not set and remain to be agreed prior to any drawdown. Should we fail to obtain sufficient long-term financing in this respect, we will continue to record net current liabilities, which may limit our future development plans and expose us to certain liquidity risks. As a result, our capital structure, business, results of operations and financial position may be materially adversely affected. Please also see “Financial Information — Net Current (Liabilities)/Assets.”

***Our subsidiary LBXX Fujian failed to comply with certain financial covenants under the terms of its short-term bank borrowings during the Track Record Period.***

Certain short-term borrowings of our subsidiary, LBXX Fujian, from a bank are subject to certain financial covenants, which require LBXX Fujian to maintain a debt ratio of no more than 50%, a current ratio of no lower than 1.0 and a quick ratio of no lower than 0.8 during the terms of the respective loans. As of each of December 31, 2008, 2009 and 2010 and during the five months ended May 31, 2011, LBXX Fujian had drawn down on certain of its bank loans in breach of certain financial covenants. Due to the breaches of these financial covenants, the lending bank became contractually entitled to request early repayment of the outstanding amount of the loans, which amounted to RMB32.0 million as of May 31, 2011.



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On August 17, 2011, LBXX Fujian obtained a waiver from the lending bank in respect of the breach of the financial covenant before May 31, 2011 for the outstanding bank borrowings of RMB32.0 million as of May 31, 2011. As of the Latest Practicable Date, the lending bank did not request us to make early repayment of the above-mentioned outstanding bank borrowings. For more information, please see “Financial Information — Indebtedness — Borrowings.” We cannot assure you that our subsidiaries will not breach any financial covenants under their respective loan agreements in the future, or that lending banks will not accelerate the repayment obligations or enforce other remedies against us. If we are required to make early repayment, our cash flow position may be adversely affected. Furthermore, non-compliance with financial covenants may trigger cross-default provisions and affect our ability to borrow in the future, which will in turn may have a material adverse effect on our business, results of operations and financial position.

### RISKS RELATING TO THE FOOD AND BEVERAGE INDUSTRY IN CHINA

#### *Changes in the existing food safety laws may affect our business operations.*

Our operations are subject to the food safety laws and regulations of the PRC and other countries to which we export our snack food products, which set out hygiene, safety and manufacturing standards with respect to food as well as hygiene, safety, packaging and other requirements for food production, production facilities and equipment used for the transportation and sale of food. For more information, please see “Summary of Principal PRC Laws and Regulations Relating to Our Business” in Appendix V to this prospectus. In particular, according to the Food Safety Law of the PRC (中華人民共和國食品安全法) which became effective on June 1, 2009 and its implementation regulations which became effective on July 8, 2009, we are required to follow more stringent quality control and food safety standards, including, among others:

- food additives may be used only if they are deemed necessary for food production and they must be tested and proven safe in accordance with the risk assessment principles established by the PRC government before they can be used;
- chemicals other than specifically permitted additives and any substance that may harm human health are forbidden in food production;
- no food product is exempt from inspection by the relevant food safety supervision authority; and
- all food manufacturers will have to suspend production immediately and recall all products from the market if such products are found to have failed to meet the requisite food safety standards. The manufacturers are also required to notify the relevant food producers and traders, as well as consumers of such recall and keep record in this regard.

In addition, we are required to maintain proper production records of our snack food products. As the Food Safety Law of the PRC and its implementation regulations are relatively new, there are still some uncertainties as to how it will affect our business operations in the long run. Any failure to comply with the Food Safety Law of the PRC, its implementation regulations or other food safety and hygiene laws and regulations in the PRC may result in fines, suspension of operations, loss of licenses and, in more extreme cases, criminal proceedings may be brought against us and our management. Any of these events will have a material adverse impact on our production, business, results of operations and financial condition.

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We cannot assure you that the PRC government will not change the existing laws or regulations or adopt additional or more stringent laws or regulations applicable to us and our business operations. Such new laws and regulations may require the re-configuration of our methods for sourcing raw materials, production, processing and transportation, including more onerous food safety, labeling and packaging requirements, more stringent compliance requirement for waste management, increases in transportation costs and greater uncertainty in production and sourcing estimate. Our failure to comply with any applicable laws and regulations could subject us to civil liabilities, including fines, injunctions, product recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and financial position.

***We are subject to increasingly stringent environmental protection regulations.***

Our production, sales and distribution operations are subject to PRC regulations on environmental protection. They relate to, among other things, waste water discharges, exhaust gas emissions, noise emissions and industrial solid waste discharge from production facilities and waste disposal practices. Moreover, under the Regulations on The Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), we are required to submit an environmental impact assessment report to the relevant government authorities for preliminary approval before the construction of our production facilities and the installation of pollution treatment facilities, and we are subject to environmental protection examinations and required to obtain approval from the relevant government authorities after we have completed the installation of our manufacturing equipment and before the production facility may commence commercial operation. If we fail to comply with applicable environmental regulations and standards, we may be subject to fines, orders for suspension of production, orders for damage compensation, or even criminal liabilities. We cannot assure you that the PRC government will not implement additional or more stringent laws or regulations, the compliance with which may cause us to incur significant costs, which we may be unable to pass on to our customers.

***The enforcement of the PRC Labor Contract Law and increases in labor costs in the PRC may adversely affect our business and our profitability.***

The Labor Contract Law of the PRC (中華人民共和國勞動法) came into effect on January 1, 2008 and its implementation rules were promulgated and became effective on September 18, 2008. The Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. The Labor Contract Law and its implementation rules also establish requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as duration and the number of times that an employee can be placed on fixed term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labor contracts if this requirement is not satisfied.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which also came into effect on January 1, 2008, and its implementation measures, which were promulgated and became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to paid annual leave ranging from five to 15 days, depending on their length of service. Employees who waive such annual leave at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived annual leave day. Such new laws and



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regulations may increase our labor costs. In addition, certain companies operating in the PRC have experienced labor unrest in 2010 as a result of workers' dissatisfaction with working conditions and remuneration. We cannot assure you that these labor strikes will not affect general labor market conditions or result in changes to labor laws in the PRC, which in turn could adversely affect our business. Any significant increases in our labor costs and future disputes with our employees could nonetheless adversely affect our business, results of operations and financial position.

***We are required to maintain various licenses and permits to operate our business, and the loss of or failure to renew any or all of these licenses and permits could materially adversely affect our business operations.***

In accordance with PRC laws and regulations, we are required to maintain various licenses and permits in order to operate our business including, without limitation, Food Hygiene License (食品衛生許可證) and Production License for Industrial Products (工業產品生產許可證). We are required to comply with applicable hygiene and food safety standards in relation to our production processes. Our premises and transportation vehicles are subject to regular inspections by the regulatory authorities for compliance with the Implementation Rules for the Supervision and Administration on the Quality Safety of the Food Manufacturing and Processing Enterprises (Trial) (食品生產加工企業質量安全監督管理實施細則(試行)). Failure to pass these inspections, or the loss of or failure to renew our licenses and permits, could require us to temporarily or permanently suspend some or all of our production activities, which could disrupt our operations and adversely affect our business.

***The food and beverage industry in China is significantly impacted by fluctuations in the global economy and financial markets.***

The food and beverage industry in China is significantly impacted by fluctuations in the global economy and financial market. For example, the recent global economic slowdown and turmoil in the global financial markets that started in the fourth quarter of 2008 have resulted in a general credit crunch, an increased level of commercial and consumer delinquencies, lack of consumer confidence and increased market volatility. The slowdown of the worldwide economy, including that of the PRC, caused a drop in consumer confidence and the level of disposable income, which translated into lower demand for our products, affecting our results of operations. These adverse market developments and the associated uncertainties may continue to present significant challenges to the global and local economies and financial markets. As a result, the global and local economies, including the PRC economy, could continue to experience significant volatility. Significant volatility or another downturn in the PRC and global economy in the future could have a material adverse effect on the food and beverage industry in China and the demand for our products, which may affect our business, results of operations and financial position. In addition, the general lack of available credit and confidence in the financial markets associated with any market volatility or downturn could adversely affect our access to capital as well as our suppliers' and customers' access to capital, which in turn could adversely affect our ability to fund our working capital requirements and capital expenditures.

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### RISKS RELATING TO THE PRC

*PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects.*

Our production facilities are located in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the degree of PRC governmental involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, results of operations and financial position.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development.

Our business, results of operations and financial position may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the food and beverage industry;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures that may be introduced to control inflation or deflation;
- changes in rates or methods of taxation;
- imposition of additional restrictions on currency conversion and remittance abroad; and
- reduction in tariff protection and other import restrictions.

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Further, the growth of demand in China for snack food products depends heavily on economic growth. Between 1978 and 2010, China's GDP increased from approximately RMB365 billion to approximately RMB39,798 billion. We cannot assure you that such growth will be sustained in the future. Since early 2004 and from time to time, the PRC government has implemented certain measures in order to prevent the PRC economy from experiencing excessive inflation. Such governmental measures may cause a decrease in the level of economic activity, including demand for our snack food products, and have an adverse impact on economic growth in the PRC. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth of demand for snack food products may also slow down or stop. Such events could have a material adverse effect on our business, results of operations and financial position.

***Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.***

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into a foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC food and beverage industry, including those disclosed in the section headed "Summary of Principal PRC Laws and Regulations Relating to Our Business" in Appendix V to this prospectus. In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

***We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income. The PRC resident enterprise classification could result in unfavorable tax consequences to us and our non-PRC shareholders.***

Under the 2008 Tax Law and its implementation regulations (collectively, the "2008 Tax Laws"), enterprises established under the laws of jurisdictions outside the PRC with their "de facto management

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bodies” located within the PRC may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The 2008 Tax Laws provide that “de facto management body” of an enterprise is the organization that exercises substantial and overall management and control over the production, business operations, employees, books of accounts and properties of the enterprise. In April 2009, the PRC tax authority promulgated a circular providing specific tests regarding under what situations the “de facto management body” of an offshore enterprise controlled by PRC enterprises or PRC enterprise group would be considered to be located in the PRC, but there had been no official tax rules promulgated regarding the determination of “de facto management bodies” for foreign enterprises which are not controlled by PRC enterprises or PRC enterprise group like ourselves. However, as substantially all of our management team members currently reside in the PRC and may remain in the PRC in the future, our Company may be deemed a PRC resident enterprise and therefore be subject to the PRC enterprise income tax at a rate of 25% on its worldwide income, which may have a material adverse effect on our business, results of operations and financial position. Although under the EIT Law and its implementing rules, dividend income between qualified PRC resident enterprises, such as a dividend received by a PRC resident enterprise attributable to an equity interest it directly owns in another PRC resident enterprise, is exempted from income tax, it remains unclear whether dividends distributed by our PRC subsidiaries to our Company and to our overseas Shareholders will qualify for tax exemption even if our Company and our overseas Shareholders are considered PRC resident enterprises for tax purposes because there is no published rules in this regard for offshore enterprises controlled by PRC individuals or foreign individuals. Moreover, according to the Notice on Issues Regarding Tax Credit for Enterprises Foreign Income (Cai Shui [2009] No. 25) (關於企業境外所得稅收抵免有關問題的通知(財稅[2009]25號)), which was jointly issued by the Ministry of Finance and SAT on December 25, 2009 and became effective retroactively on January 1, 2008, certain enterprise income tax may be relieved if a PRC resident enterprise has already paid the income tax offshore. However, as the 2008 Tax Laws are relatively new and ambiguities still exist with respect to the interpretation of the provisions relating to resident enterprise issues, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or foreign tax credits. Finally, if we are deemed to be a PRC “resident enterprise,” dividends payable by us to our investors and gain on the sale of our Shares may become subject to PRC withholding tax.

***The new PRC enterprise income tax law will affect tax exemptions on dividends to be paid by our PRC subsidiaries to us through our Hong Kong subsidiary and we may not able to obtain certain treaty benefits under the relevant tax treaty.***

Prior to January 1, 2008, dividend payments to foreign investors made by FIEs, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. However, the 2008 Tax Laws, effective January 1, 2008, provide that any dividend payment to foreign investors who are non-resident enterprises will be subject to a withholding tax at a rate of 10%, unless any such foreign investors are qualified for a preferential withholding tax rate under the relevant taxation treaties or arrangements entered into between the PRC and other countries or areas. For instance, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, which in Hong Kong applies to income derived in any year of assessment commencing on or after April 1, 2007; and in the PRC in any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary.

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If foreign investors intend to enjoy the preferential withholding income tax rate based on the relevant taxation treaties or arrangements entered into between the PRC and other countries or areas, they are required to obtain prior approval from the relevant tax authorities according to the Circular on Printing and Issuing the Administrative Measures (Trial) for Enjoying Treatment Under Taxation Treaties by Non-resident Individuals and Enterprises (關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知) issued by SAT, which became effective on October 1, 2009. It is likely that eligibility will be assessed based on a substantive analysis of the shareholder's tax residency and economic substance. With respect to dividends, the beneficial ownership tests under Circular 601 (關於如何理解和確定稅收協定中受益所有人的通知), which was issued by SAT on October 27, 2009, will also apply. In addition, according to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by SAT on February 20, 2009, if the main purpose of an offshore transaction is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential withholding tax rate levied on the relevant offshore entity. If our Hong Kong subsidiaries cannot be regarded as the beneficial owners of the dividends paid by our PRC subsidiaries to us, they will not be entitled to the treaty benefits and enjoy the preferential tax rate of 5% under the special tax arrangement between China and Hong Kong and thus the dividends will be subject to normal withholding tax of 10% as provided by the 2008 Tax Laws.

***We are a holding company that relies heavily on dividend payments from our subsidiaries for funding.***

We are a holding company and rely principally on dividends paid by our PRC subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments or agreements governing the debt may restrict dividends or other distributions from our PRC subsidiaries to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their accumulated retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after tax profits based on PRC accounting standards each year to their statutory reserves in accordance with the requirements of relevant PRC laws and provisions in their respective articles of associations. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. These restrictions and requirements could reduce the amount of distributions that we receive from our subsidiaries, which would restrict our ability to fund our operations, generate income, pay dividends and service our indebtedness.

***Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.***

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the food

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and beverage industry. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits, and other statutory and contractual rights and interests.

***The national and regional economies in China and our business prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.***

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the municipalities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of life and destruction in the region. In addition, past epidemics have caused varying degrees of damage to the national and local economies in China. Certain areas of the PRC and our other export markets are susceptible to epidemics such as SARS, H5N1 avian flu, the human swine flu, or foot-and-mouth disease. An occurrence or recurrence of any of these or other epidemics in areas where facilities producing our products are located or where our products are sold may result in material disruptions to our business operations, write-downs of capital expenditures we have invested in our production bases or livestock breeding facilities, and our sales and marketing, which in turn could materially and adversely affect our business, results of operations and financial position.

***It may be difficult to effect service of process upon us or our Directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.***

A significant portion of our assets and our subsidiaries are located in China. In addition, most of our Directors and officers reside within China, and the assets of our Directors and officers may also be located within China. As a result, it may not be possible to effect service of process outside China upon most of our Directors and officers, including for matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in other jurisdictions in relation to any matter not subject to a binding arbitration provision is subject to uncertainties.

In addition, although we will be subject to the Listing Rules and the Hong Kong Code on Takeovers and Mergers or the Hong Kong Takeover Code upon the listing of our Shares on the Stock Exchange, the holders of our Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Furthermore, the Hong Kong Takeover Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.



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***PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional contributions or loans to our PRC subsidiaries.***

Any capital contribution or loan that we, as an offshore entity, make to our PRC subsidiaries, including from the proceeds of the Global Offering, is subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment that our respective PRC subsidiaries are approved to make under relevant PRC laws and their respective registered capital, and any such loans must be registered with the local branch of SAFE. In addition, our additional capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot give assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund its operations may be adversely affected, which could harm our PRC subsidiaries' liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

In addition, in August 2008, SAFE promulgated Circular 142 (國家外匯局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless otherwise specifically provided for. In addition, SAFE has strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例). The relevant foreign exchange administrative authority may order the foreign-invested company concerned to take appropriate remedial actions, confiscate any illegal income and impose a fine of up to 30% of the illegal amount involved. Where the circumstances of infringement are serious, a fine of between 30% and 100% of the illegal amount involved may be imposed on the foreign-invested company.

***Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose vehicles by PRC residents may adversely affect our business operations.***

In October 2005, SAFE issued SAFE Circular No.75, which took effect on November 11, 2005. Also, in May 2011, SAFE issued implementation rules for the administration of foreign exchanges with respect to the financing and round-trip investments of domestic residents via overseas special purpose companies which took effect on July 1, 2011. The SAFE Circular No.75 and its implementation rules require domestic residents of the PRC (including individuals who habitually reside within the PRC due to economic interests) to register with and obtain approvals from SAFE before establishing or controlling any company outside the PRC for the purpose of capital financing with assets or equities of PRC companies, referred to therein as a "special purpose company." In addition, any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration within 30 working days after any major change in the share capital of the offshore special purpose company without any return investment being made, such as any increase or decrease in share capital, stock right assignment or exchange, consolidation or subdivision of shares, investment with long term stock rights or credits, or provision of guaranty to a foreign party.

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Among our four ultimate beneficial owners, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan have obtained Macanese residency prior to December 2007, and Mr. Li Hung Kong has obtained Hong Kong residency in January 1993. Moreover, because our Company's PRC operating subsidiaries have all been originally established as wholly foreign-owned enterprise, for the purposes of SAFE Circular No. 75, none of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan is considered to be holding equity interests in the form of domestic investment in domestic enterprises when they carry out offshore equity financing (including convertible bond financing) and round-trip investments with their equity interests in our PRC operating subsidiaries. Additionally, based on the confirmation letter issued by SAFE (Jinjiang branch), none of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan habitually resides in the PRC for reasons related to economic interests under SAFE Circular No.75 and therefore they are not subject to the relevant registration requirements. As advised by the Company's PRC legal adviser, Jingtian & Gongcheng, based on all of the above, none of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong is required to register his offshore investment with SAFE. However, we may not at all times be fully informed of the identities of all our shareholders who are PRC residents and we do not have control over our shareholders. As such, we cannot assure you that all of our PRC resident beneficial owners will comply with SAFE Circular No.75 and its implementation rules. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular No.75 and its implementation rules or the failure of future shareholders who are PRC residents to comply with the registration requirements set out in SAFE Circular No.75 and its implementation rules may subject such beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute dividends to us or otherwise materially and adversely affect our business.

***The M&A Rules established more complex procedures for acquisitions by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.***

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the State Administration of Taxation, the State-owned Assets Supervision and Administration Commission, the State Administration for Industry and Commerce, CSRC, and SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006 and was revised on June 22, 2009. The M&A Rules established stringent procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In the future, we may expand our business in part by acquiring complementary businesses, although we have not identified any target at this time. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.



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***Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.***

Pursuant to the Administrative Measures on Individual Foreign Exchange (個人外匯管理辦法) which was adopted on November 30, 2006 by the PBOC, the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則) issued on January 5, 2007 by the SAFE (the "Individual Foreign Exchange Rules") and the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued on March 28, 2007 by the SAFE ("Circular 78"), PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into China. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, as well as open foreign currency accounts to handle transactions relating to the share option or other share incentive plan.

Our PRC citizen employees who will be granted share options, or PRC option holders, together with us, will be subject to these rules upon the Listing of our Shares. In order to comply with the requirements of the Individual Foreign Exchange Rules and Circular 78, we will require our domestic employees to obtain approval from the SAFE or its local branches when they participate in the Share Option Scheme. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and sanctions.

### **RISKS RELATING TO THE GLOBAL OFFERING**

***There has been no prior public market for our Shares in Hong Kong.***

Our Shares were once traded on the SGX-ST, however, there has been no public market for our Shares in Hong Kong before the Global Offering. While we have applied to have our Shares listed on the Stock Exchange, we cannot assure you that an active and liquid trading market for our Shares will develop, or if it does develop, predict how liquid it may become, or guarantee that it will be sustained after the Global Offering. Our Shares may trade at prices significantly below the Offer Price following the Global offering.

***The market price of our Shares may be volatile which could result in substantial losses for investors purchasing Shares in the Global Offering.***

The market price for our Shares may be subject to fluctuations as a result of the following factors, as well as others, which are discussed in this "Risk Factors" section or elsewhere in the prospectus, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- changes in securities analysts' estimates of our financial performance;

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## RISK FACTORS

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- announcement by us of significant acquisitions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- involvement in litigation; and
- general economic and stock market conditions.

In recent years, stock markets in general, and particularly the markets for the shares of companies with substantial operations in China, have experienced increasing price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

***Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.***

The Offer Price of our Shares is higher than the net tangible asset book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma consolidated net tangible asset book value per Share. Immediately following the completion of the Capitalization Issue and the Global Offering, the pro forma consolidated net tangible assets will be HK\$1.43 per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset book value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset book value per Share. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

***Future offerings or sales of our Shares could adversely affect the prevailing market price of our Shares.***

Future offerings or sales of our Shares by us or our Controlling Shareholders after the Global Offering, or other Shareholders in the public market such as our pre-IPO investor, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Please see “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus for details of restrictions that may apply to future sales or offering of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales or offering of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price which we deem appropriate.

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## RISK FACTORS

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***The interests of our Controlling Shareholders may not be aligned with those of our other Shareholders.***

Immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), our Controlling Shareholders, being Alliance Holding, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong, will have effective control over approximately 64.1%, of our Company's share capital. As a result, our Controlling Shareholders will be able to exercise significant influence over all matters requiring Shareholders' approval, including the appointment of directors and the approval of significant corporate transactions. They may also have veto power with respect to any Shareholders' action or approval requiring a majority vote except where they are required by the Listing Rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Company and our Group or otherwise discourage a potential acquirer from attempting to obtain control of us through corporate actions such as merger or takeover attempts, which could conflict with the interests of our public Shareholders. In the case where the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders.

***Certain facts and statistics in this prospectus relating to the Chinese economy and the food and beverage industry are derived from various government and official sources and may not be reliable.***

We derived certain facts and statistics in this prospectus relating to the Chinese economy, the food and beverage products sector and other related sectors in China from various government and official sources, which we believe are reliable. However, we cannot assure you of the quality or reliability of these source materials. While our Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such government or official sources, they have not been independently verified by us, the Selling Shareholders, the Sole Global Coordinator, the Underwriters, nor any of their or our affiliates or advisers. We therefore make no representation as to the accuracy of such facts and statistics.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the official statistics in this prospectus relating to the Chinese economy and the food and beverage sector and other related sectors in China may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on these facts or statistics.

***We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from a Euromonitor research study contained in this prospectus.***

Certain facts and statistics cited in this prospectus, including but not limited to information and statistics relating to the snack food industries and markets, are based on information contained in a research study by Euromonitor. We cannot guarantee the quality or reliability of such facts and statistics. We believe that the source of this information is an appropriate source for such information and have taken reasonable care in extracting such information. We have no reason to believe that such information is false

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## RISK FACTORS

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or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholders, the Sole Global Coordinator or any other party involved in the Global Offering and no representation is given as to its accuracy. We therefore make no representation as to the accuracy or completeness of such facts and statistics. Accordingly, such facts and statistics should not be unduly relied upon.

***We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us for the financial year ended December 31, 2008 and 2010.***

For each of the three financial year ended December 31, 2008, 2009 and 2010, dividends were declared by us to the then Shareholders in the amount of RMB10.1 million, nil, and RMB76.7 million, respectively. In addition, in February 2011, we declared and paid an interim dividend for the year ending December 31, 2011 in the amount of RMB40.0 million.

In the future, the amount of dividends that we may declare and pay will be subject to, among other things, the discretion of our Directors, and would depend upon our future operations and earnings, capital requirements and surplus, the general financial condition and any other factors which our Directors may consider relevant. Accordingly, our historical dividend distributions, particularly the significant amount of dividends paid in 2010, are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which our future dividends are determined.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholders, the Sole Global Coordinator, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

### **UNDERWRITING**

The Global Offering comprises the Hong Kong Public Offering of initially 28,200,000 Hong Kong Offer Shares and the International Offering of initially 253,800,000 International Offer Shares (comprising 197,400,000 New Shares and 56,400,000 Sale Shares), subject, in each case, to adjustment on the basis as described in the section headed "Structure of the Global Offering" in this prospectus and, in case of the International Offering, to any exercise of the Over-allotment Option.

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Details of the terms of the Hong Kong Public Offering are described in the section headed "Structure of the Global Offering" in this prospectus and on the Application Forms.

The Global Offering is solely sponsored by Citi and jointly lead managed by Citi, BOCI and Guotai Junan. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about December 2, 2011.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### RESTRICTIONS ON THE USE OF THIS PROSPECTUS

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions contained in this prospectus and the Application Forms.

Each person acquiring Hong Kong Offer Shares will be required to confirm, or by his/her acquisition of Hong Kong Offer Shares will be deemed to confirm, that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

#### *Application for Listing on the Stock Exchange*

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including the Offer Shares and any additional Shares which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme). Dealings in our Shares on the Stock Exchange are expected to commence on December 9, 2011.

Except as otherwise disclosed in this prospectus, no part of our Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

#### *Share Register and Hong Kong Stamp Duty*

All of the Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our share register to be maintained in Hong Kong. Our principal register of members will be maintained by our Company's principal share registrar, Codan Services Limited in Bermuda.

All Shares issued or sold in the Global Offering are expected to be registered on our register of members to be maintained in Hong Kong. Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### *Eligibility for Admission into CCASS*

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

### *Professional Tax Advice Recommended*

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to the Offer Shares.

We, the Selling Shareholders, the Sole Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other persons or party involved in the Global Offering do not accept responsibility for any tax effects on or liabilities resulting from the subscription, purchase, holding or disposing of, dealing in or the exercise of any rights in relation to the Offer Shares.

### *Procedure for Application for Hong Kong Offer Shares*

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

## STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

## OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Stabilization and Over-allotment Option are set out in “Structure of the Global Offering — Over-allotment and Stabilization” in this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### EXCHANGE RATE

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts and Singapore dollars into Hong Kong dollars and certain U.S. dollars amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into HK dollars was made at the rate of RMB1.00 to HK\$1.2255, the exchange rate prevailing on November 18, 2011, set by the PBOC for foreign exchange transactions, the translation of U.S. dollars into Hong Kong dollars was made at the rate of US\$1.00 to HK\$7.7850, and the translation of Singapore dollars into Hong Kong dollars was made at the rate of S\$1.00 to HK\$5.9981. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

### ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.



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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

| <b>Name</b>                                | <b>Address</b>   | <b>Nationality</b> |
|--|--|--------------------|
| <b>Executive Directors</b>                 |  |                    |
| Zheng Yu Long                              | Room 303, Block C<br>Xi Huan Jiao Guan<br>Qing Yang Town<br>Jinjiang, Fujian<br>PRC  | Chinese            |
| Zheng Yu Shuang                            | 308 Wei Cuo Road<br>Que Tang Village<br>Luo Shan Town<br>Jinjiang, Fujian<br>PRC   | Chinese            |
| Zheng Yu Huan                              | 69, South District<br>Que Tang Village<br>Luo Shan Town<br>Jinjiang, Fujian<br>PRC   | Chinese            |
| <b>Non-executive Directors</b>             |  |                    |
| Li Gang                                    | Room 2212, Unit 2<br>Building 1, Wanke Sunshine Apartment<br>139 Shi Fo Ying Dong Li<br>Chao Yang District, Beijing<br>PRC | Canadian           |
| Li Hung Kong                               | Room G, 17/F,<br>Yuk Ming Towers<br>202 Third Street<br>Sai Ying Pun<br>Hong Kong  | Chinese            |
| <b>Independent non-executive Directors</b> |  |                    |
| Sun Kam Ching                              | Flat C, 15/F, Block 5<br>City Garden<br>North Point<br>Hong Kong   | Chinese            |
| Li Zhi Hai                                 | Room 202, Unit 2<br>No. 6 Building<br>Yi Zhuang Fu Yuan Li<br>Daxing District, Beijing<br>PRC                              | Chinese            |
| Chung Yau Tong                             | Flat A, 14/F, Ko Fung Court<br>Harbour Heights<br>5 Fook Yum Road<br>North Point<br>Hong Kong                              | Chinese            |

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### **Sole Global Coordinator and Sole Sponsor**

Citigroup Global Markets Asia Limited  
50/F, Citibank Tower, Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

#### **Joint Bookrunners**

Citigroup Global Markets Asia Limited  
50/F, Citibank Tower, Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

BOCI Asia Limited  
26th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

#### **Joint Lead Managers**

Citigroup Global Markets Asia Limited  
50/F, Citibank Tower, Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

BOCI Asia Limited  
26th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

Guotai Junan Securities (Hong Kong) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### **Legal Advisers to our Company**

*As to Hong Kong and U.S. law:*

Sidley Austin  
Level 39, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*As to PRC law:*

Jingtian & Gongcheng  
34/F, Tower 3  
China Central Place, 77 Jianguo Road  
Beijing  
PRC

*As to Bermuda Law:*

Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### **Legal Advisers to the Underwriters**

*As to Hong Kong and U.S. law:*

O'Melveny & Myers  
31/F, AIA Central  
1 Connaught Road Central  
Central  
Hong Kong

*As to PRC law:*

King & Wood PRC Lawyers  
28/F, Landmark  
4028 Jintian Rd., Futian District  
Shenzhen, Guangdong  
PRC

### **Auditor and Reporting Accountant**

PricewaterhouseCoopers  
22/F, Prince's Building  
Central  
Hong Kong

### **Property Valuer**

Vigers Appraisal And Consulting Limited  
10/F, 398 Kwun Tong Road  
Kowloon  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Receiving Bankers

Standard Chartered Bank (Hong Kong) Limited  
15th Floor  
Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong  
Kowloon  
Hong Kong

Bank of Communications Co., Ltd.  
Hong Kong Branch  
20 Pedder Street Central  
Hong Kong

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## CORPORATE INFORMATION

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|  |   |
|--|---|
| <b>Registered Office</b>                                       | Clarendon House<br>2 Church Street<br>Hamilton HM 11<br>Bermuda   |
| <b>Headquarters and principal place of business in the PRC</b> | Wuli Industrial Area<br>Jinjiang, Fujian<br>PRC   |
| <b>Place of Business in Hong Kong</b>                          | Room 1104<br>Asia-Pac Commercial Centre<br>10 North Point Road<br>North Point<br>Hong Kong  |
| <b>Company's Website</b>                                       | <b><u><a href="http://www.lbxxgroup.com">http://www.lbxxgroup.com</a></u></b><br><i>(information contained in this website does not form part of this prospectus)</i>   |
| <b>Company Secretary</b>                                       | Yap Yung <i>HKICPA</i>  |
| <b>Authorized Representatives</b>                              | Zheng Yu Shuang<br>308 Wei Cuo Road<br>Que Tang Village<br>Luo Shan Town<br>Jinjiang, Fujian<br>PRC<br><br>Yap Yung<br>Flat H, 52/F, Tower 7<br>The Pacifica<br>9 Sham Shing Road<br>Lai Chi Kok<br>Hong Kong |
| <b>Audit Committee</b>   | Chung Yau Tong ( <i>Chairman</i> )<br>Sun Kam Ching<br>Li Zhi Hai   |
| <b>Remuneration Committee</b>                                  | Zheng Yu Long ( <i>Chairman</i> )<br>Chung Yau Tong<br>Sun Kam Ching  |
| <b>Nomination Committee</b>                                    | Zheng Yu Shuang ( <i>Chairman</i> )<br>Li Zhi Hai<br>Chung Yau Tong   |

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## CORPORATE INFORMATION

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|----------------------------------|--|
| <b>Compliance Adviser</b>        | Guangdong Securities Limited<br>Units 2505-06, 25/F, Low Block<br>Grand Millennium Plaza<br>181 Queen's Road Central<br>Hong Kong  |
| <b>Principal Share Registrar</b> | Codan Services Limited<br>Clarendon House<br>2 Church Street<br>Hamilton HM11<br>Bermuda   |
| <b>Hong Kong Share Registrar</b> | Tricor Investor Services Limited<br>26th Floor, Tesbury Centre<br>28 Queen's Road East<br>Wanchai, Hong Kong   |
| <b>Principal Bankers</b>         | Construction Bank of China, Jinjiang Branch<br>Construction Bank Building<br>Zeng Jin Area, Qing Yang<br>Jinjiang, Fujian<br>PRC<br><br>Bank of Communications, Quanzhou Branch<br>550 Fengze Street<br>Quanzhou, Fujian<br>PRC<br><br>China CITIC Bank, Quanzhou Branch<br>1-2/F, Renmin Yinhang Building<br>Quanzhou, Fujian<br>PRC<br><br>Agricultural Bank of China,<br>Tianjin Wuqing Branch<br>Jinrong Building<br>Northern Xinhua Road<br>Yangcun Town<br>Wuqing Area, Tianjin<br>PRC |

## INDUSTRY OVERVIEW

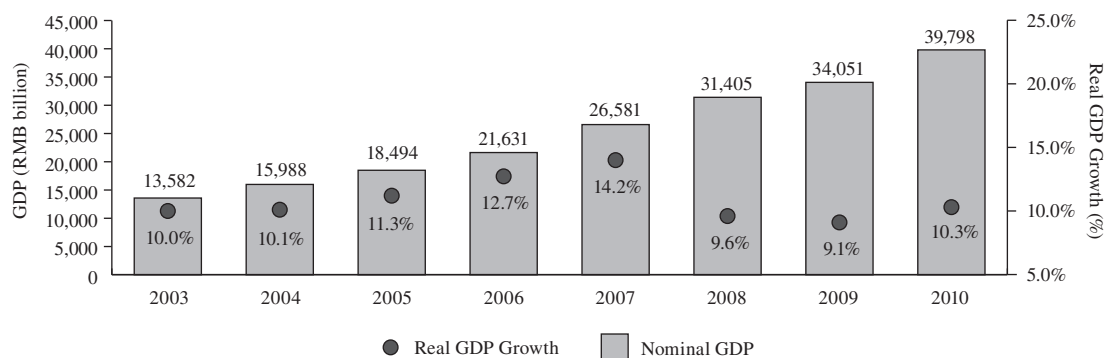
*The information and statistics in this section have been extracted and derived, in part, from various official government publications and the market study prepared for us by Euromonitor as described below. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, neither we, the Selling Shareholders, the Sole Global Coordinator, the Underwriters nor any of our or their respective directors, officers or representatives or any other person or party involved in the Global Offering has independently verified such information and statistics directly or indirectly derived from official government publications, and such parties do not make any representation as to their accuracy. Such information may not be consistent with other information compiled within or outside the PRC.*

### THE ECONOMY OF THE PRC

#### *Rapid Economic Growth in China*

China is one of the world's fastest growing economies and was named as the second largest economy in the world last year, surpassing Japan. The economy in China has continued to grow rapidly since economic reforms were introduced in 1978. Since then, the PRC government has continued to emphasize raising economic productivity and improving personal income through market-oriented reforms as well as focusing on foreign trade as a major driver of economic growth. Since the introduction of these reforms, the economy in China has continued to demonstrate high growth, with real GDP growing at a CAGR of 11.0% between 2003 and 2010. Economic growth has continued to remain strong in 2010 with a real GDP growth of 10.3% in 2010. The table below sets out the nominal GDP and real GDP growth of China between 2003 and 2010:

**Nominal GDP and Real GDP Growth in China**



Source: National Bureau of Statistics of China.

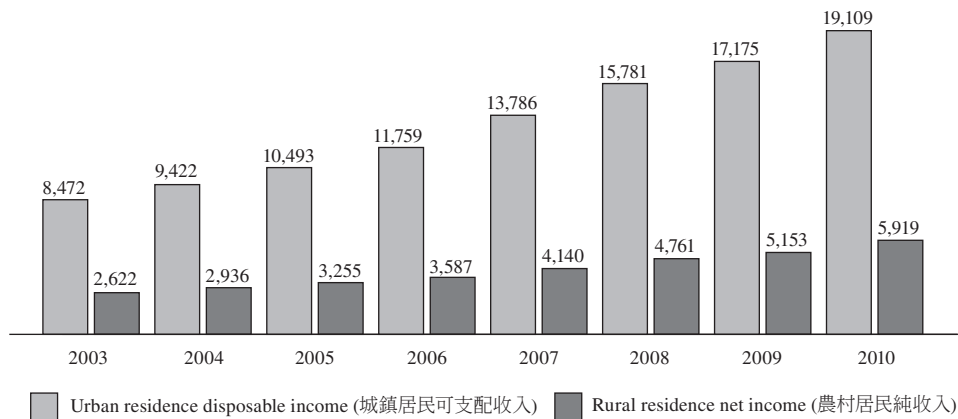


## INDUSTRY OVERVIEW

### *Increasing Disposable Income*

Disposable income of urban and rural residents in China increased significantly on the back of rapid economic expansion. Urban disposable income increased from RMB8,472 per capita in 2003 to RMB19,109 per capita in 2010, representing a CAGR of 12.3%. Rural disposable income increased from RMB2,622 per capita in 2003 to RMB5,919 per capita in 2010, representing a CAGR of 12.3%. However, rural disposable income has exhibited stronger growth in recent years, registering a growth of 14.9% in 2010, while urban disposable income grew by 11.3% over the same period.

**Urban vs. Rural Per Capita Disposable Income**  
(RMB)

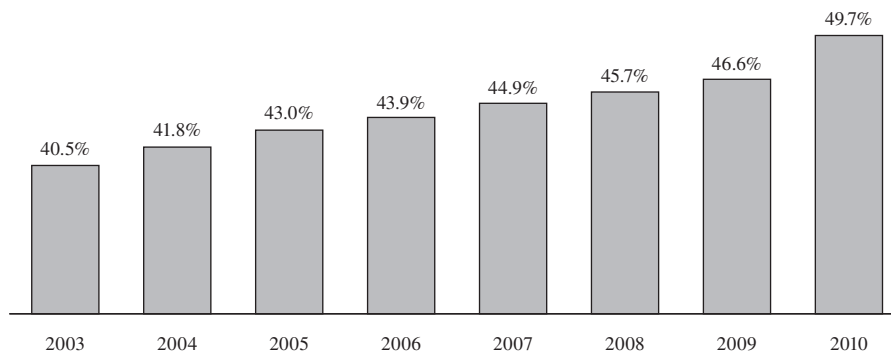


Source: National Bureau of Statistics of China.

### *Rising Urbanization and Household Consumption*

In China, the urban population has increased substantially, largely due to the significant influx of people from rural areas. The urbanization rate in China has increased from approximately 40.5% in 2003 to 49.7% in 2010. The chart below sets forth the urbanization rate in China between 2003 and 2010:

**Urbanization Rate in China**  
(%)



Source: National Bureau of Statistics of China.

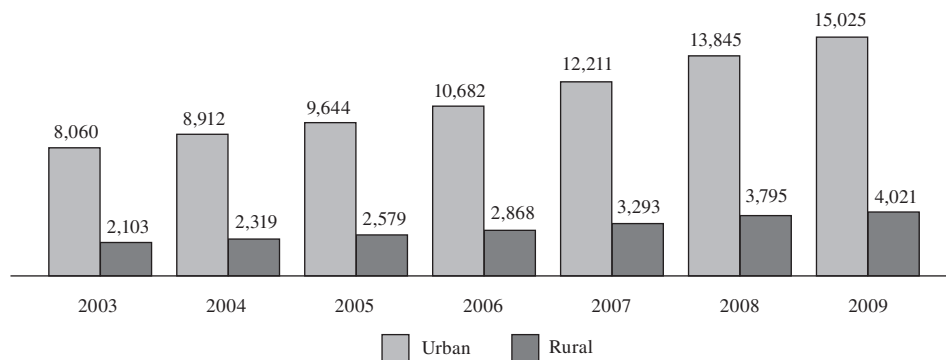
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## INDUSTRY OVERVIEW

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As residents relocate from rural areas to newly emerged cities, they earn substantially higher incomes, in higher household consumption levels. Historically, between 2003 and 2009, per capita household consumption in urban households was between 3.6 and 3.8 times higher than that of rural household consumption. In 2009, urban household consumption per capita was RMB15,025 compared to RMB4,021 in rural households. However, household consumption of rural populations has also continued to grow as a result of overall economic growth of the PRC. The chart below sets forth urban versus rural household consumption between 2003 and 2009:

**Urban vs. Rural Per Capita Household Consumption in China**  
(RMB)



*Source:* National Bureau of Statistics of China.

### OVERVIEW OF CHINA'S SNACK FOOD MARKET

The China snack food market consists of two broad segments, which are (i) confectionary products and (ii) sweet and savory snacks. According to Euromonitor, the retail sales value of the China snack food market is estimated to be RMB124,952 million in 2010, in which confectionary products and sweet and savory snacks accounted for RMB64,319 million and RMB60,633 million, respectively. The confectionary products segment consists of sugar confectionary, gum and chocolate confectionary. The sweet and savory snacks segment consists of chips and crisps, extruded snacks, fruit snacks, nuts, popcorn and other sweet and savory snacks (including jelly products).

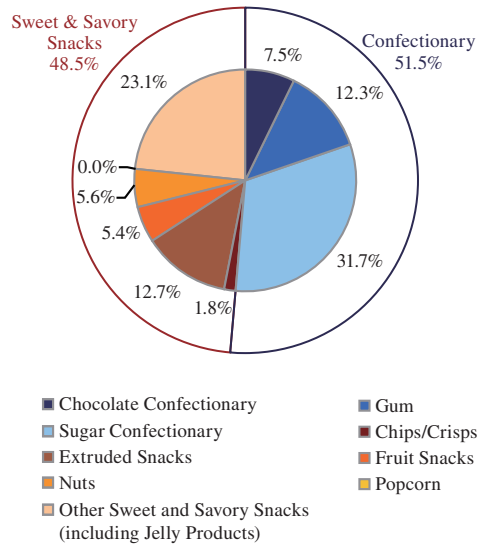
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## INDUSTRY OVERVIEW

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The chart below sets forth the breakdown of the retail sales value of China snack food market in 2010:

### Snack Market Breakdown in China



Source: Euromonitor.

## CHINA'S JELLY INDUSTRY

### Overview

According to Euromonitor, China is estimated to be the largest jelly market in the world and has continued to demonstrate continued growth supported by regional consumer preferences and habits, strong economic fundamentals, rising urbanization and growing disposable income. Jelly is a well-known snack and very popular among children in China. According to Euromonitor, the estimated retail sales value of jelly products in 2010 amounted to RMB9,410 million, representing 7.5% of the China snack food market.

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## INDUSTRY OVERVIEW

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According to Euromonitor, the retail sales value of all jelly products grew from RMB8,000 million in 2008 to RMB9,410 million in 2010, representing a CAGR of 8.5% and are expected to reach RMB14,016 million by 2013, representing a CAGR of 14.2% from 2010 to 2013. The jelly market has outgrown and is expected to outperform the overall snack food market, which grew at a CAGR of 5.6% between 2008 and 2010 and is expected grow at a CAGR of 7.4% from 2010 to 2013. The following chart sets forth the retail sales value of jelly products for the periods indicated:

**Retail Sales Value of Jelly Products in China**  
(RMB in million)



Source: Euromonitor.

### *Segment in the Jelly Market*

The jelly market can largely be divided into two categories: jelly snacks and jelly beverages. The jelly snacks segment accounted for 76.6% of the total jelly market in 2010 while jelly beverages accounted for 23.4%. Both jelly snacks and jelly beverages are available in various flavors in different shapes and packaging.

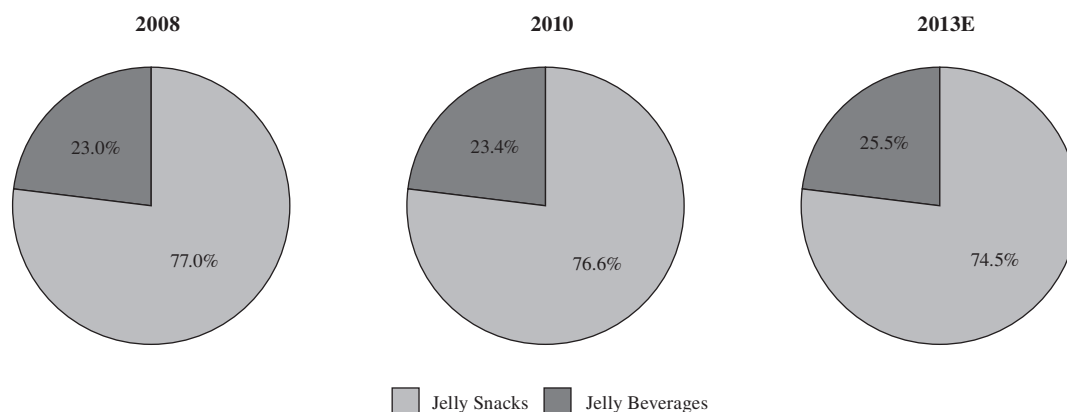
Jelly snacks are typically sold by weight as individually packaged ready-to-eat unit in the “pick-and-mix” specialty counters of larger modern food retailers where customers pick and pay according to the weight or the quantity of the products. It is also packaged into containers or bags and sold in pre-packaged form. “Pick-and-mix” jelly and pre-packaged jelly accounted for 70.0% and 30.0% of the total jelly snacks retail sales value in 2010 respectively. However, recent developments have shown the share of packaged jelly is increasing and is expected to account for 35.0% of the market in 2013. This is partly driven by the continuous improvement in packaging as well as promotional campaigns by manufacturers. Some manufacturers have been promoting packaged jelly as a gift item and have introduced toy shaped packaging, such as animal shaped jars, which have been increasingly popular among children.

Jelly beverages are typically sold by individual pieces. It is a relatively new product category and was introduced as an alternative to jelly snacks. It is perceived to be a safer and a more convenient product than traditional jelly snacks as small jelly snacks may pose a choking hazard and often leak when the package is opened. Currently, jelly beverages are primarily targeted toward children as the core consumer group. However, manufacturers are expected to increase their product offerings and expand into adjacent consumer groups.

## INDUSTRY OVERVIEW

The retail sales value of jelly snacks grew from RMB6,160 million in 2008 to RMB7,208 million in 2010, representing a CAGR of 8.2% and are expected to reach RMB10,447 million by 2013, representing a CAGR of 13.2% from 2010 to 2013. Jelly beverages grew slightly faster than jelly snacks with the retail sales value growing from RMB1,840 million in 2008 to RMB2,202 million in 2010, representing a CAGR of 9.4% and are expected to reach RMB3,569 million by 2013, representing a CAGR of 17.5% from 2010 to 2013. Jelly beverages are expected to outperform jelly snacks as it is perceived to be a newer, safer and more convenient product. The charts below set forth the breakdown of the jelly market by the total retail sales value for the periods indicated:

**Jelly Market Breakdown by Retail Sales Value in China**

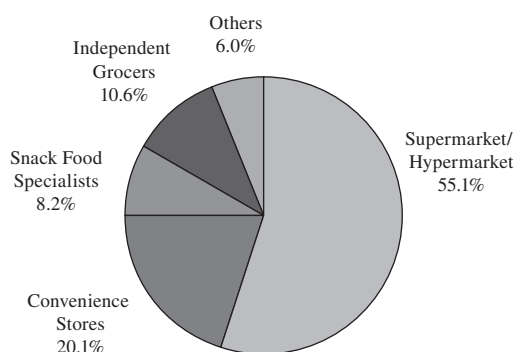


Source: Euromonitor.

### **Distribution**

Jelly products are predominately distributed via modern food retailers with supermarkets and hypermarkets accounting for 55.1% of the total retail sales value while convenience stores accounting for 20.1% in 2010. Independent grocers commanded 10.6% of the total retail sales value while snack food specialists and other channels commanded a market share of 8.2% and 6.0% respectively. Share of sales though modern food retailers have been increasing at the expense of snack food specialists as snack food specialists are failing to cope with the increasing pricing pressure and competition from modern food retailers. The following chart below sets forth the breakdown of retail sales value of jelly products by distribution channels in China for 2010:

**Jelly Products Retail Sales Breakdown by Distribution Channels in China for 2010**



Source: Euromonitor.

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## INDUSTRY OVERVIEW

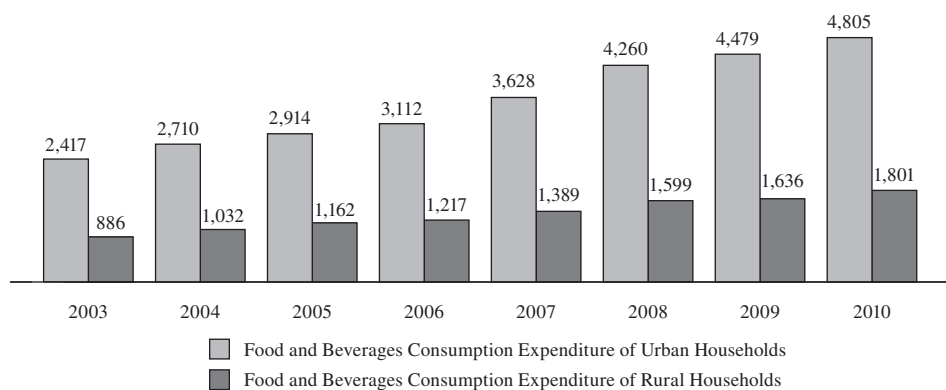
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### *Key Trends and Growth Drivers of China's Jelly Industry*

#### **Strong economic growth, increasing consumer spending and urbanization**

GDP growth and the resulting disposable income growth have been among the key drivers of the growth in demand for jelly products in China. With the rise of disposable income and increasing urbanization, consumers have a greater reach and willingness to spend on goods such as jelly products. According to National Bureau of Statistics of China, the annual per capita food and beverages consumption expenditure of rural households in China increased from approximately RMB886 in 2003 to approximately RMB1,801 in 2010, representing a CAGR of 10.7%, while the annual per capita food and beverages consumption expenditure of urban households in China increased from RMB2,417 in 2003 to approximately RMB4,805 in 2010, representing a CAGR of 10.3%. The following chart sets forth the per capita food and beverages consumption in China for the periods indicated:

**Per Capita Food and Beverages Consumption**  
(RMB)



*Source:* National Bureau of Statistics of China.

In addition, the Chinese government is increasingly focused on private consumption as the key driver of economic growth going forward, as opposed to the previous focus on exports and foreign investment. For example, in 2008 the government announced a RMB4 trillion stimulus plan which was focused on boosting domestic demand through increased spending in areas such as low-income housing, rural infrastructure, technological innovation, transportation and infrastructure. Other initiatives undertaken by the Chinese government include testing new consumer lending policies to improve the market structure in consumer lending and facilitating more open lines of credit for consumers. China's Twelfth Five-Year Plan for 2011-2015 seeks to create an environment for more sustainable growth by prioritizing domestic consumption, and improving social infrastructure as well as social safety nets. The plan also seeks to rebalance the economy, shifting the emphasis from investment in urban and coastal growth, towards rural and inland development.

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## INDUSTRY OVERVIEW

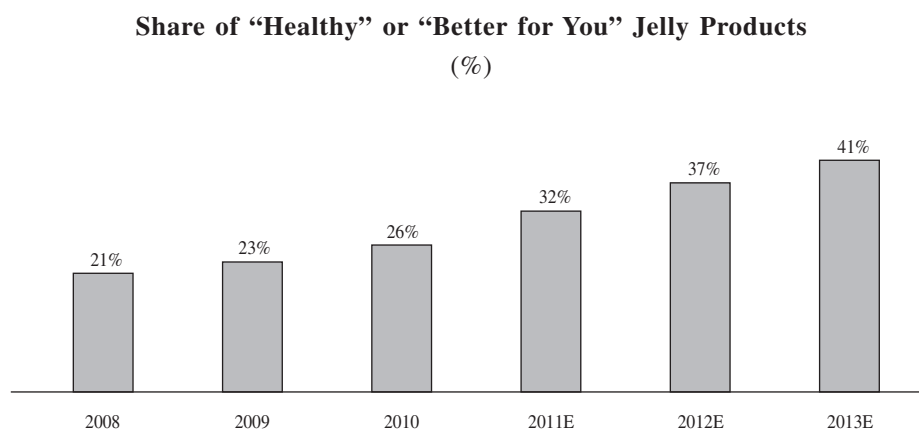
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### Increasing consumer health and food safety awareness

With improved living standards and higher disposable incomes, consumers in China are becoming more familiar with the concepts of wellness, partly as a result of consumer education programs and marketing campaigns by food companies as well as the government. China's Twelfth Five-Year Plan for 2011-2015 places great emphasis on the development of a diet of nutritious and healthy food, particularly products that may enhance nutrient balance and improve immunity; low-sugar, low-salt and high fiber nutritious food; intensified food for supplementation of different nutrient elements for different groups, such as microelements and vitamins. These government policies provide incentives for various businesses to develop healthy products.

Increased access to information through widespread Internet usage in China has also played an important role in boosting consumers' knowledge and awareness of health and value added food products. This increased sophistication and awareness have led to an increased demand in natural and value added products with demands particularly pronounced in urban areas. Consumers are now willing to pay more for higher quality jelly products.

According to Euromonitor, "healthy" or "better for you" jelly products are defined as jelly products, which are marketed on the basis of being "healthy" or "better for you." This may be either through the brand name alone or through nutrient content claims such as "low fat," "30% less sugar" or similar claims. With greater consumer health and food awareness and rising disposable incomes, consumers are increasingly demanding newer, healthier products. In response to this demand, manufacturers have launched into the market a number of new products including low fat jelly, high-calcium jelly and aloe jelly. According to Euromonitor, there has been a continued shift in demand for "healthy" or "better for you" jelly products from traditional jelly products, and this trend is expected to continue going forward. The share of "healthy" or "better for you" products as a percentage of the total jelly products retail sales value increased from 21% in 2008 to 26% in 2010. The chart below sets forth the market share of "healthy" or "better for you" jelly products by the total retail sales value for the periods indicated:



Source: Euromonitor.



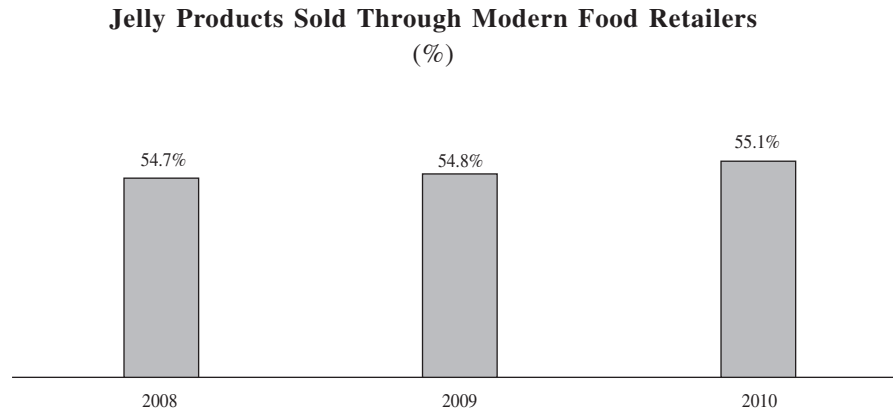
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## INDUSTRY OVERVIEW

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### Improved distribution of products throughout China

According to Euromonitor, jelly products are increasingly being purchased through modern food retailers, which include supermarkets and hypermarkets, with their market share increasing from 54.7% in 2008 to 55.1% in 2010. The share of sales through modern food retailers has been increasing steadily at the expense of snack food specialists as the latter have been struggling to cope with the increasing pricing pressure and competition from modern food retailers. The chart below sets forth the percentage of jelly products sold through modern food retailers by the retail sales value for the periods indicated:



*Source:* Euromonitor.

Leading food retailers including RT-Mart, Wal-Mart, Carrefour and China Resources Vanguard have continued to expand their store networks throughout China and are expected to continue their rapid expansion. Rising penetration of modern retail formats such as hypermarkets and supermarkets, notably into more rural areas in China, is expected to significantly improve access to jelly products. Furthermore, significant continued investment in logistics and infrastructure has helped to facilitate improvements in the distribution of jelly products to consumers.

The robust growth in modern retail network has largely been due to both leading domestic and international retail corporations, backed by significant capital and resources, establishing and expanding their presence significantly, as compared to traditional retail formats that are typically independent and owned by individuals rather than corporations.

### Barriers to entry are increasing

As the number of products available to customers continue to increase, marketing and advertising as well as product differentiation have become increasingly important. Larger and more well-known brands are able to leverage their scale on marketing, branding and purchasing materials at a favorable rate.

In addition, with food safety being increasingly important to consumers, the government is responding by establishing higher standards and stricter regulations. The Chinese government created the State Food and Drug Administration or SFDA in 2003 to monitor and consolidate food safety regulations. Recently, the SFDA has increased the number of inspections as well as implemented stricter requirements on product ingredients and packaging materials. Many small-sized jelly manufacturers were not able to pass these food safety inspections and were forced to shut down. In contrast, better known brands that are trusted by consumers have continued to gain market shares. As a result, the entry barriers for the jelly industry are increasing.

## INDUSTRY OVERVIEW

As modern retail channels continue to attract consumers and further penetrate the market, the sales value of jelly products are increasingly reliant on hypermarkets and supermarket chains. The top five jelly manufacturers have well-established distribution networks as well as strong relationships with the leading modern food retailers. With increasing entry costs and ongoing charges of hypermarkets and supermarket chains, it has become increasingly difficult for new and smaller manufacturers to enter the jelly market.

### *Competitive Landscape*

#### **Total Jelly Market**

The jelly market is dominated by the top five jelly manufacturers with a combined market share of 48.0% in 2010 in terms of total retail sales value. Out of the top five jelly manufacturers, the Company and Fujian Qinqin have been the key consolidators in the market, taking market share away from smaller operators and increasing market share by over a percentage point between 2008 and 2010. The Company recorded the largest gain among the top five manufacturers with market share increasing from 9.0% in 2008 to 10.3% in 2010 in terms of total retail sales value of jelly products. The following table sets forth the market share of the top five manufacturers of jelly products in terms of the retail sales value for the periods indicated:

| % of Total Jelly Products Retail Sales Value  | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2008                    | 2009          | 2010          |
| Guangdong Strong Group Co., Ltd.<br>(廣東喜之郎集團有限公司) . . . . .                         | 19.3%                   | 19.8%         | 19.7%         |
| <b>China Lifestyle Food and Beverages Group Limited</b><br>(中國休閒食品集團有限公司) . . . . . | <b>9.0%</b>             | <b>9.6%</b>   | <b>10.3%</b>  |
| Want Want China Holdings Limited<br>(中國旺旺控股有限公司) . . . . .                          | 7.0%                    | 7.3%          | 7.0%          |
| Fujian Qinqin Co., Ltd.<br>(福建親親股份有限公司) . . . . .                                   | 4.7%                    | 5.4%          | 5.7%          |
| Dongguan Hsu Fu Chi Foods Co., Ltd.<br>(東莞徐福記食品有限公司) . . . . .                      | 4.9%                    | 5.0%          | 5.2%          |
| Others . . . . .  | 55.1%                   | 52.9%         | 52.0%         |
| <b>Total</b> . . . . .  | <b>100.0%</b>           | <b>100.0%</b> | <b>100.0%</b> |

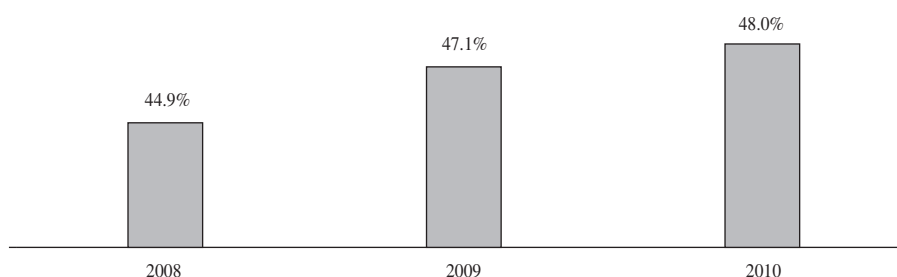
Source: Euromonitor.

Note: Percentage of total jelly produces retail sales value reported in this table is based on the summation of the respective retail sales value reported in the jelly snacks and jelly beverages tables disclosed in “— Jelly Snacks” and “— Jelly Beverages” in this section.

According to Euromonitor, the top five jelly manufacturers by retail sales value continued to dominate and increased their market share from 44.9% in 2008 to 48.0% in 2010. In some large and medium-sized cities, the market shares of leading players accounted for more than 70% in 2010.

## INDUSTRY OVERVIEW

**Market Share of Top Five Jelly Manufacturers in China**  
(%)



Source: Euromonitor.

Despite the dominance of the top five manufacturers, competition has intensified as leading jelly manufacturers continued to further expand their product offerings and new entrants continued to seek entry into the jelly market. However, despite such attempts by new entrants, the top five manufacturers have continued to gain market shares mainly due to better brand awareness and nationwide distribution networks. We believe that in the longer term, consolidations will continue in the jelly sector and similar to the historical trend seen in the overall global snack food market.

### Jelly Snacks

According to the Euromonitor, our company was the second largest jelly snacks manufacturer in China with a market share of 9.0%, 9.2 and 9.4% in 2008, 2009 and 2010, respectively, in terms of the retail sales value. The following table sets forth the market shares of the top five manufacturers of jelly snacks in terms of the retail sales value for the periods indicated:

| % of Total Jelly Snacks Retail Sales Value  | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2008                    | 2009          | 2010          |
| Guangdong Strong Group Co., Ltd.<br>(廣東喜之郎集團有限公司) . . . . .                         | 19.0%                   | 19.5%         | 19.6%         |
| <b>China Lifestyle Food and Beverages Group Limited</b><br>(中國休閒食品集團有限公司) . . . . . | <b>9.0%</b>             | <b>9.2%</b>   | <b>9.4%</b>   |
| Dongguan Hsu Fu Chi Foods Co., Ltd.<br>(東莞徐福記食品有限公司) . . . . .                      | 6.4%                    | 6.6%          | 6.8%          |
| Want Want China Holdings Limited<br>(中國旺旺控股有限公司) . . . . .                          | 6.5%                    | 6.7%          | 6.3%          |
| Fujian Qinqin Co., Ltd.<br>(福建親親股份有限公司) . . . . .                                   | 4.6%                    | 5.3%          | 5.5%          |
| Others . . . . .  | 54.4%                   | 52.7%         | 52.3%         |
| <b>Total . . . . .</b>  | <b>100.0%</b>           | <b>100.0%</b> | <b>100.0%</b> |

Source: Euromonitor.

## INDUSTRY OVERVIEW

### Jelly Beverages

According to Euromonitor, our company was the second largest jelly beverages manufacturer in China with a market share of 9.0%, 10.7% and 13.3% in 2008, 2009 and 2010, respectively, in terms of the retail sales value. Historically, the Company has been the fastest growing jelly beverages manufacturer out of the top five players with the company increasing its market share from 9.0% to 13.3% between 2008 and 2010 respectively. The following table sets forth the market shares of the top five manufacturers of jelly beverages in terms of the retail sales value for the periods indicated:

| % of Total Jelly Beverages Retail Sales Value                                   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2008                    | 2009          | 2010          |
| Guangdong Strong Group Co., Ltd.<br>(廣東喜之郎集團有限公司) .....                         | 20.1%                   | 20.7%         | 19.9%         |
| <b>China Lifestyle Food and Beverages Group Limited</b><br>(中國休閒食品集團有限公司) ..... | <b>9.0%</b>             | <b>10.7%</b>  | <b>13.3%</b>  |
| Want Want China Holdings Limited<br>(中國旺旺控股有限公司) .....                          | 8.5%                    | 9.1%          | 9.3%          |
| Fujian Qinqin Co., Ltd.<br>(福建親親股份有限公司) .....                                   | 4.9%                    | 5.9%          | 6.4%          |
| Dongguan Jinwa Food Industry Co., Ltd.<br>(東莞市金娃食品工業有限公司) .....                 | 3.9%                    | 3.9%          | 3.7%          |
| Others .....  | 53.5%                   | 49.8%         | 47.4%         |
| <b>Total</b> .....  | <b>100.0%</b>           | <b>100.0%</b> | <b>100.0%</b> |

Source: Euromonitor.

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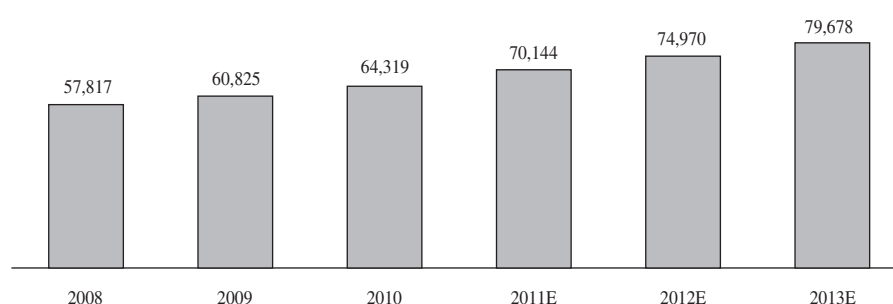
## INDUSTRY OVERVIEW

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### OVERVIEW OF CHINA'S CONFECTIONARY MARKET

According to Euromonitor, the confectionary market can largely be categorized into three products categories: sugar confectionary, gum and chocolate confectionary. The total retail sales value of confectionary products grew from RMB57,817 million in 2008 to RMB64,319 million in 2010, representing a CAGR of 5.5% and are expected to reach RMB79,678 million by 2013, representing a CAGR of 7.4% from 2010 to 2013. According to Euromonitor, estimated retail sales value of confectionary products in 2010 represented 51.5% of the snack food market in China in 2010. The following chart sets forth the retail sales value of confectionary products in China for the periods indicated:

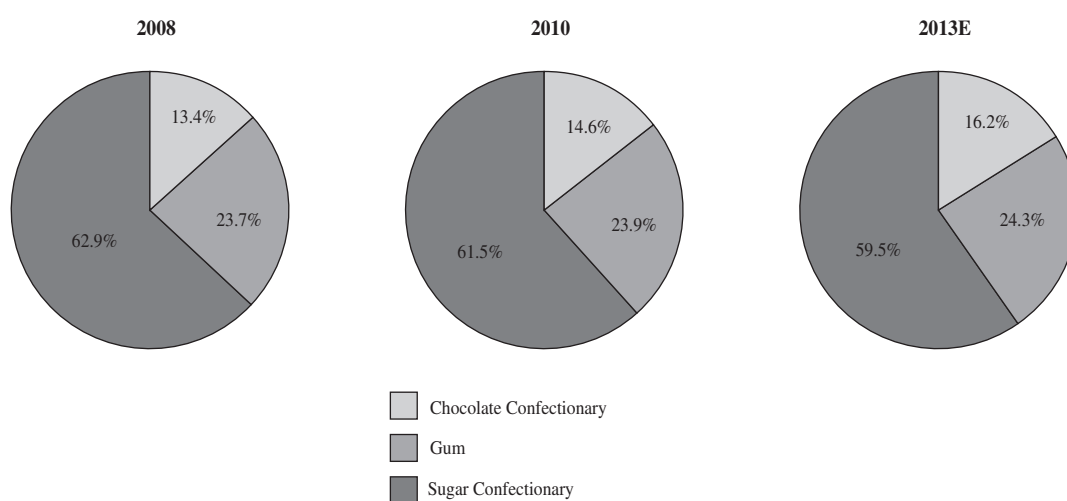
**Retail Sales Value of Confectionary Products in China**  
(RMB in million)



Source: Euromonitor.

Sugar confectionary is the largest category and accounted for 61.5% of the confectionary market in 2010 followed by gum with 23.9% share and chocolate confectionary with 14.6% share. The following charts set forth the breakdown of the retail sales value of confectionary products in China for the periods indicated:

**Confectionary Market Breakdown in China**



Source: Euromonitor.

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## INDUSTRY OVERVIEW

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The retail sales value of sugar confectionary grew at a CAGR of 4.3% from 2008 to 2010 and reached RMB39,574 million in 2010. Sales of sugar confectionary is expected to reach RMB47,424 million by 2013, representing a CAGR of 6.2% from 2010 to 2013. Similarly, the retail sales value of gum has grown at a slightly faster rate with a CAGR of 6.0% between 2008 to 2010 to reach RMB15,374 million in 2010. The sales value of gum is expected to reach RMB19,375 million in 2013 representing a CAGR of 8.0% between 2010 and 2013. Chocolate confectionary has been the fastest growing category with its retail sales value reaching RMB9,371 million in 2010 representing CAGR of 9.8% between 2008 and 2010. Furthermore, the chocolate confectionary market is expected to be the fastest segment going forward with its retail sales value expected to reach RMB12,878 million at a CAGR of 11.2% between 2010 and 2013.

### SOURCES OF INFORMATION

#### *Euromonitor*

Euromonitor International Plc., founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. The information disclosed in this prospectus from Euromonitor is extracted from a research study commissioned by us for a fee of US\$22,500 and is disclosed with the consent of Euromonitor. Euromonitor used multiple primary and secondary sources to validate any data or information collected with no reliance on any single source, reflecting the consensus of industry for historic data including market size and shares. For the forecast, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecast in terms of the market size, growth trends and a cross-check with established government/industry figures or trade interviews. The Euromonitor study is based on the principal assumption that current trends in disposable income and consumer tastes in China will not change significantly over the forecast period and that there will not be significant changes to current PRC government policy in relation to jelly and confectionary products.

#### *National Bureau of Statistics of China*

National Bureau of Statistics of China is an agency directly under the State Council which is in charge of statistics and economy accounting in China. National Bureau of Statistics is an Independent Third Party to the Company. The information disclosed in this prospectus is extracted from its official published data.

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## HISTORY AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

Our Company was incorporated under the laws of Bermuda on May 4, 2004 as an exempted company with limited liability. In order to enhance our corporate profile, increase the liquidity of our Shares and the scope of our shareholder base, expand sources of funding for our then expansion plans and capitalize on investment opportunities in Singapore and other countries in South-east Asia, our Company was listed on the SGX-ST on August 26, 2005. Our Company was subsequently delisted from the SGX-ST on May 6, 2010. For further details, please refer to the paragraph “— Delisting from SGX-ST” in this section.

Our history can be traced back to 2000, when Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan began their business of producing jelly snacks and beverages through Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司), a privately owned company established in the PRC and operated by their father since 1991. In early 2000, witnessing growth in the jelly products market and seeing great potential for further growth and expansion, Mr. Li Hung Kong (the brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan), through Jen Yuon Trading Co., a sole proprietorship established in Hong Kong, established LBXX Fujian as a wholly owned foreign enterprise on March 15, 2000 and acquired the jelly business of Jinjiang Weili Foods Co., Ltd. in 2000. LBXX Fujian was established with a total investment capital of HK\$73,330,000 and a registered capital of HK\$38,880,000. LBXX Fujian is primarily engaged in the manufacture of jelly snacks and beverages. After LBXX Fujian's acquisition of the jelly business of Jinjiang Weili Foods Co., Ltd., Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, all of whom were then the core management personnel of Jinjiang Weili Foods Co., Ltd., were invited by Mr. Li Hung Kong to continue managing the business of LBXX Fujian. On March 7, 2005, the registered capital of LBXX Fujian was increased from HK\$38,880,000 to HK\$53,880,000.

As part of the reorganization of our Company's listing on the SGX-ST, on August 1, 2003, Timeluck, which was at that time wholly owned by Mr. Li Hung Kong, acquired 100% of the registered capital of LBXX Fujian from Jen Yuon Trading Co., for a cash consideration of HK\$38,880,000. After completion of such acquisition, LBXX Fujian became a wholly owned subsidiary of Timeluck. Pursuant to a sale and purchase agreement dated June 18, 2004 (as supplemented by a supplemental agreement dated December 20, 2004), our Company acquired the entire issued share capital of Timeluck from Mr. Li Hung Kong for a consideration of RMB134,205,987, which was satisfied by (i) the allotment and issuance of an aggregate of 16,219,977 new ordinary shares of US\$1.00 each in the capital of our Company credited as fully paid, to Mr. Li Hung Kong (as to 76%), Mr. Zheng Yu Long (as to 8%), Mr. Zheng Yu Shuang (as to 8%) and Mr. Zheng Yu Huan (as to 8%) (collectively, the “Allottees”); and (ii) crediting as fully paid the 12,000 nil-paid ordinary shares of US\$1.00 each, issued to the Allottees on June 1, 2004. The consideration of such acquisition was determined on an arm's length basis taking into account the audited net tangible asset of Timeluck as of December 31, 2003 of RMB134,205,987. Upon completion of this acquisition, Timeluck became our wholly owned subsidiary.

On December 28, 2004, Alliance Holding was incorporated in the BVI by the Allottees as an investment holding company, and owned as to 76% by Mr. Li Hung Kong, 8% by Mr. Zheng Yu Long, 8% by Mr. Zheng Yu Shuang and 8% by Mr. Zheng Yu Huan. On March 28, 2005, the Allottees transferred their respective interests in our Company to Alliance Holding. As part of the family arrangement, on October 16, 2006, Mr. Li Hung Kong, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan entered into a shareholders agreement, pursuant to which Mr. Li Hung Kong agreed to transfer 20% of the issued share capital of Alliance Holding to each of Mr. Zheng Yu Long, Mr. Zhang Yu Shuang and Mr. Zheng Yu Huan. After completion of such transfers, Alliance Holding was owned as to 16% by Mr. Li Hung Kong, 28% by Mr. Zheng Yu Long, 28% by Mr. Zheng Yu Shuang and 28% by Mr. Zheng Yu Huan.



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## HISTORY AND CORPORATE STRUCTURE

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On March 7, 2005, the registered capital of LBXX Fujian was increased from HK\$38,880,000 to HK\$53,880,000. With a view to increasing our production capacity to accommodate the increasing demand for our products in the northern region of China, we established LBXX Tianjin on January 24, 2006 with a registered capital of HK\$200,000,000 to operate our production facility in Tianjin Municipality, which manufactures primarily jelly products. LBXX Tianjin is wholly owned by Timeluck. On October 13, 2010, the registered capital of LBXX Tianjin was increased from HK\$200,000,000 to HK\$228,080,000.



With a view to increasing our production capacity and accommodating the increasing demand for our products in the western region of China, we established LBXX Sichuan on January 17, 2008 with a registered capital of HK\$150,000,000. LBXX Sichuan is wholly owned by LBXX Holdings. We set up our production facilities in Sichuan to manufacture primarily jelly snacks and beverages and powdered milk tea.

On April 11, 2008, Rise Mount was incorporated in the BVI. On October 13, 2008, Rise Mount was acquired by Alliance Holding as a special purpose vehicle for the purpose of the delisting of our Shares from SGX-ST in 2009. On December 7, 2009, Alliance Holding, Mr. Zheng Yu Long, Ms. Ke Hai Rong, Mr. Or Kin Nam, Mr. Yap Yung and Rise Mount entered into a subscription agreement, pursuant to which Alliance Holding, Mr. Zheng Yu Long, Ms. Ke Hai Rong, Mr. Or Kin Nam and Mr. Yap Yung agreed to transfer their respective 308,039,540 Shares, 30,490,000 Shares, 24,620,000 Shares, 18,609,000 Shares and 500,000 Shares, representing approximately 61.2%, 6.1%, 4.9%, 3.7% and 0.1% of the issued share capital of our Company, to Rise Mount and in consideration of such transfers, Rise Mount agreed to issue and allot 8,057 shares, 798 shares, 644 shares, 487 shares and 13 shares to Alliance Holding, Mr. Zheng Yu Long, Ms. Ke Hai Rong, Mr. Or Kin Nam and Mr. Yap Yung, respectively. Following completion of such allotments on April 9, 2010, each of Alliance Holding, Mr. Zheng Yu Long, Ms. Ke Hai Rong, Mr. Or Kin Nam and Mr. Yap Yung held approximately 80.6%, 8.0%, 6.4%, 4.9% and 0.1% of the issued share capital of Rise Mount, which in turn held approximately 76% of the issued share capital of our Company.

As part of our geographical strategic expansion plan, we established LBXX Anhui on November 3, 2010 with a registered capital of HK\$180,000,000 with an intent to construct a new production facility in Chuzhou, Anhui Province. LBXX Anhui is wholly owned by LBXX Holdings. We intend to start manufacturing primarily jelly snacks and jelly beverages at our Anhui production facility in 2013. Details of the production expansion plan of our Anhui production facility are provided in “Business — Production Process and Production Facilities — Production Expansion Plan.”

### BUSINESS MILESTONES


The following is a summary of our key business development milestones:

- 2000
- We established our first production facility in Jinjiang, Fujian Province and began to produce and sell jelly snacks.
  - We were authorized by Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司) to use the core trademark “” in the PRC and began to market our jelly products under the core trademark “.

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## HISTORY AND CORPORATE STRUCTURE



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- 2001
- We expanded our range of jelly snacks to include fruit-flavored jellies and jellies filled with canned fruit, and our range of products to include jelly beverages.
- 2002
- We were awarded the National Quality Reliable Foods Award (國家監督抽查合格—全國質量信得過食品表彰公告證書) by the China Food Industry Association in October 2002. This award is conferred on companies that are recognized for the quality of their food products in the PRC.
- 2003
- LBXX Fujian was awarded the quality system certification issued by the National Quality Assurance Limited certifying that LBXX Fujian has established and implemented a quality management system in conformity with ISO 9001:2000 and has met the requirements under the Food Act CAC/RCP 1-1969 (Rev. 3-1997) and HACCP System and Application Rules.
  - LBXX Fujian was awarded the ISO 14001:2004 certification for environment management system.
  - LBXX Fujian was awarded the occupational health and system management certification issued by Beijing New Century Certification Co., Ltd. certifying that LBXX Fujian has established and implemented an occupational health and safety management system in conformity with GB/T28001-2001.
- 2004
- We expanded our products to include confectionary products under the “ ” brand.
  - Our products under the “Labixiaoxin” brand was named a “China Top Brand Product (中國名牌產品)” by the National Quality, Supervision, Inspection and Quarantine Bureau.
- 2005
- As part of our strategic expansion plans to explore the market in the northern region of China, we set up a production facility in Xiqing Industrial Zone, Tianjin Municipality.
  - LBXX Fujian was awarded the quality management system certification issued by Beijing New Century Certification Co., Ltd. certifying that LBXX Fujian has established and implemented an occupational health and safety management system in conformity with ISO 9001:2008.
- 2006
- We expanded our range of products to include powdered milk tea.
  - We were awarded the Top 10 Food Safety Enterprise by the Organizing Committee of China Food Safety Annual Conference (中國食品安全年會組委會).
  - To accommodate the increasing demand for our products, we commenced the construction of a new production facility in Wuqing Industrial Zone, Tianjin Municipality.

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## HISTORY AND CORPORATE STRUCTURE

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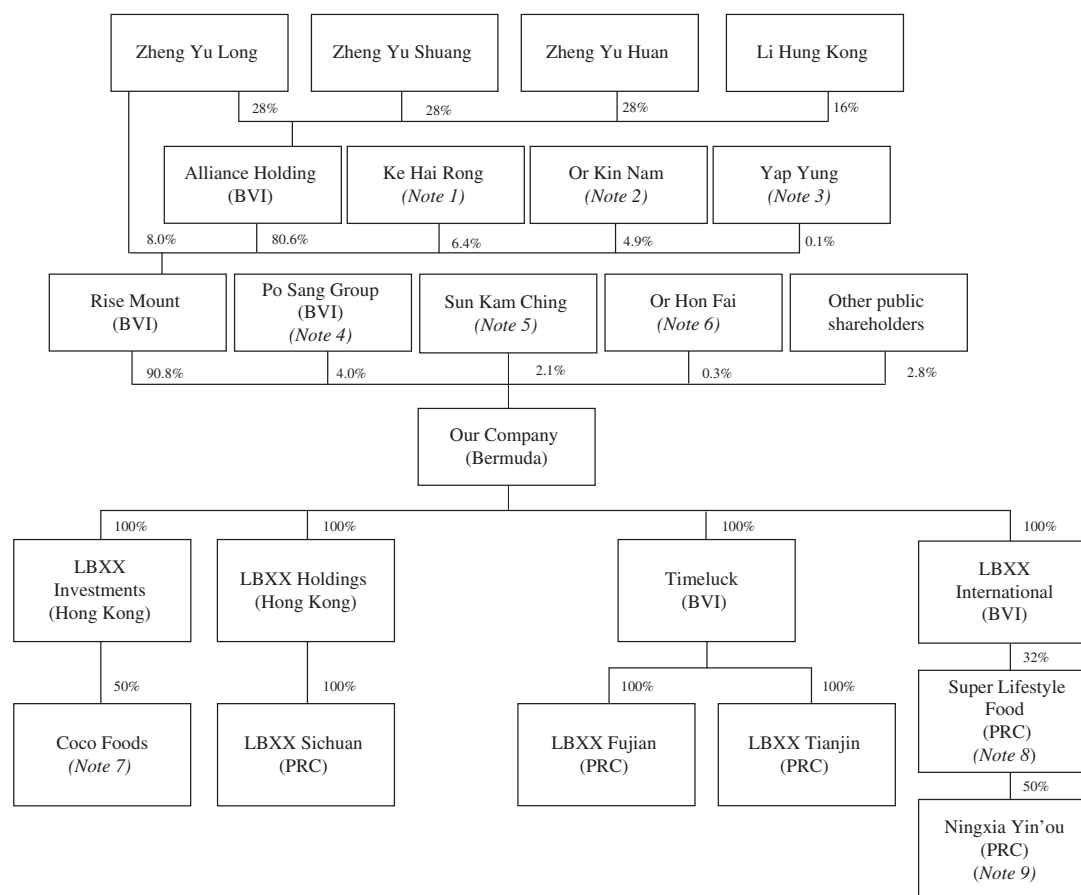
- 2007
- Our trademark “” was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC.
  - We began to collaborate with key account customers including RT-Mart, a hypermarket chain with nationwide and regional presence, to sell our jelly products.
- 2008
- Construction of our new production facility in Wuqing Industrial Zone, Tianjin Municipality was completed. Our production facility in Xiqing Industrial Zone, Tianjin Municipality was then relocated to merge with the new production facility in Wuqing Industrial Zone. Following such merger, the annual production capacity of our production facility in Wuqing Industrial Zone was increased to approximately 55,000 tons, and our Group’s total annual production capacity was then increased to over 100,000 tons.
  - LBXX Tianjin was awarded the ISO 14001:2004 certification for environment management system.
  - LBXX Fujian and LBXX Tianjin were awarded the food safety management system based on HACCP certification issued by the Beijing New Century Certification Co., Ltd. certifying that LBXX Fujian and LBXX Tianjin have met the food safety management requirements under the HACCP System General Evaluation Code.
- 2009
- LBXX Fujian was awarded the New and High-Tech Enterprise Award by Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office, SAT (福建省國家稅務局) and Fujian Provincial Local Taxation Bureau (福建省地方稅務局).
- 2010
- As part of our production expansion plan into the western region of China, we commenced production at our facility in Chengdu, Sichuan Province, which has an annual production capacity of 50,000 tons.
  - We began to market and sell a small quantity of dried bean curd products in late 2010 under the “” brand.
- 2011
- As of October 31, 2011, we worked with over 190 independent wholesale distributors, covering 31 provinces, municipalities and autonomous regions in China.
  - As part of our strategic geographical expansion plan, we commenced construction of a new production facility in Chuzhou, Anhui Province in August 2011, which is expected to have an annual production capacity of 90,000 tons when it becomes operational.

## HISTORY AND CORPORATE STRUCTURE

### DELISTING FROM SGX-ST

Our Company was incorporated under the laws of Bermuda on May 4, 2004 as an exempted company with limited liability, and was listed on the SGX-ST on August 26, 2005. We remained listed on the SGX-ST for more than four years, during which time we did not breach any requirement of the listing rules of the SGX-ST and were not subject to any disciplinary action, whether private or public, by the SGX-ST or other regulatory authorities in Singapore.

The following chart sets forth our corporate and shareholding structure immediately before the Delisting:



Notes:

- (1) Ms. Ke Hai Rong was an employee of LBXX Fujian. She resigned in 2010.
- (2) Mr. Or Kin Nam is an employee of LBXX Fujian. He is the son of Mr. Or Hon Fai.
- (3) Mr. Yap Yung is our chief financial officer and company secretary.
- (4) Po Sang Group is principally engaged in investment holding and is wholly owned by Mr. Li Lai Ming, an Independent Third Party. Po Sang Group holds its interest in our Company through its nominee, Merrill Lynch (Singapore) Pte Ltd..
- (5) Ms. Sun Kam Ching is our independent non-executive Director.
- (6) Mr. Or Hon Fai was an employee of LBXX Fujian. He retired in 2006. He is the father of Mr. Or Kin Nam.

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## HISTORY AND CORPORATE STRUCTURE

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- (7) The remaining 50% was held by Cocoland Industry Sdn. Bhd, an Independent Third Party. In June 2010, Coco Foods was subsequently disposed of to an Independent Third Party at a consideration of US\$425,000, which was determined with reference to the estimated value of the assets of Coco Foods as of the date of such disposal, after arm's length negotiations between the parties.
- (8) The remaining 68% is held as to 50% by Super Coffeemix Manufacturing Ltd, an Independent Third Party, and 18% by Chance Cove Group Limited, which is in turn wholly owned by Mr. Zheng Yu Long.
- (9) The remaining 50% is held by Ningxia Jiali Bio-Tech Co., Ltd. (寧夏佳立生物科技公司), an Independent Third Party.

On December 9, 2009, our Company and Rise Mount announced the Delisting Offer. The Delisting Offer was conditional on, inter alia, (i) approval of the Delisting by Shareholders holding at least 75% of the total number of issued Shares, (ii) Shareholders holding less than 10% of the total number of issued Shares voting against the Delisting, and (iii) a confirmation by the SGX-ST that it has no objection to the application by our Company for the Delisting. A special general meeting was held on April 7, 2010 and resolution was passed to approve the Delisting.

The terms of the Delisting Offer were as follows:

- (i) Rise Mount offered to pay S\$0.178 (approximately HK\$1.07) in cash for each offer Share and this price was applicable to any number of Shares tendered in acceptance of the Delisting Offer;
- (ii) Shareholders could choose to accept the Delisting Offer in respect of all or part of their holdings of the Shares; and
- (iii) the Shares acquired by Rise Mount were fully paid and free from all encumbrances and other third-party rights.

The reasons for the Delisting, amongst others, were as follows:

**(a) *Low Trading Liquidity***

Based on the historical trading records, the liquidity of our Shares on the SGX-ST had been generally low. The Delisting Offer provided an exit opportunity for those Shareholders who wished to realize their entire investment in our Shares but had found it difficult to do so as a result of the low trading liquidity of our Shares.

**(b) *Greater Management Flexibility***

The Delisting would facilitate greater management flexibility in the utilization and deployment of the resources of our Group. Our Company would also dispense with the expenses relating to the maintenance of a listed status and focus its resources on its business operations. Given the distance between China and Singapore and with our Group's operations and expansion plans based predominantly in China and taking into account the liquidity of our Shares on the SGX-ST, our then Directors had considered that it was not cost effective and efficient to deploy our resources in Singapore. The Delisting would allow our Company to rationalize the management, resources and cost structure of our Group's businesses in China for greater efficiency and competitiveness.

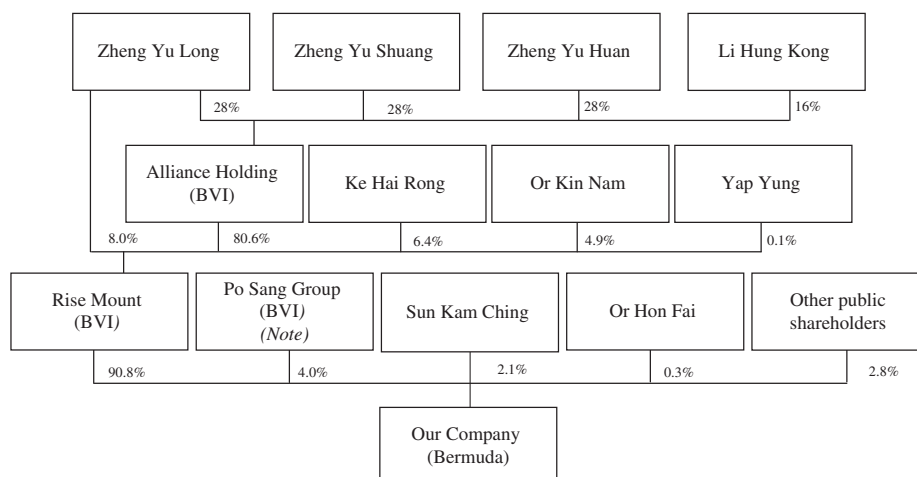
**(c) *Attractive Premium***

The Delisting offered minority Shareholders an opportunity to realize the value of their investments in our Company at a premium over the historical trading prices of our Shares on the SGX-ST, an option which may not otherwise have been readily available.

## HISTORY AND CORPORATE STRUCTURE

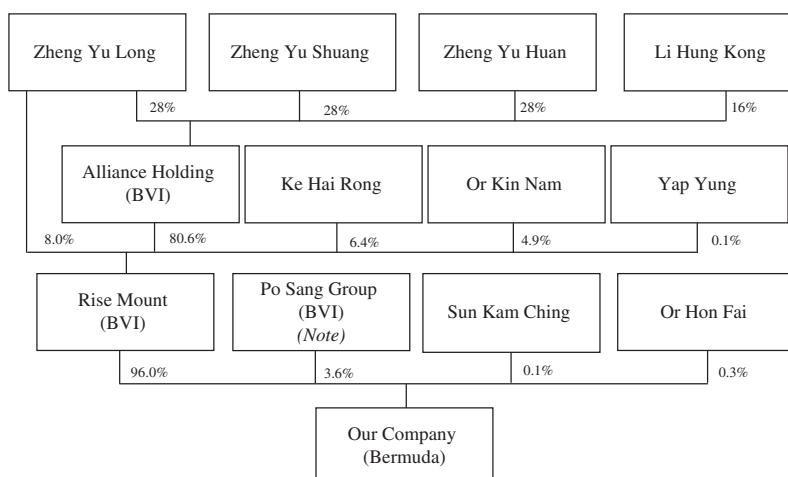
Pursuant to the Delisting Offer, Rise Mount purchased our Shares from Shareholders who accepted the Delisting Offer at S\$0.178 (approximately HK\$1.07) per Share. Our Company was subsequently delisted from the SGX-ST on May 6, 2010. Thereafter, Rise Mount acquired the remaining minority Shareholders' Shares (save for Ms. Sun Kam Ching, Mr. Or Hon Fai and Po Sang Group) on October 8, 2010 pursuant to a compulsory acquisition.

The following chart sets forth our shareholding structure immediately before the Delisting:



Note: Po Sang Group holds its interest in our Company through its nominee, Merrill Lynch (Singapore) Pte Ltd..

The following chart sets forth our shareholding structure immediately after the Delisting and completion of the abovementioned compulsory acquisition:



Note: Po Sang Group holds its interest in our Company through its nominee, Merrill Lynch (Singapore) Pte Ltd..

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## HISTORY AND CORPORATE STRUCTURE

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### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Directors consider Hong Kong to be a suitable place for listing as they believe that with a number of comparable companies in the snack food related businesses already listed on the Stock Exchange, and with the business and operations of our Group primarily located, managed and conducted in China, a listing in Hong Kong will not only contribute to opportunities for future fund-raising and a potential improvement in the trading liquidity and valuation of our Shares, but also provide better synergy for our Group in terms of branding and raising our corporate profile. Our Directors further believe that the close proximity between Hong Kong and mainland China will also allow our Group to better utilize and deploy our management and resources with greater efficiency, flexibility and competitiveness.

### SHAREHOLDERS RESTRUCTURING

On January 3, 2011, Mr. Zheng Yu Long transferred 49 shares of Rise Mount, representing approximately 0.5% of the issued share capital of Rise Mount, to Mr. Yap Yung at nil consideration in recognition of Mr. Yap Yung's contribution to the success of our privatization and the Delisting in May 2010. Upon completion of such transfer, Mr. Yap Yung holds 62 shares, representing approximately 0.6% of the issued share capital of Rise Mount.

On January 3, 2011, with a view to realizing her investments and assets, Ms. Ke Hai Rong transferred her entire 644 shares of Rise Mount, representing approximately 6.4% of the issued share capital of Rise Mount, to Mr. Zheng Yu Long at a consideration of HK\$20,647,610. Upon completion of such transfer, Ms. Ke Hai Rong ceased to be a shareholder of Rise Mount.

In recognition of the contribution made by Kangta Investments Limited ("Kangta Investments"), a business partner and an Independent Third Party, in bringing in business opportunity to our Group, on February 16, 2011, Rise Mount transferred 2,000,000 Shares to Kangta Investments for a consideration of HK\$3,000,000. Kangta Investments held approximately 0.4% of the issued share capital of our Company as of the date of completion of such transfer.

In preparation of the Listing and as part of the shareholders restructuring after the Delisting, Mr. Zheng Yu Long, Mr. Or Kin Nam and Mr. Yap Yung transferred their respective 1,393 shares, 487 shares and 62 shares of Rise Mount, representing approximately 13.9%, 4.9% and 0.6% of the issued share capital of Rise Mount, respectively, to Alliance Holding. In consideration of such transfers, on March 18, 2011, Rise Mount transferred 66,974,237 Shares, 23,420,931 Shares and 3,000,000 Shares to Mr. Zheng Yu Long, Mr. Or Kin Nam and Mr. Yap Yung, respectively. Each of Mr. Zheng Yu Long, Mr. Or Kin Nam and Mr. Yap Yung held approximately 13.3%, 4.7% and 0.6% of the issued share capital of our Company as of the date of completion of such transfers.

On March 18, 2011, Rise Mount transferred 387,527,432 Shares, representing approximately 77.0% of the then issued share capital of our Company, to Alliance Holding at a consideration of S\$17,849,947.52. Upon completion of such transfer, Alliance Holding held 387,527,432 Shares, representing approximately 77.0% of the issued share capital of our Company as of the date of completion of such transfer.



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## HISTORY AND CORPORATE STRUCTURE

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### PRE-IPO INVESTMENT

On March 21, 2011, our Company entered into the Subscription Agreement with COFCO BVI, an Independent Third Party, pursuant to which our Company agreed to allot and issue to COFCO BVI, and COFCO BVI agreed to subscribe for an aggregate of 43,754,922 Shares, representing approximately 8.0% of the then enlarged issued share capital of our Company immediately following completion of the Pre-IPO Investment, and approximately 6.4% of the then enlarged issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of options which may be granted under the Share Option Scheme). The total consideration for the Shares paid by COFCO BVI pursuant to the Subscription Agreement was approximately RMB139,130,435.6 (equivalent to approximately HK\$164,846,487.7, which is based on the exchange rate of HK\$1.00 to RMB0.8440) (the “Consideration”), and the price per Share is approximately HK\$2.29 (the “Subscription Price”) after the Pre-IPO Investment and Capitalization Issue. Based on the Offer Price of HK\$2.65, the Subscription Price is equivalent to a discount of approximately 13.6% to such price per Offer Share. The Consideration was arrived at after arm’s length negotiations with COFCO BVI with reference to the agreed assessment of the value of our Group at the time of signing the Subscription Agreement. We received the proceeds from COFCO BVI in relation to the subscription on March 24, 2011.

COFCO BVI, a company incorporated in the BVI with limited liability on July 29, 2010 is principally engaged in the business of investment holding. COFCO BVI is a wholly owned subsidiary of COFCO (BVI) Limited, which is in turn wholly owned by COFCO Corporation, a wholly state-owned company incorporated in the PRC currently under the purview of the State-owned Assets Supervision and Administration Commission, and is an Independent Third Party. COFCO Corporation is a leading diversified agricultural and food products and services supplier in China. COFCO BVI is operationally managed by COFCO Agricultural Industrial Investment Fund Management Company Limited, which specializes in management of equity investments in agriculture and food business in China.

As of the Latest Practicable Date, the net proceeds from the Pre-IPO Investment were principally used as capital expenditures for the construction of our production facilities in Anhui province and as general working capital.

The Shares subscribed by COFCO BVI pursuant to the Subscription Agreement will be counted as part of the public float of our Company given that COFCO BVI is solely a strategic investor in our Group and is an Independent Third Party.

In conjunction with the Subscription Agreement, on March 24, 2011, Alliance Holding, COFCO BVI, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hong Kung (the individuals being the “Founders”) entered into the Investment Agreement pursuant to which COFCO BVI has been granted the following rights including without limitation:

- *Tag along rights*

If Alliance Holding intends to sell or transfer any of its Shares (the “Transferred Shares”) to any person prior to the Global Offering, it shall give a written notice (the “Transfer Notice”) to COFCO BVI prior to such sale or transfer, and COFCO BVI shall have the tag along right to participate in such sale of the Transferred Shares on the terms and conditions set forth in the Transfer Notice.

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## HISTORY AND CORPORATE STRUCTURE

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- *Right of first refusal*

If Alliance Holding intends to sell all its Shares, COFCO BVI shall have the right of first refusal to purchase all the Shares held by Alliance Holding on the terms and conditions stated in the Transfer Notice.

- *Put Option*

In consideration of HK\$1.00, Alliance Holding has granted COFCO BVI a put option (the “Put Option”) to require Alliance Holding to purchase all of the Shares held by COFCO BVI (the “Put Option Shares”) during the period of 30 days following the expiry of 18 months after March 24, 2011 if a Qualified IPO has not occurred within 18 months after the date of the Investment Agreement at a price equal to an amount which will yield an internal rate of return of 15% on the Consideration. In the event that the exercise of the Put Option shall result in the violation by our Company, Alliance Holding or its respective associates under the Listing Rules, or such applicable rules and regulations, the exercise period shall be extended for a period of 30 business days on and from the first business day pursuant to which the Put Option can be validly exercised. The Put Option will be terminated upon Listing.

For the purpose of the Investment Agreement, the term “Qualified IPO” means the initial public offering on the Stock Exchange with the market capitalization of not less than the Hong Kong dollars equivalent of RMB2 billion on the Listing Date, the calculation of such market capitalization shall be the Offer Price multiplied by the total number of Shares issued by our Company as of the Listing Date, and for the avoidance of doubt shall include such Shares held by Alliance Holding, COFCO BVI, the other Shareholders and the public. Based on our proposed offering structure and the Offer Price of HK\$2.65 per Share, we will meet the requirements for a Qualified IPO.

- *Adjustment mechanism*

- (a) Pursuant to the adjustment mechanism provided in the Investment Agreement, COFCO BVI shall have the right to request Alliance Holding by way of written notice (the “Additional Shares Transfer Notice”) to transfer such number of additional Shares to COFCO BVI in the event that the performance target of RMB204,624,000 (the “Performance Target”), which has been set and benchmarked against the consolidated net profit of our Group for the year ending December 31, 2011 (the “2011 Net Profit”), cannot be met, provided that such transfer shall not (i) result in Alliance Holding holding less than 51% of the then issued share capital of our Company following the transfer, and in such event, the number of shortfall Shares which are not transferred to COFCO BVI, shall be payable in cash as determined in accordance with the formula set out below (the “Cash Compensation”), or (ii) affect the Listing, or result in the violation by our Company, Alliance Holding or its respective associates of the Listing Rules, requirements of the Stock Exchange or such applicable rules and regulations, and in such event, Alliance Holding shall have a right to elect either to (A) reduce the number of additional Shares to be transferred to COFCO BVI and pay the shortfall through Cash Compensation, or (B) pay the shortfall through full Cash Compensation, or (C) extend the date of the transfer of such additional Shares to a date falling 30 business days after which such transfer of additional Shares shall be valid according to the Listing Rules, the requirements of the Stock Exchange or such applicable rules and regulations.

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## HISTORY AND CORPORATE STRUCTURE

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The number of the aforementioned additional Shares to be transferred to COFCO BVI in the event that the 2011 Net Profit cannot meet the Performance Target shall be calculated in accordance with the following formula:

$$\text{Number of additional Shares to be transferred to COFCO BVI} = \left( \frac{\text{Performance Target}}{2011 \text{ Net Profit}} \times A \right) - A$$

A = the number of Shares held by COFCO BVI on the date of the Additional Shares Transfer Notice

The Performance Target is a subjective target negotiated and agreed to among the parties as part of the terms of the Investment Agreement, and should not be considered as a profit forecast of our Company.

The amount of Cash Compensation shall be calculated in accordance with the following formula:

$$\text{Cash Compensation} = \left( \text{Performance Target} \times \frac{A}{B} - 2011 \text{ Net Profit} \times \frac{A + C}{B} \right) \times 8.5^*$$

A = the number of Shares held by COFCO BVI on the date of the Additional Shares Transfer Notice

B = the total issued Shares on the date of the Additional Shares Transfer Notice

C = the number of additional Shares which Alliance Holding agreed to transfer to COFCO BVI pursuant to (a)(i) and (a)(ii)(A) above, and in the event Alliance Holding elects to provide full Cash Compensation to COFCO BVI for the shortfall, C = 0

\* Such number was determined after arm's length negotiations between the parties.

- (b) As collateral for the performance of its obligations described above, Alliance Holding agreed to pledge 65,632,383 Shares (the "Pledge") to COFCO BVI, and the Pledge will be automatically terminated and released upon the earlier of (i) the fulfillment of its obligations to transfer the additional Shares and/or pay the shortfall in cash as set out in paragraph (a) above, or (ii) in accordance with the terms of the Investment Agreement, Alliance Holding is not required to transfer the additional Shares to COFCO BVI or has no relevant obligations towards COFCO BVI under the Investment Agreement, or (iii) the consummation of the Global Offering.

- **Information Rights**

Pursuant to the Investment Agreement, COFCO BVI was given miscellaneous information rights such as the right to inspect and obtain financial records and audited accounts of our Company in its capacity as a Shareholder. Such information rights of COFCO BVI as set forth in the Investment Agreement will cease to have effect upon Listing.

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## HISTORY AND CORPORATE STRUCTURE

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### *Termination of special rights upon Listing*

The Investment Agreement will terminate upon the earlier of (a) the Qualified IPO, (b) the parties agreeing to terminate the Investment Agreement, (c) the liquidation, administration, winding-up, bankruptcy or dissolution of our Company, or (d) COFCO BVI ceasing to hold any Shares, or (e) in respect of any party which undergoes liquidation, administration, winding-up, bankruptcy or dissolution, the right of any other party to terminate the Investment Agreement, save for any provisions which are expressed to continue in force after termination.

Save for the performance target adjustment right disclosed in subsection (a) of the paragraph headed “Adjustment mechanism” in this section, which shall terminate upon termination of the Investment Agreement, all other special rights granted to COFCO BVI will be terminated upon Listing.

### **LOCK-UP UNDERTAKING GIVEN BY COFCO BVI**

COFCO BVI has entered into a deed of undertaking in favor of our Company (“Deed of Undertaking”), pursuant to which COFCO BVI has agreed that save as pursuant to the Global Offering, the Capitalization Issue and the Over-allotment Option, without the prior written consent of our Company, and unless in compliance with the applicable Listing Rules, that at any time in the six month period commencing on the Listing Date, it shall not:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii) or (iii) above,

whether any of the foregoing transaction is to be settled by delivery of such capital or such other securities, in cash or otherwise and, in each case, with respect to the interest in our Company beneficially held by COFCO BVI as at the Listing Date.

COFCO BVI has further undertaken pursuant to the Deed of Undertaking that it shall not apply for and shall procure all of its associates not to apply for any Shares under the Global Offering.

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## HISTORY AND CORPORATE STRUCTURE

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### STRATEGIC COOPERATION RELATIONSHIP WITH COFCO

With a view to developing a long-term strategic cooperation with COFCO Corporation, we entered into a strategic cooperation framework agreement with COFCO on August 8, 2011, which is a memorandum pursuant to which the parties intend to enter into future specific agreements. It has a term of one year commencing from August 8, 2011 and ending on August 8, 2012, and will be subject to automatic renewal unless otherwise expressly indicated by either party. Its major terms are set out below.

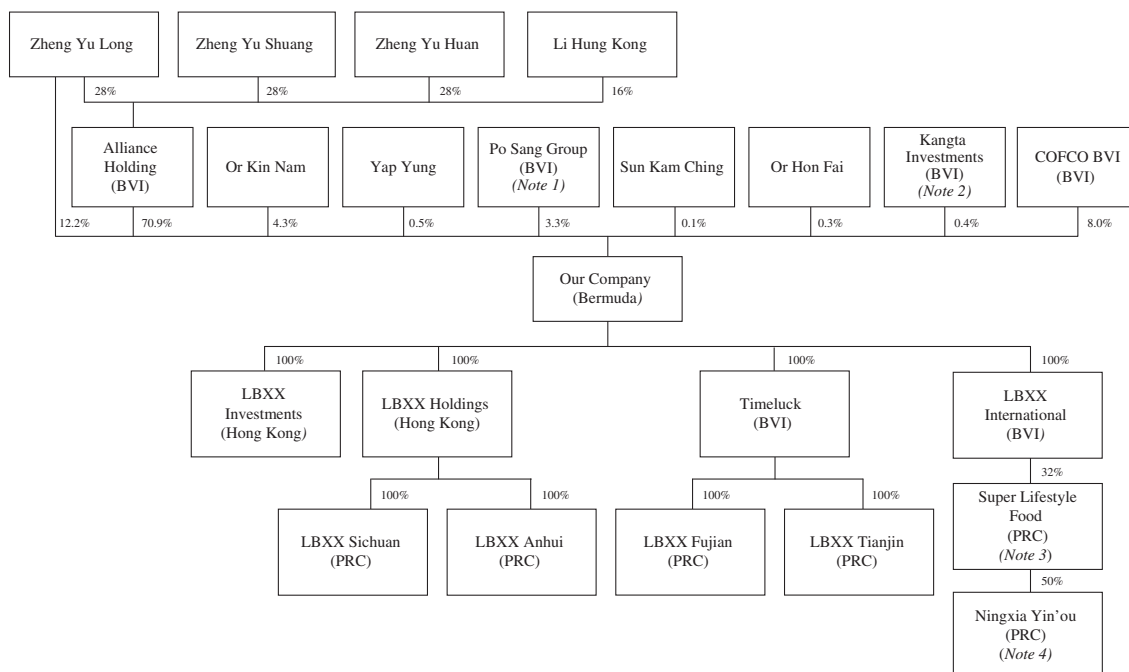
- (a) ***Supply of raw materials:*** COFCO has agreed (i) to supply us with raw materials which are of the standard required by the PRC or a higher quality standard; (ii) to supply its self-produced raw materials including but not limited to syrup for our jelly products and ensure the quality of such raw materials; (iii) to ensure the quality of the raw materials including but not limited to flavoring essence manufactured by third-party suppliers engaged by COFCO and supplied to us by COFCO; and (iv) to ensure that we will have priority over its other customers in respect of raw materials required by us in the event of shortage of raw materials supply.
- (b) ***Jointly develop new products:*** We and COFCO have agreed to cooperate and jointly develop new products and such cooperation shall include, without limitation, feasibility studies on new products, design and development of new products, production of new product samples, product sample testing and protection of intellectual property rights of such new products. We will be the sole proprietor of any intellectual property rights arising from any joint product development projects, with COFCO having the priority right to use such intellectual property.
- (c) ***Share information relating to the food and beverage industry:*** We and COFCO have agreed to share with each other information relating to the food and beverage industry including but not limited to government policies on food safety and the technology concepts and experience of our and COFCO's management team.
- (d) ***Favorable and flexible payment term:*** COFCO has agreed to provide us with a favorable and flexible payment term including a longer credit period.
- (e) ***Share information relating to business resources:*** We and COFCO have agreed to share with each other information relating to business resources including but not limited to raw materials suppliers information, product distribution channels and sales channels.

Given the experience in the food and beverage business of COFCO Corporation and/or its associates in the PRC, we believe that our strategic cooperation with COFCO will further enhance our corporate governance standards, as well as provide strategic input and guidance in our Group's mid- and long-term development.

## HISTORY AND CORPORATE STRUCTURE

### CORPORATE AND SHAREHOLDING STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately before the completion of the Capitalization Issue and the Global Offering:

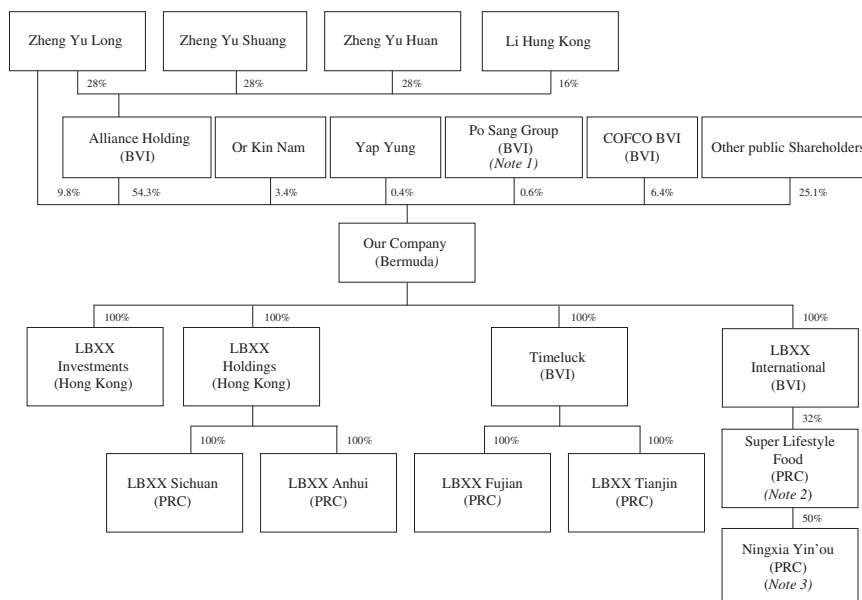


#### Notes:

- (1) Po Sang Group holds its interest in our Company through its nominee, Merrill Lynch (Singapore) Pte Ltd..
- (2) Kangta Investments is principally engaged in investment holding and is wholly owned by Mr. Wong Kin Ping, an Independent Third Party.
- (3) The remaining 68% is held as to 50% by Super Coffeemix Manufacturing Ltd, an Independent Third Party, and 18% by Chance Cove Group Limited, which is in turn wholly owned by Mr. Zheng Yu Long.
- (4) The remaining 50% is held by Ningxia Jiali Bio-Tech Co., Ltd. (寧夏佳立生物科技公司), an Independent Third Party.

## HISTORY AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised):



**Notes:**

- (1) Po Sang Group holds its interest in our Company through its nominee, Merrill Lynch (Singapore) Pte Ltd..
- (2) The remaining 68% is held as to 50% by Super Coffeemix Manufacturing Ltd, an Independent Third Party, and 18% by Chance Cove Group Limited, which is in turn wholly owned by Mr. Zheng Yu Long.
- (3) The remaining 50% is held by Ningxia Jiali Bio-Tech Co., Ltd. (宁夏佳立生物科技有限公司), an Independent Third Party.

### **M&A Rules**

In August 2006, six PRC regulatory agencies promulgated the M&A Rules regulating mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules, which became effective in September 2006 and re-issued in June 2009, purport to require that an offshore special purpose vehicle (the “SPV”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. According to Article 2 of the M&A Rules, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where a foreign investor purchases by agreement the equity interests of a domestic non-foreign-invested enterprise (“Domestic Company”) or subscribes to the increased capital of a Domestic Company, and thus changes the Domestic Company into a foreign-invested enterprise; or a foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a Domestic Company and operates its assets; or a foreign investor purchases by agreement the assets of a Domestic Company, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets. As advised by our PRC legal adviser, Jingtian & Gongcheng, the Group does not require CSRC approval for the Listing because the Group’s PRC subsidiaries are newly established wholly foreign-owned enterprises, and there was no asset or share acquisition.




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## BUSINESS

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### OVERVIEW

We are a snack food provider in China with a leading position in the jelly products market. According to Euromonitor, we were the second largest manufacturer of jelly products in China with a market share of 10.3% in 2010 in terms of retail sales value. We market our products under our core brand, “” (“Labixiaoxin”) as well as other sub-brands. Our “Labixiaoxin” brand is a well-recognized snack food brand in China and was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC in 2007. We offer a broad range of quality snack food products. Our main products are jelly products, which comprise jelly snacks and jelly beverages. We also market and sell confectionary products which primarily include lollipops, milk candies, gummy candies and chocolates. Our other products, primarily comprise powdered milk tea. For the year ended December 31, 2010, sales from our jelly products, confectionary products and other products accounted for 83.3%, 11.4% and 5.3% of our sales, respectively.

Over the last 10 years, we have established an extensive distribution network. As of October 31, 2011, we worked with over 190 independent wholesale distributors, covering 31 provinces, municipalities and autonomous regions in China, which on-sell our products to secondary distributors and retailers. We have also established good business relationships with a number of large and well-known retailers in China, which we consider to be our key account customers. Over 90% of our sales during the Track Record Period was generated domestically through our established nationwide distribution network, while the remainder was generated from export sales through our export agents. To facilitate our nationwide sales, we have established three major production facilities located in strategic areas, namely Jinjiang, Fujian Province, Tianjin Municipality and Chengdu, Sichuan Province, giving us convenient access to major markets in different regions in China. We have commenced the construction of our fourth production facility in Chuzhou, Anhui Province. We manufacture all of our jelly products and powdered milk tea and outsource the manufacture of confectionary products and the remainder of other products to third parties through OEM arrangements.

We are committed to high standards of quality in all our products and follow stringent quality control procedures throughout our production processes. We obtained QS Food Production Permits (食品生產許可證) for all our production facilities and ISO 9001 and HACCP certifications for our Fujian and Tianjin production facilities. We believe we have strong research and product development capabilities. We adjust our product offerings and introduce new and improved products in response to changing consumer preferences and demand. We believe our product development capabilities will help to strengthen our competitiveness through product differentiation and innovation.

We believe that we are well positioned to benefit from the rapid economic growth of China. From 2003 to 2010, China’s real GDP grew at a CAGR of 11.0%, and the level of per capita disposable income in the PRC increased significantly, with a CAGR of 12.3% and 12.3% from 2003 to 2010 for urban and rural residents, respectively. We expect such historical trends will sustain in the near future, and believe consumer spending on snack food will also increase. According to Euromonitor, the estimated retail sales value of jelly products and confectionary products represented 7.5% and 51.5% of the snack food market in China in 2010, respectively, and the retail sales value of jelly products and confectionary products are expected to increase with a CAGR of 14.2% and 7.4% from 2010 to 2013, respectively.

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Our sales grew from RMB721.1 million in 2008 to RMB771.4 million in 2009 and RMB931.7 million in 2010 and, according to Euromonitor our share of the total jelly products retail sales value in China grew steadily from 9.0% in 2008 to 9.6% in 2009 and 10.3% in 2010. Our profit for the year was RMB68.6 million, RMB53.5 million and RMB147.8 million in 2008, 2009 and 2010 respectively. Our sales grew by 46.6% from RMB414.4 million for the five months ended May 31, 2010 to RMB607.4 million for the five months ended May 31, 2011.

### **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths have allowed us to achieve a leading position in the jelly products market in China and differentiate us from our competitors:

#### ***Strong brand recognition in China's snack food industry***

We have a proven business track record and have established strong brand recognition in China's snack food market since our commencement of operations in 2000. According to Euromonitor, we were the second largest manufacturer of jelly products in China with a market share of 10.3% in 2010 in terms of retail sales value. We sell our products under our core brand “” (“Labixiaoxin”) and other sub-brands such as “” (“Sunshine City”) and “” (“Humor”) across various product segments. Our “Labixiaoxin” brand was recognized as a “China Well-Known Trademark” (中國馳名商標) by SAIC in 2007.

We believe the favorable reputation and strong recognition of our “Labixiaoxin” brand have allowed us to compete effectively against our competitors and will continue to be a main factor driving our future success. We believe we are well positioned to leverage our leading position in the jelly products market to capture growth in other snack food market segments in China.

#### ***Extensive distribution network in China and strong relationships with wholesale distributors and key account customers***

We have established an extensive sales and distribution network in China that enables us to effectively reach end consumers nationwide. We primarily sell our products to regional wholesale distributors which then on-sell to secondary distributors and retailers. As of October 31, 2011, we worked with over 190 independent wholesale distributors located throughout China, covering 31 provinces, municipalities and autonomous regions.

We believe one of our key success factors is the strong working relationships we enjoy with our wholesale distributors. As of the Latest Practicable Date, we had worked with the majority of our wholesale distributors for over five years. As of October 31, 2011, we had over 370 sales and marketing representatives, who collaborated with our wholesale distributors to market and promote our products in different regions across China and provided support to these wholesale distributors. To better respond to changing consumer preferences, our sales and marketing representatives also gather market intelligence, which allows us to monitor and analyze market trends. We typically adopt a flexible and mutually beneficial pricing policy by charging our wholesale distributors a uniform and competitive ex-factory price, which allows them to mark up our ex-factory price for a reasonable profit margin before the products are on-sold to secondary distributors and retailers. We believe these measures, together with our effective management policies, enable us to maintain strong working relationships with our wholesale distributors.

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As our business operations grew, we have been able to establish close partnerships with some of our key account customers, which are typically large, well-known supermarkets, hypermarkets and chain stores with multiple retail points in China, including Wal-Mart, RT-Mart, Tesco and China Resources Vanguard. We believe our relationships with these key account customers will help to strengthen our market position and improve our product image as these key account customers wield significant influence over smaller local retailers.

We believe our well-established and effectively managed distribution network, as well as strong relationships with our wholesale distributors and key account customers, will continue to allow us to successfully market and deliver products to our customers and support our future growth.

### *Commitment to stringent quality standards and control*

We are committed to high standards of quality in our products and implement stringent quality control procedures throughout our manufacturing processes. We have a dedicated quality control team, led by our executive Director, Mr. Zheng Yu Shuang, to ensure that our internal quality control procedures are duly followed. Our quality control personnel closely monitor our manufacturing processes. Control procedures generally include inspection of incoming raw materials, maintenance of our production equipment and production facility environment, monitoring of our production processes to detect any contaminants, sample inspections of all final products and maintenance of inventory storage areas to prevent spoilage of our products.

We also implement stringent quality control procedures with our OEM partners to ensure the quality of the products they manufacture. Our quality control staff monitor our OEM partners' production processes at their facilities, from raw material procurement to delivery of the finished products. We also conduct sample checks on the finished products delivered to us to ensure that they meet our internal quality standards.

We have obtained QS Food Production Permits (食品生產許可證) for all of our production facilities. As a result of our stringent internal quality control standards, we have also obtained ISO 9001 and HACCP certifications for our Fujian and Tianjin production facilities, as well as other certifications in relation to the health, safety and hygiene conditions of our production facilities.

### *Strong product development capabilities and proven track record of product innovation*

Our strong product development efforts have enabled us to expand the range and improve the quality of our products over the years. We regularly collect market intelligence from our sales and marketing department to develop new product lines in order to improve and expand our product offerings. For example, we typically launch a number of new flavors or products every year and eliminate less popular products from our product menu. We have successfully expanded our product offerings over the years and currently offer over 1,000 SKU of jelly products (with different flavors, packaging and serving sizes), confectionary products and other snack food products.

We have a skilled research and product development team focused on developing new formulas and flavors to further differentiate our products from those of our competitors. We aim to continually innovate and improve our products to cater to changing consumer tastes and preferences, focusing particularly on product tastes, textures and packaging, while maintaining our cost of production at acceptable levels. In

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In addition to internal product development efforts, we also cooperate with academic and research institutions to jointly develop new products. Prior to the establishment of the Jelly Products Working Group of the Committee for the Standardization of Lifestyle Food (全國休閒食品標準化技術委員會果凍小組) (the “Jelly Products Working Group”) on August 19, 2011, we acted as the convenor in preparing for its establishment and, leveraging our research and product development capabilities, we will participate in the formulation of national standards for different types of jelly products.

We believe our product research and development capabilities have enabled us to successfully achieve ongoing product improvement, continuously expand our product offerings, diversify our product mix, as well as maintain our competitiveness in the snack food industry in China.

### *Experienced management team with a proven track record*




Our management team is composed of knowledgeable and experienced professionals with a proven track record in the snack food industry. A majority of our senior management team members have extensive operational and management experience in the marketing and manufacture of jelly and confectionary products in the PRC. Our chairman, Mr. Zheng Yu Long, and our executive Directors, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, each has over 15 years of experience in the snack food industry in China.

Our dedicated management team spearheads our business operations and drives our future growth plans. Their experience in, and knowledge of, the industry in which we operate also enables us to develop new products and identify new business opportunities. Our management team has played a key role in building a corporate culture which encourages consistent delivery of high quality products and continuous innovation. We believe our experienced management team is a key to our success in the past and will continue to contribute to our growth in the future.

## OUR BUSINESS STRATEGIES

Our objective is to become a leading manufacturer of snack food products in China. We intend to achieve our objective by implementing the following strategies:

### *Continue to strengthen our brand recognition and to enhance our market position*

We believe successful branding is key to our business development and that our core brand  (“Labixiaoxin”) has gained wider recognition and popularity in the PRC snack food industry in recent years as a result of our successful marketing and promotional strategies. To further strengthen and capitalize on the established reputation and recognition of our “Labixiaoxin” brand, we are currently consolidating all our existing brands with the intention to use “Labixiaoxin” as an umbrella brand to market all our products, with multiple sub-brands to market our different product segments. For example, we intend to incorporate our existing sub-brands,  (“Sunshine City”) for confectionary products and “” (“Humor”) for powdered milk tea, into our umbrella brand “Labixiaoxin.” We believe this will further enhance our “Labixiaoxin” brand and closely align our sub-brands with their respective product segments, which will help us to reach different consumer groups more effectively and take advantage of cross-promotional opportunities across different product offerings.

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We plan to concentrate our advertising and promotional efforts to further develop our core brand “Labixiaoxin” going forward. We plan to enhance our brand image by adopting a multi-channel advertising strategy. In addition to traditional advertising channels such as print media advertising, we intend to increase our prime time television advertising on national and regional satellite television networks, and sponsor certain popular television programs and festive events. We also intend to enhance Internet advertising by producing short film clips promoting our brand and products, which we believe will help us to gain access to younger consumers. We also intend to regularly undertake in-store product promotion campaigns to encourage sales. We plan to continue to participate in industry and trade shows to promote our brand and increase product recognition in the snack food industry in China as well as attract new buyers.

***Continue to broaden and strengthen our distribution network in China and further enhance our relationships with wholesale distributors and key account customers***

We believe further expansion of our existing distribution network is crucial to increasing our market share and coverage. We also believe such expansion is necessary to capitalize on the increasing spending power of end consumers, especially in third and fourth tier cities as a result of the continued economic development and urbanization in China. As a result, we intend to expand our distribution network into other cities in the PRC with growth potential surrounding our existing markets by increasing our advertising and promotional activities in these areas, as well as engaging more regional wholesale distributors to sell our products to the retailers. We believe improved market penetration will help us to gain access to a wider group of end consumers and support our future growth.

In addition, we intend to expand our distribution network geographically to facilitate the expected increases in demand for our products in other growth regions across China, and, in particular, we plan to expand our distribution network into more locations in western China and actively seek out more key account customers. With the construction of our Sichuan production facility and its commencement of production in 2010, we believe we are well-placed to strengthen our presence in western China and capitalize on the rapid economic growth in this region in recent years.

We intend to continue to work closely with our wholesale distributors in each region to strengthen our relationship and cooperation in the marketing of our products. We also intend to engage more key account agents to sell our products and provide customer services to our key account customers on an exclusive basis. We believe the use of key account agents enables us to respond to the needs of our key account customers in a more timely manner and allows us to provide prompt customer service tailored to suit their individual business needs, which we believe will enhance our relationships with the key account customers. As part of our future business strategy to further strengthen our relationship with key account customers, we intend to sell directly to our key account customers in order to broaden our distribution channels and strengthen our relationships with key account customers. Direct sales to these key account customers enable us to gain more access to end consumers and gather more accurate market intelligence.

***Expand and enhance our product offerings through continued product development efforts***

We believe that continuous product innovation and differentiation is an important factor for us to increase the market share of our products. We plan to invest in and strengthen our market-oriented product development activities to continuously provide innovative products to differentiate ourselves from other competitors and accommodate the changing preferences of consumers. For example, with growing health awareness among consumers in their consumption of snack food, we intend to focus our product development efforts on manufacturing healthier snack food such as low-sugar or low-calorie jelly products.

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We believe it is important to expand our product offerings and adjust our product mix in response to changing consumer tastes and preferences in order to stay competitive in the snack food industry in China. For example, we intend to further expand the range of our products to include egg rolls. Moreover, we expect that a more comprehensive product portfolio can increase our commercial appeal to our customers as such customers can procure more types of snack food products from us, and reduce the impacts of seasonal fluctuations in the sales of particular products. We believe that our strong product development capabilities coupled with our established brand names and extensive distribution network provide a solid foundation for us to introduce new and innovative snack food products to the market. We believe we can achieve synergies in our product development activities, branding and sales and marketing of these new products by leveraging our existing experience and strengths in these areas.

### *Strengthen our market position through strategic production capacity expansion*

We plan to strengthen our market position in the snack food industry and achieve better economies of scale by expanding our existing production facilities and constructing a new production facility. We intend to invest approximately RMB450 million to raise the annual production capacity of our Tianjin production facility from 55,000 tons to over 100,000 tons of jelly snacks and jelly beverages in the next five years.

In addition to expanding our existing production facilities, we also plan to invest approximately RMB550 million for the construction of a new production facility in Chuzhou, Anhui Province, as part of our geographical expansion plan. We own a parcel of land in Chuzhou, Anhui Province which has a total site area of approximately 133,332 square meters, and commenced construction of our Anhui production facility in August 2011. We plan to start manufacturing primarily jelly snacks and jelly beverages at our Anhui production facility in the first half of 2013. The new production facility will markedly increase our production capacity, which is important to ensure our continued business growth. We also believe the Anhui production facility will further enhance our geographical coverage and enable us to distribute our products more efficiently to markets around the region. Please see “— Production Process and Production Facilities — Production Expansion Plan” and “Financial Information — Capital Expenditures — Planned Capital Expenditures.”

## OUR PRODUCTS

We offer a broad range of quality snack food products to the market that can be categorized into the following segments:

- Jelly products, which comprise jelly snacks and jelly beverages;
- Confectionary products, which primarily include lollipops, milk candies, gummy candies and chocolates; and
- Other products, which primarily comprise powdered milk tea, dried bean curd products and baked products.



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The table below sets forth our annual sales by product segment for the periods indicated:

| Product segments                       | Year ended December 31, |               |                |               |                |               | Five months ended May 31, |               |                |               |
|--|-------------------------|---------------|----------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|
|  | 2008                    |               | 2009           |               | 2010           |               | 2010                      |               | 2011           |               |
| (unaudited)                            |                         |               |                |               |                |               |                           |               |                |               |
| (RMB in thousands, except percentages) |                         |               |                |               |                |               |                           |               |                |               |
| Jelly products . . . .                 | 595,627                 | 82.6%         | 669,609        | 86.8%         | 775,815        | 83.3%         | 356,756                   | 86.1%         | 503,327        | 82.9%         |
| Confectionary products . . . . .       | 107,005                 | 14.8%         | 73,563         | 9.5%          | 106,115        | 11.4%         | 40,100                    | 9.7%          | 62,127         | 10.2%         |
| Other products . . . .                 | 18,508                  | 2.6%          | 28,188         | 3.7%          | 49,750         | 5.3%          | 17,563                    | 4.2%          | 41,990         | 6.9%          |
| <b>Total . . . . .</b>                 | <b>721,140</b>          | <b>100.0%</b> | <b>771,360</b> | <b>100.0%</b> | <b>931,680</b> | <b>100.0%</b> | <b>414,419</b>            | <b>100.0%</b> | <b>607,444</b> | <b>100.0%</b> |

### *Jelly Products*

We are a leading manufacturer in China’s jelly products market with over 10 years of experience in the manufacture and sales of jelly products. According to Euromonitor, we had over 10.3% of market share in the jelly products market for the year ended December 31, 2010. We began to produce and sell jelly products in 2000 at our first production facility in Jinjiang, Fujian Province. We have expanded our business operations over the years and currently have two additional production facilities in Tianjin Municipality and Chengdu, Sichuan Province. Our production facilities in Fujian, Tianjin and Sichuan cover eastern and southern China, northern China and western China, respectively. We offer a wide variety of jelly snacks and jelly beverages with different flavors and serving sizes. Our jelly products are sold either through “pick-and-mix” where consumers can pick and mix different quantities of various types of these products, and pay for them by weight, or in pre-packaged forms. Our jelly products have an average shelf life of 12 months.

We sold 90,640 tons, 101,483 tons, 116,991 tons and 69,609 tons of jelly products in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. We generated RMB595.6 million, RMB669.6 million, RMB775.8 million and RMB503.3 million of sales from jelly products in 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, accounting for 82.6%, 86.8%, 83.3% and 82.9% to our total sales for the same periods, respectively.

### **Jelly snacks**

Jelly snacks comprise the largest component of our jelly products sales and we have over 500 SKU of jelly snacks, such as fruit-flavored jellies, jellies filled with canned fruit, yogurt jellies and jelly mousse. We offer our jelly snacks in different flavors and sizes ranging from 16 gram cup-sized jellies to 200 gram bowl-sized jellies. We market our jelly snacks under our core brand “Labixiaoxin” and a number of sub-brands such as “Eden Bar” (“異度果吧”), “Qingmeiwuyu” (“青梅物語”) and “Zhengguoduo” (“珍果多”).

We sold 70,453 tons, 68,040 tons, 72,872 tons and 42,391 tons of jelly snacks in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. We generated RMB474.2 million, RMB486.3 million, RMB530.2 million and RMB330.1 million of sales from jelly snacks in 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, accounting for 79.6%, 72.6%, 68.3% and 65.6% of total sales attributable to jelly products for the same periods, respectively. All of our jelly snacks bear choking hazard warnings, as required by the relevant laws and regulations in the PRC and the foreign countries to which we sell our jelly snack products.

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### **Jelly beverages**

Jelly beverages are liquid jellies that may be directly consumed from the packages. We started producing jelly beverages in 2001 in our Fujian production facility. We offer over 40 SKU of jelly beverages comprising a variety of flavors and serving sizes, with packages ranging from 40 grams to 350 grams. Jelly beverages are normally sold in individual pieces, where customers pick and pay according to the weight or the quantity of the product. We market our jelly beverages under our core brand “Labixiaoxin” and a number of sub-brands such as “Fresh Q” (“鮮 Q”) and “Xixi Jelly” (“吸吸果凍”). We recently launched “Vegi-fruit Party” (“蔬果派對”), a new jelly beverage, to the market.

We sold 20,187 tons, 33,443 tons, 44,119 tons and 27,218 tons of jelly beverages in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. We generated RMB121.4 million, RMB183.3 million, RMB245.6 million and RMB173.2 million of sales from jelly beverages in 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, accounting for 20.4%, 27.4%, 31.7% and 34.4% of total sales attributable to jelly products for the same periods, respectively.

From 2008 to 2010, sales of our jelly beverages achieved a CAGR of 42.3% due to increasing consumer demand and product popularity. We believe this increasing demand is attributable to our successful sales and marketing efforts, as well as to the fact that we placed more focus and resources on promoting our jelly beverages. We believe the demand for jelly beverages will continue to grow, and we intend to continue to focus on producing more varieties of jelly beverages to satisfy increasing consumer demand.

### ***Confectionary Products***

We began to market and sell confectionary products over five years ago because candies are popular snacks commonly consumed during traditional festivals and are complementary to our jelly products. As of October 31, 2011, we outsourced the entire manufacturing process of our confectionary products to 11 third-party manufacturers under non-exclusive OEM arrangements. We believe outsourcing helps to increase our economic and operational efficiency. By leveraging our well-established distribution network and our growing brand recognition, we believe our confectionary products have gained wide consumer acceptance and the sales of our confectionary products will continue to grow in the next few years. We currently market and sell over 400 SKU of confectionary products, which come in a large variety of flavors, shapes and textures, including lollipops, milk candies, gummy candies and chocolates. We market our confectionary products primarily under our sub-brand “Sunshine City” (“陽光城市”). Our confectionary products have an average shelf life of 12 months.

We sold 6,587 tons, 5,037 tons, 7,669 tons and 3,453 tons of confectionary products in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. We generated RMB107.0 million, RMB73.6 million, RMB106.1 million and RMB62.1 million of sales from confectionary products in 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, accounting for 14.8%, 9.5%, 11.4% and 10.2% to our total sales for the same periods, respectively.



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### *Other Products*


Our other products primarily consist of powdered milk tea, which we launched in 2006. Our powdered milk tea is packaged in a cup that can be turned into an instant hot drink by adding hot water to the powder. We primarily market our powdered milk tea under the core brand “Labixiaoxin” (“蠟筆小新”) and sub-brand “Humor” (“幽默”).





In addition to powdered milk tea, we began to market and sell a small quantity of dried bean curd products in late 2010 under the “Xiangdoufang” (“鄉豆坊”) brand. In early 2011, we began to market and sell a small quantity of baked products. Both of our dried bean curd products and baked products are manufactured by third-party manufacturers under OEM arrangements. As of the Latest Practicable Date, our other products had an average shelf life ranging from six to 12 months.

We sold 1,016 tons, 1,329 tons, 2,153 tons and 2,032 tons of other products in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. We generated RMB18.5 million, RMB28.2 million, RMB49.8 million and RMB42.0 million of sales from other products in 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, accounting for 2.6%, 3.7%, 5.3% and 6.9% of our total sales for the same periods, respectively.

## SALES AND MARKETING

### *Branding*

We believe that our strong brand recognition and reputation have been instrumental to the success of our business. We have been promoting recognition of our core brand “” (“Labixiaoxin”) through a variety of marketing and promotional activities since we began manufacturing jelly products. See “— Advertising and Promotion” below.

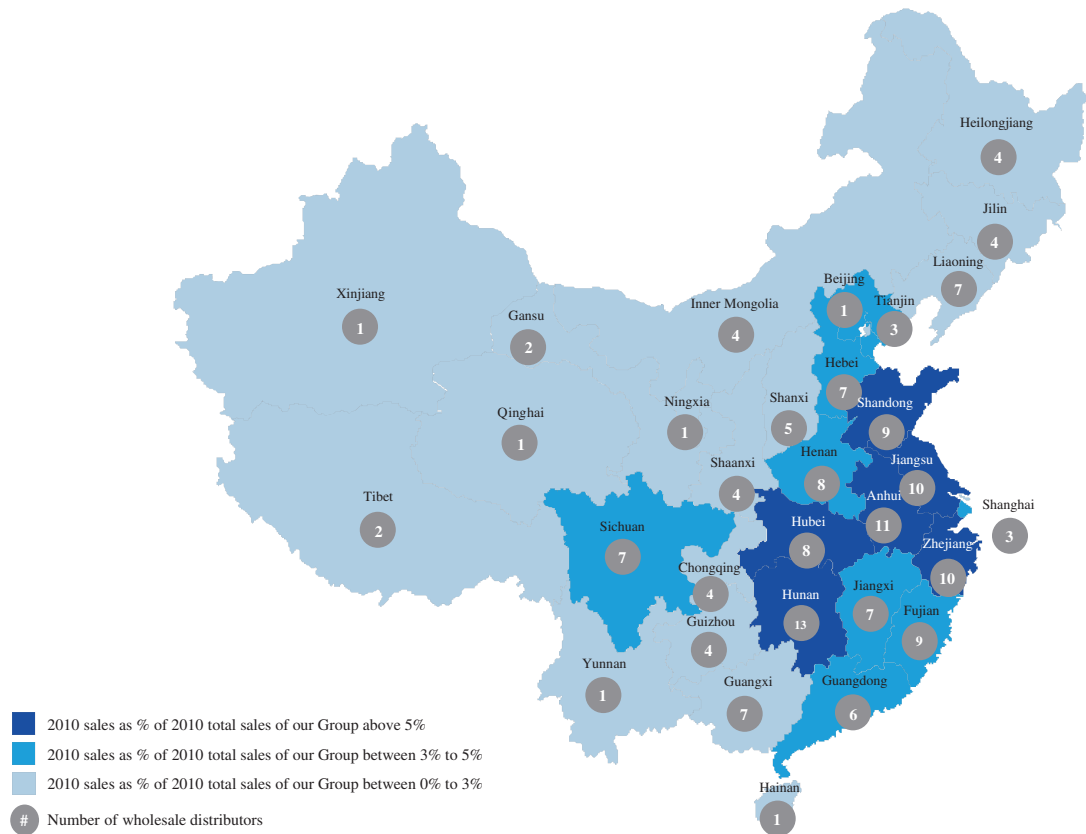
Currently our jelly products are primarily marketed under our core brand “Labixiaoxin.” Our “Labixiaoxin” brand was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC in 2007. We also use sub-brands to market different types of jelly products, such as “” (“Eden Bar”), “” (“Fresh Q”) and “青梅物語” (“Qingmeiwuyu”). In addition, we market and sell our confectionery products, powdered milk tea and dried bean curd products under the brands “” (“Sunshine City”), “幽默” (“Humor”) and “” (“Xiangdoufang”), respectively.

As a result of our successful marketing and promotional strategies, we believe that our “Labixiaoxin” brand has gained wide recognition and popularity in China’s snack food industry. As part of our branding strategy and in order to capitalize on our established reputation and brand recognition, we are currently consolidating all our brands with the intention to use “Labixiaoxin” as an umbrella brand to market all our products, with multiple sub-brands to market different product segments. For example, we intend to incorporate our existing sub-brands “Sunshine City” (“陽光城市”) for confectionery products and “Humor” (“幽默”) for powdered milk tea, into our umbrella brand “Labixiaoxin.” We believe this will further enhance our “Labixiaoxin” brand and closely align our sub-brands with their respective product segment, which will help us to target different consumer groups more effectively.

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### *Sales and Distribution Network*

We sell our products primarily through wholesale distributors, which then on-sell the products to secondary distributors or retailers. As of October 31, 2011, we had established an extensive nationwide sales and distribution network with over 190 independent wholesale distributors located throughout China covering 31 provinces, municipalities and autonomous regions in China. The following map shows our sales distribution in each province, municipality and autonomous region for the year ended December 31, 2010 and the coverage of our wholesale distributors in China as of December 31, 2010:



As our business operations grew, we have been able to establish close relationships with some of our key account customers, which are typically large supermarket or hypermarket chains with a national or regional presence in China. To enhance our relationships with the key account customers, we started to engage key account agents in 2011 to sell our products and provide customer services to certain key account customers. To implement our mid-range to long-term business strategy, we also began initial steps of direct sales in 2011 to certain key account customers.

In addition, we export our products under both OEM arrangements and our own brand through certain PRC export agents to our foreign customers primarily in Latin America.

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We manage our extensive sales network through our sales and marketing department located at our headquarters in Jinjiang, Fujian. Our sales and marketing department consists of over 370 representatives as of October 31, 2011. These representatives are responsible for liaising with our regional wholesale distributors and key account agents for the marketing and promotion of our products and gathering of market intelligence and provide feedback to us on a timely basis. Some of our representatives are dedicated to directly liaising with our key account customers.

The following table sets forth our sales to wholesale distributors, key account agents and key account customers as well as export agents, respectively, for the periods indicated:

|  | Year ended December 31,                |               |                |               |                |               | Five months ended May 31, |               |                |               |
|--|--|---------------|----------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|
|  | 2008                                   |               | 2009           |               | 2010           |               | 2010                      |               | 2011           |               |
|  | (unaudited)                            |               |                |               |                |               |                           |               |                |               |
|  | (RMB in thousands, except percentages) |               |                |               |                |               |                           |               |                |               |
| Wholesale distributors . . . . .                             | 662,208                                | 91.8%         | 726,334        | 94.2%         | 859,815        | 92.3%         | 386,404                   | 93.2%         | 483,712        | 79.6%         |
| Key account agents and<br>key account<br>customers . . . . . | -                                      | -             | -              | -             | -              | -             | -                         | -             | 90,428         | 14.9%         |
| Export agents . . . . .                                      | 58,932                                 | 8.2%          | 45,026         | 5.8%          | 71,865         | 7.7%          | 28,015                    | 6.8%          | 33,304         | 5.5%          |
| <b>Total . . . . .</b>                                       | <b>721,140</b>                         | <b>100.0%</b> | <b>771,360</b> | <b>100.0%</b> | <b>931,680</b> | <b>100.0%</b> | <b>414,419</b>            | <b>100.0%</b> | <b>607,444</b> | <b>100.0%</b> |

We market and sell a majority of our products in China. The following table sets forth the geographical breakdown of our domestic sales for the periods indicated:

|   | Year ended December 31,                |               |                |               |                |               | Five months ended May 31, |               |                |               |
|---|--|---------------|----------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|
|   | 2008                                   |               | 2009           |               | 2010           |               | 2010                      |               | 2011           |               |
|   | (unaudited)                            |               |                |               |                |               |                           |               |                |               |
|   | (RMB in thousands, except percentages) |               |                |               |                |               |                           |               |                |               |
| Eastern China <sup>(1)</sup> . . . . .  | 224,160                                | 33.9%         | 239,422        | 33.0%         | 265,449        | 30.9%         | 119,723                   | 31.0%         | 173,988        | 30.3%         |
| Central China <sup>(2)</sup> . . . . .  | 176,148                                | 26.6%         | 175,790        | 24.2%         | 208,307        | 24.2%         | 93,990                    | 24.3%         | 124,564        | 21.7%         |
| Northern China <sup>(3)</sup> . . . . . | 107,203                                | 16.2%         | 124,917        | 17.2%         | 155,553        | 18.1%         | 70,376                    | 18.2%         | 111,232        | 19.4%         |
| Western China <sup>(4)</sup> . . . . .  | 77,986                                 | 11.8%         | 98,315         | 13.5%         | 120,802        | 14.0%         | 54,358                    | 14.1%         | 84,005         | 14.6%         |
| Southern China <sup>(5)</sup> . . . . . | 76,711                                 | 11.6%         | 87,890         | 12.1%         | 109,704        | 12.8%         | 47,957                    | 12.4%         | 80,350         | 14.0%         |
| <b>Total . . . . .</b>                  | <b>662,208</b>                         | <b>100.0%</b> | <b>726,334</b> | <b>100.0%</b> | <b>859,815</b> | <b>100.0%</b> | <b>386,404</b>            | <b>100.0%</b> | <b>574,140</b> | <b>100.0%</b> |

Notes:

- (1) Eastern China represents Shanghai, Jiangsu, Zhejiang, Shandong and Anhui.
- (2) Central China represents Hubei, Hunan, Henan and Jiangxi.
- (3) Northern China represents Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
- (4) Western China represents Sichuan, Chongqing, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Xinjiang, Qinghai and Ningxia.
- (5) Southern China represents Guangdong, Guangxi, Hainan and Fujian.

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### Wholesale distributors

Consistent with market practice, we sell our products primarily through wholesale distributors which then on-sell to secondary distributors and retailers, including some of our key account customers. The secondary distributors on-sell our products to other sales outlets such as supermarkets and other retail points via their own sales network. As of October 31, 2011, we engaged more than 190 wholesale distributors. Our wholesale distributors are typically large regional wholesale distributors with well-established local distribution networks and are primarily involved in the distribution of food and beverages. We select our wholesale distributors on the basis of their coverage of sales network, track record performance and financial resources. For the year ended December 31, 2008, 2009 and 2010, all of our domestic sales were generated through sales to wholesale distributors. During the five months ended May 31, 2011, although we began to engage a number of key account agents to sell our products and provide customer services to key account customers and initiated our direct sales efforts, a majority of domestic sales were still generated through sales to wholesale distributors. We generated RMB662.2 million, RMB726.3 million, RMB859.8 million and RMB483.7 million of sales in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 through sales to our wholesale distributors, respectively, representing 91.8%, 94.2%, 92.3% and 79.6% of our total sales during the same periods, respectively. We believe that by collaborating with wholesale distributors to sell our products we are able to benefit from leveraging their established distribution channels and resources, and save costs that would otherwise be required to build up and maintain internal logistics and other related capacities to supply retailers across the country.

We had maintained stable working relationships with most of our wholesale distributors during the Track Record Period and have engaged many of them for more than five years. The following table provides the number of wholesale distributors and the turnover during the Track Record Period:

| <u>Wholesale Distributors</u>           | Year ended December 31, |            |            | Five months<br>ended May 31, |
|---|-------------------------|------------|------------|------------------------------|
|   | 2008                    | 2009       | 2010       | 2011                         |
| Added during the period . . . . .       | 34                      | 16         | 34         | 80                           |
| Terminated during the period . . . . .  | 6                       | 13         | 12         | 42                           |
| <b>Total at end of period . . . . .</b> | <b>127</b>              | <b>130</b> | <b>152</b> | <b>190</b>                   |

Turnover of our wholesale distributors was generally due to (i) our termination of underperforming wholesale distributors based on our qualitative assessments such as their ability to comply with our sales strategies, and (ii) decisions by some wholesale distributors to cease their distribution operations and transition into other businesses. With respect to the turnover during the five months ended May 31, 2011, our turnover was also partly due to the beginning of our engagement with key account agents. In 2011, we converted a number of wholesale distributors to key account agents to sell our products and provide customer services to certain key account customers, which increased our wholesale distributor turnover during the five months ended May 31, 2011. Sales generated through terminated wholesale distributors amounted to RMB15.5 million, RMB17.5 million, RMB33.0 million and RMB22.4 million in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, representing 2.1%, 2.3%, 3.5% and 3.7% of our total sales during the same periods, respectively. We increased the overall number of our wholesale distributors in 2011 to address the increase in distribution needs resulting from our increased production capacity and volume, and to satisfy the increased demand for our products.

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In line with industry practice, we generally do not enter into any long-term sales contracts with our wholesale distributors, and most of our sales are made on a short-term basis with order cycles typically ranging from five days to three weeks. Our wholesale distributors submit purchase orders to us from time to time with specification as to the type and quantity of products. If we determine that the total trade receivables from such wholesale distributors as a result of such purchase orders will not exceed the maximum trade receivables limits we assign to them, we will accept the purchase orders. We will then either arrange the delivery of finished products available in our storage, or execute production plans to fulfill the purchase orders. Our wholesale distributors purchase our products from us at a competitive ex-factory price and are entitled to add a reasonable margin to the ex-factory price before the products are on-sold to retailers and supermarket chains. We usually recommend a retail price to our wholesale distributors but do not cap the price at which they on-sell the products to retailers and supermarkets. However, we typically stipulate a minimum price at which retailers and supermarkets may sell our products. This is consistent with market practice in the food and beverage industry in China, and we believe the flexible pricing policy allows our wholesale distributors to retain an acceptable profit margin and has helped to nurture mutually beneficial and long-term working relationships between us and our wholesale distributors.

We enter into distribution agreements with our wholesale distributors. There are no guaranteed sales commitments under these wholesale agreements, and therefore they may not lead to actual sales. Under such agreements, we grant exclusive distribution rights to each wholesale distributor (i) within a designated area, or (ii) within certain retail outlets if there are multiple wholesale distributors within the same designated area. We are responsible for ensuring our wholesale distributors' exclusive distribution rights within their respective designated areas or retail outlets, and assisting the wholesale distributors in marketing activities. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any incidents where a wholesale distributor sold our products outside its designated area or retail outlets. The wholesale distributors are responsible for providing sufficient storage capacity and timely logistics support for our products, and distributing our products within their respective exclusive designated areas or retail outlets. We provide incentives in the form of sales rebates to our wholesale distributors for achieving or exceeding sales targets stipulated in the distribution agreements, which are negotiated and determined by reference to various criteria, including past performance and market conditions. In addition, we provide subsidies to our wholesale distributors in line with customary industry practice to cover any initial start-up and subsequent handling charges they may incur in relation to setting up sales stalls and product displays in retail outlets, and for product promotion. We also provide subsidies to wholesale distributors based on a pre-determined percentage of total sales such wholesale distributors generate during the contract period to cover losses from products that are likely to be damaged or spoiled during transit, payable upon the expiration of the contract period. During the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we provided sales rebates totaling RMB15.1 million, RMB16.5 million, RMB17.7 million and RMB12.5 million, respectively, and subsidies totaling RMB14.6 million, RMB17.3 million, RMB19.4 million and RMB13.1 million, respectively, to our wholesale distributors.

The distribution agreements usually have a term of one year, and are terminable by us upon the occurrence of certain events, such as when the wholesale distributor is unable to purchase from us for two consecutive months, when the wholesale distributor on-sells our products at a price below the agreed minimum price or if our wholesale distributor is found to have distributed competing products. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns from our wholesale distributors due to product quality issues or otherwise, and in any event it is our policy that we do not accept return of products we have sold unless there are product quality issues.

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Other than the business relationships described above, there were no other relationships (including family or employment relationships) between us, our Directors, our substantial shareholders, our senior management or any of our or their respective associates on the one hand, and the wholesale distributors or any of their respective associates, each of which is an Independent Third Party, on the other hand during the Track Record Period and as of the Latest Practicable Date.

### **Secondary distributors**

We do not work directly with secondary distributors, which are typically smaller regional distributors. They purchase from our wholesale distributors and typically distribute products to small-scale retail outlets in remote areas. We delegate to the wholesale distributors the authority to choose secondary distributors and negotiate the transaction terms directly with them, and rely on our wholesale distributors to limit the secondary distributors' activities within such wholesale distributors' respective designated distribution territories or retail outlets.

Other than the business relationships described above, there were no other relationships (including family or employment relationships) between us, our Directors, our substantial shareholders, our senior management or any of our or their respective associates on the one hand, and the secondary distributors or any of their respective associates, each of which is an Independent Third Party, on the other hand during the Track Record Period and as of the Latest Practicable Date.

### **Key account customers and other retailers**

Retailers that sell our products range from traditional grocery stores, regional convenience stores to multinational, nationwide and regional retailers, including our key account customers. Our key account customers are typically large supermarket or hypermarket chains with a national or regional presence in China and are of strategic importance to our sales and distribution strategy. As of October 31, 2011, we had a total of 25 key account customers covering 25 provinces in China, including Wal-Mart, RT-Mart, Tesco and China Resources Vanguard. Some of these key account customers have worked with us for more than five years. We believe our strong working relationships with our key account customers enable us to leverage on their reputation and wide customer base, which we expect will lead to increased brand awareness of our products.

Historically, we sold substantially all our products through wholesale distributors which then on-sold to our key account customers. We participated in negotiations with our key account customers regarding sales terms, shelf spaces and positions of our products, though we did not enter into contracts with them.

As part of our strategy to strengthen our working relationship with our key account customers, we started to engage a number of key account agents to sell our products and provide customized services to some of our key account customers in 2011. Under this new sales model, we develop a closer relationship and maintain frequent communication with our key account customers, and allocate additional time and resources to a series of direct negotiations with our key account customers including the terms of sales and a range of recommended retail prices, and location and size of our shelves in the stores. We also help our key account agents to sell our products through on-site decoration, promotion campaign, and providing training to our key account agents' product promoters. In addition, we typically grant our key account agents a longer credit terms of 90 days which is in line with the credit term offered by the key account customers. By having such arrangements under which we fulfill a number of functions that are traditionally handled by wholesale distributors, we are in a position to sell our products at higher prices



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to our key account agents, compared to the prices we usually sell to our wholesale distributors, and have achieved higher profit margins. Our increase in sales revenue and gross profit margin as of the five months ended May 31, 2011 has been in part attributed to the implementation of such sales model to our key account agents and to the key account customers. During the five months ended May 31, 2011, we generated RMB49.1 million of sales through the key account agents. We also experienced an increase in our gross profit margin to 40.7% for the five months ended May 31, 2011 from 36.7% for the five months ended May 31, 2010. We believe such practice is consistent with the industry norm. As of October 31, 2011, we had 10 key account agents.

We enter into master sales agreements with our key account agents during the year. To facilitate our management of contracts, such master sales agreements generally expire by the end of the calendar year, and we intend to renew them annually going forward. There are no guaranteed sales commitments under these master sales agreements, and therefore they may not lead to actual sales. We confine the exclusive distribution rights and support functions of each key account agent to one or several key account customers within a designated region, and we do not allow our wholesale distributors to sell to those key account customers which purchase our products through key account agents. Under the master sales agreements, we directly negotiate the terms of sale and the range of recommended retail prices for our products with our key account customers, and we sell our products to our key account customers at a discount from such negotiated price range as compensations for our key account agents. In line with industry practice, we generally do not enter into any long-term sales contracts with our key account agents, and most of our sales are made on a short-term basis with order cycles typically ranging from five days to three weeks. Our key account agents are responsible for executing the marketing activities to promote and sell our products under our coaching, and providing sales representatives to liaise with key account customers and products promoters at their own costs. We provide incentives in the form of sales rebates to our key account agents for achieving or exceeding a sales target. We also provide subsidies to key account agents based on a pre-determined percentage of total sales generated by such key account agents during the contract period to cover their losses from products that are likely to be damaged or spoiled during transit. Such subsidies are realized in form of sales discount. We may terminate the agreements in the event that (i) the key account agents engage in conducts in violation of any laws and regulations which lead to damages to our reputation, or (ii) the key account agents fail to follow our policies and directives. We have not experienced any material sales returns from our key account agents due to product quality issues or otherwise since we began engaging such key account agents, and in any event it is our policy that we do not accept return of products we have sold unless there are product quality issues.

As part of our mid-range to long-term business strategy, we intend to gradually sell our products directly to our key account customers in the future in order to further strengthen our relationships with these key account customers. As initial steps to implement such strategy, we began direct sales to certain key account customers in 2011, amounting to RMB41.3 million and representing 6.8% of our sales for the five months ended May 31, 2011. In line with industry practice, we generally do not enter into any long-term sales contracts with our key account customers, and most of our sales are made on a short-term basis with order cycles typically ranging from five days to three weeks. Going forward, we intend to increase direct sales to the key account customers in the future either by developing internal logistical and other capacities relevant to direct sales, or through opportunistic acquisitions of key account agents. We believe that direct sales to our key account customers will allow us to further enhance our strategic relationship with them and leverage their extensive sales channels, as well as reduce our use of key account agents which will help to increase our overall profitability. Furthermore, we believe direct sales also provide a platform from which to promote and launch our new products and enable us to access end-consumer feedback more efficiently.


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Other than the business relationships described above, there were no other relationships (including family or employment relationships) between us, our Directors, our substantial shareholders, our senior management or any of our or their respective associates on the one hand, and our key account customers, other retailers, key account agents or any of their respective associates, each of which is an Independent Third Party, on the other hand during the Track Record Period and as of the Latest Practicable Date.

### *Export Sales*

We manufacture jelly products and confectionary products under OEM arrangements on behalf of certain of our foreign customers, which distribute such products under their own brands. In addition, some of our jelly products and confectionary products are sold in foreign countries under our own “Larbee” (“”) brand. Our export markets are primarily in Latin America. Consistent with industry practice, we sell our products through export agents in the PRC, and rely on them to handle logistics, customs, and other export-related matters to deliver our products to our foreign customers. As of October 31, 2011, we engaged four export agents in the PRC. The export agents purchase the products from us and then on-sell such products to our foreign customers. We enter into export agency agreements with export agents in China, usually for a term of one year. Under this framework, after we have secured a purchase order from a foreign customer which stipulates conditions such as the quantity and unit prices of purchased products, we enter into a separate sales contract with an export agent of our choice. Such sales contract generally provides the quantity and types of products purchased by the export agent to satisfy one or more purchase orders we have received. We are responsible for delivering the products to the designated port at our own cost. The responsible export agent accepts our delivery at such port, and makes arrangements to transport the products to our foreign customers, which on-sells such products. The export agents are required to settle payments for the purchased products within 30 working days of receiving delivery. During the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, our export sales amounted to RMB58.9 million, RMB45.0 million, RMB71.9 million and RMB33.3 million, respectively, representing 8.2%, 5.8%, 7.7% and 5.5% of our total sales during the same periods, respectively. We did not experience any material sales returns by our export agents during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had in all material respects complied with all laws and regulations relevant to our export sales and applicable to us in the PRC and in the countries to which we export our products, by completing all necessary procedures to obtain all relevant health and food safety approvals, certificates, registrations or any other legally required documentation from the relevant government authorities in the PRC and the countries with respect to the relevant exported products.

In the long run, we intend to continue to participate in trade shows to make our products more visible to potential international buyers and seek other potential export opportunities. Furthermore, we intend to develop our export market by using more export agents which have well-established connections with overseas markets, particularly with large and well-known supermarket chains.

During the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, sales to our five largest customers represented 16.3%, 13.6%, 12.9% and 11.4% of our total sales, respectively, and sales to our largest customer accounted for 4.5%, 3.0%, 4.0% and 3.1% of our total sales, respectively. None of our Directors, their respective associates, or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.



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### *Credit Policy*

In addition to certain key account customers we directly sell to, our wholesale distributors and our key account agents are effectively our customers because we sell our products to them. We typically sell our products on credit and grant most of our customers credit terms ranging from 30 to 60 days depending on a number of factors, such as their credit history, scale of operation and financial resources. In line with customary market practice, we generally grant our key account agents and key account customers a credit term of 90 days. We also sell our products to our PRC export agents, which then on-sell and deliver such products to our foreign customers both under OEM arrangements and our own brand, and we typically grant our export agents a credit term of 30 working days. For more information, please see “Financial Information — Certain Balance Sheet Items — Trade receivables, prepayments and other receivables.”

During the Track Record Period, we did not experience any material bad debts, and we did not provide for doubtful debts as we did not experience significant difficulties in collecting our trade receivables. We do not have a general provisioning policy for doubtful debts. We make specific provisions when we are of the view that the collection of an outstanding debt is doubtful.

### *Advertising and Promotion*

To enhance the visibility and marketability of our products and promote our brand recognition, we undertake advertising and promotional campaigns. We typically launch television advertising campaigns to coincide with new product launches. Our promotional activities primarily consist of our participation in domestic and international industry trade shows, on-site promotions at individual points of sale, advertising campaigns on national and regional satellite television channels, as well as in print media such as magazines, flat-panel displays in public areas and public transportation displays. From time to time, we may engage celebrities as our product spokespersons to promote our products. We also collaborate with retailers by installing in-store displays featuring our logos and products during Chinese festival seasons or other special occasions to increase the awareness of our brand name and products.

We believe these advertising and promotion measures help promote our brand and product awareness among our target consumer groups. Going forward, we intend to increase our prime time television advertisement, as well as sponsor certain popular television programs and festive events. We also intend to increase our Internet advertising by producing short film clips promoting our brand and products, which we believe will help us to gain access to younger consumers. Our advertising and promotional expenses for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 were RMB71.1 million, RMB81.6 million, RMB77.7 million and RMB44.2 million, respectively, representing 9.9%, 10.6%, 8.3% and 7.3% of our total sales, respectively.

During major Chinese festivals and holidays, such as Chinese New Year, we usually produce a range of gift packs containing selections of our jelly products. We believe that our gift packs are an effective way to introduce our new products to the market by including various flavored jelly products in attractive packaging with story themes or Chinese festival themes.

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### *Seasonality*

The sales of some of our products are subject to seasonality. Historically, we have experienced higher sales of our jelly and confectionary products during the traditional Chinese festival and holiday seasons, such as Chinese New Year, which is typically in the first quarter of our financial year. Sales can also fluctuate during the course of a financial year due to other reasons, including the timing of new product launches and advertising and promotional campaigns. We attempt to reduce the impact of product seasonality by diversifying our product range so that we can maintain our overall sales volume and revenue through any particular period.

### PRODUCTION PROCESS AND PRODUCTION FACILITIES

#### *Production Facilities and Capacity*

We manufacture all our jelly products internally, and as of the Latest Practicable Date, we had three production facilities, namely (i) Jinjiang, Fujian Province; (ii) Tianjin Municipality; and (iii) Chengdu, Sichuan Province. Our production facilities are strategically located to cover the target markets in their respective regions. As of October 31, 2011, we employed over 1,600 production workers to operate and manage our production lines.

As of December 31, 2008, 2009 and 2010 and May 31, 2011, we had nine, nine, 14 and 14 production lines manufacturing our jelly snack products, respectively, and four, five, 10 and 10 production lines manufacturing our jelly beverage products, respectively. The table below sets forth our production capacity, production volume and utilization rate for the products under our jelly product segment for the periods shown below:

|                        | Year ended December 31,                      |                             |  |  |                             |  |  |                             |  | Five months ended May 31,                    |                             |  |
|------------------------|--|-----------------------------|--|--|-----------------------------|--|--|-----------------------------|--|--|-----------------------------|--|
|                        | 2008   |                             |  | 2009   |                             |  | 2010   |                             |  | 2011   |                             |  |
|                        | Production capacity <sup>(1)</sup><br>(tons) | Production volume<br>(tons) | Utilization rate <sup>(2)</sup><br>(%) | Production capacity <sup>(1)</sup><br>(tons) | Production volume<br>(tons) | Utilization rate <sup>(2)</sup><br>(%) | Production capacity <sup>(1)</sup><br>(tons) | Production volume<br>(tons) | Utilization rate <sup>(2)</sup><br>(%) | Production capacity <sup>(3)</sup><br>(tons) | Production volume<br>(tons) | Utilization rate <sup>(2)</sup><br>(%) |
| Jelly Products         |  |                             |  |  |                             |  |  |                             |  |  |                             |  |
| Jelly snacks . . .     | 72,000                                       | 74,323                      | 103.2                                  | 72,000                                       | 64,188                      | 89.2                                   | 92,500                                       | 72,077                      | 77.9                                   | 47,083                                       | 39,502                      | 83.9                                   |
| Jelly beverages . .    | 31,000                                       | 26,192                      | 84.5                                   | 35,500                                       | 36,357                      | 102.4                                  | 52,000                                       | 44,376                      | 85.3                                   | 34,167                                       | 30,118                      | 88.1                                   |
| <b>Total . . . . .</b> | <b>103,000</b>                               | <b>100,515</b>              | <b>97.6</b>                            | <b>107,500</b>                               | <b>100,545</b>              | <b>93.5</b>                            | <b>144,500</b>                               | <b>116,453</b>              | <b>80.6</b>                            | <b>81,250</b>                                | <b>69,620</b>               | <b>85.7</b>                            |

#### Notes:

- (1) Production capacity for the year ended December 31, 2008, 2009 and 2010 is calculated on a weighted average basis. The weighted average production capacity for a calendar year equals (i) the production capacity at the beginning of the calendar year, plus (ii) weighted new production capacity added during the same calendar year. Weighted new production capacity added during a calendar year is derived by multiplying (x) the total new production capacity added during that calendar year with (y) the numbers of months during which the new production capacity is in operation, (z) divided by 12.
- (2) Utilization rate is derived by dividing the production volume by the production capacity during the same period. The decrease in utilization rate with respect to our jelly products production to 80.6% for the year ended December 31, 2010 from 93.5% for the year ended December 31, 2009 was primarily due to the expansion of our production capacity in 2010 in anticipation of an increase in demand for our jelly products. We commenced production at our Sichuan production facility in July 2010, and expanded our Fujian production facility's jelly beverages production capacity in October 2010. The subsequent increase in utilization rate to 85.7% for the five months ended May 31, 2011 was primarily attributable to the ramp-up of such new production capacity, and an increase in our production to satisfy an increase in demand for our jelly products, as originally expected when we decided to expand our production capacity.
- (3) For the five months ended May 31, 2011, there was no capacity addition, and the production capacity is calculated on a pro-rata basis utilizing the production capacity as of December 31, 2010, which amounted to 113,000 tons for jelly snacks and 82,000 tons for jelly beverages.

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In addition to jelly products, we also manufacture powdered milk tea at all our production facilities. As of December 31, 2008, 2009 and 2010 and May 31, 2011, we had seven, 13, 23 and 23 production lines, respectively, producing powdered milk tea. During the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, our powdered milk tea weighted average production capacity totaled 2,400 tons, 3,000 tons, 7,200 tons and 4,000 tons, respectively, and our production volume totaled 1,233 tons, 1,171 tons, 2,121 tons and 1,180 tons, respectively. The weighted average production capacity for powdered milk tea is calculated on the same basis that has been adopted in calculating the weighted average production capacity for the jelly product segment as described above. Our utilization rate thus amounted to 51.4%, 39.0%, 29.5% and 29.5% during the same periods, respectively. The general decrease in utilization rate with respect to our powdered milk tea production during the Track Record Period reflected the increase in our production capacity which outpaced the increase in our production volume. We initially manufactured powdered milked tea only in our Fujian production facility. We subsequently commenced powdered milk tea production in our Tianjin production facility in the second half of 2009 and in our Sichuan production facility in the second half of 2010. We increased our production capacity through geographic expansion with a view to better serving the growing demand for powdered milk tea in areas near our production facilities and reducing our freight and transportation costs.

A large portion of our production facilities and equipment are tailor-made to suit our production needs. We purchase most of our equipment from large and reputable domestic manufacturers which construct the equipment according to our specifications. We invest in high quality manufacturing equipment, which we believe is capable of producing higher quality products more efficiently. For example, we recently acquired a number of new sealing machines for our jelly production, which are capable of sealing up to 1.5 tons of jelly snacks per hour, which is approximately five times faster than the existing sealing machines.

We adopt efficient and advanced technology for our production facilities. We endeavor to keep abreast of technological advances in the snack food industry and regularly monitor and upgrade our production technology, equipment and processes. For example, we completed our production technology and equipment upgrade at our Fujian production facility in 2010, which we believe will increase our production capacity and efficiency to meet growing market demand.

### *Equipment Maintenance*

We have implemented a comprehensive maintenance system for our equipment and facilities, including scheduled downtimes for maintenance and repairs, and regular inspections of production facilities and equipment. This allows us to operate our production lines at optimal levels. We carry out routine daily cleaning and maintenance of our production equipment to prolong their useful life. We also carry out major maintenance work annually. Our different production lines and equipment have varying maintenance schedules and downtime periods, which are typically no more than one week. We optimize our production capacity by scheduling major maintenance work during low season for the relevant products' production lines. We did not experience any material or prolonged interruptions to our production process due to equipment or machinery failure during the Track Record Period.

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### *Production Expansion Plan*

We plan to expand our business to benefit from the expected increase in demand for our products, which is based on the following trends and assumptions:

- The expected continuous growth of the overall PRC economy and household disposable income in the PRC based on historical trends, including China's real GDP growth at a CAGR of 11.0% from 2003 to 2010, and the increase in the per capita disposable income of urban and rural Chinese residents with a CAGR of 12.3% and 12.3%, respectively, during the same period;
- The proliferation of retailers selling our products, either through our key account customers' addition of new retail stores, or by executing our plan to expand our distribution network. According to Euromonitor, leading food retailers including RT-Mart, Wal-Mart, Carrefour and China Resources Vanguard, many of which are our key account customers, have continued to expand their store networks throughout China and are expected to continue their rapid expansion;
- Continuous strengthening of our brand recognition through increasing marketing activities. We were able to strengthen our brand recognition during the Track Record Period, as evidenced by the increase in our market share from 9.0% in 2008 to 10.3% in 2010 in terms of the total jelly products retail sales value according to Euromonitor. Such increased brand recognition was partly due to our marketing activities, the costs of which amounted to RMB71.1 million in 2008, RMB81.6 million in 2009, RMB77.7 million in 2010 and RMB44.2 million during the five months ended May 31, 2011; and
- We plan to continue to expand and enhance our product offerings by launching new products with health and other features, including low-sugar or low-calorie jelly products.

In order to support our planned business expansion, we are in the process of expanding the jelly products production capacity at our Sichuan production facility by 30,000 tons per year to 80,000 tons per year, and the expansion is expected to be completed in early 2012. We further intend to increase the production capacity of our Tianjin production facility from 55,000 tons to over 100,000 tons per year of jelly products in the next five years. Moreover, we plan to expand our production capacity by constructing a new production facility. We own a parcel of land in Chuzhou, Anhui Province which has a total site area of approximately 133,332 square meters, and commenced construction of our Anhui production facility in August 2011. We plan to start manufacturing primarily jelly snacks and beverages at our Anhui production facility in the first half of 2013. As our business operation grows, we plan to search for other suitable locations to establish further production facilities. For more information, please see "Financial Information — Capital Expenditures — Planned Capital Expenditures."

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### *OEM Arrangements*

We engage third-party manufacturers through non-exclusive OEM arrangements to manufacture certain products for us, which mainly include confectionary products. As of October 31, 2011, we had 11 OEM partners which were responsible for manufacturing all of our confectionary products, and we engaged three OEM partners to manufacture our other products, with the exception of powdered milk tea. We sell these products under our own brand names and logos, such as “Sunshine City” (“陽光城市”) for confectionary products and “Xiangdoufang” (“鄉豆坊”) for dried bean curd products. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, products manufactured through OEM arrangements accounted for 14.8%, 9.5%, 11.6% and 12.5% of our total sales, respectively.

Our OEM strategy is to find high quality, reliable OEM partners with which we can establish long-term relationships. We apply a stringent set of criteria when we select our OEM partners, which includes requiring our OEM partners to obtain all requisite production licenses and permits such as the QS Food Production Permits (食品生產許可證) and ensuring that such OEM partners’ production facilities are adequately equipped to manufacture products that meet our specifications. Once we have selected suitable OEM partners, we enter into OEM agreements with them. Our OEM partners are responsible for all raw materials procurement from reputable suppliers. They are also required to meet all national standards for product hygiene and safety. If the products they produce fail to meet the requisite standards, we have the right to reject them and request compensation for all losses suffered.

In order to protect our know-how and trade secrets, we require our OEM partners to keep confidential all information received in connection with the manufacture of our products. We may also pre-mix some of our key ingredients and raw materials before passing them to our OEM partners to be used in the production process to ensure confidentiality of our formulas. We believe this approach not only ensures the confidentiality of our proprietary formulas and recipes, but also helps maintain the quality of products manufactured by our OEM partners.

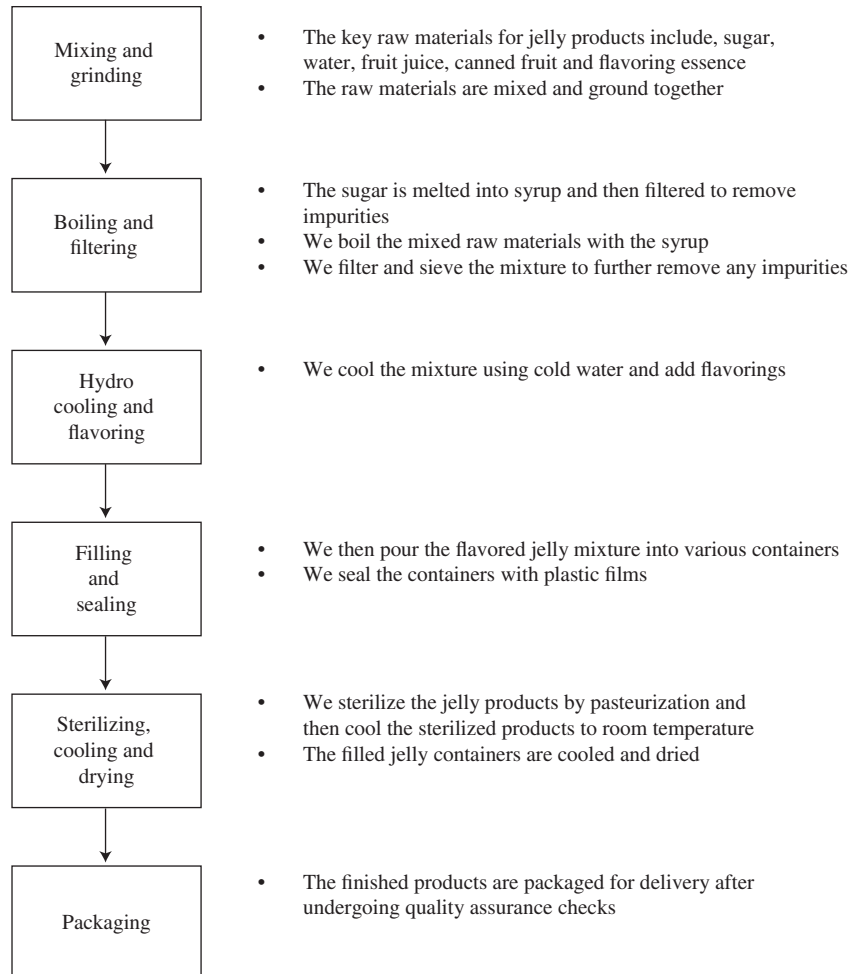
We believe outsourcing the manufacturing of some of our products allows us to increase production capacity in a timely manner, without incurring additional capital expenditure, which in turn enables us to apply our financial resources to other areas of the business, such as sales and marketing and building our distribution network. It also allows us to launch new types of products efficiently without incurring significant capital investment in acquiring new equipment and machinery. Outsourcing also provides us with greater flexibility to adjust our product mix more quickly in response to changing consumer demands and market conditions.

## *Production Process*

We set out below the typical production processes for our main products.

### **Jelly products**

The following chart depicts the production process of our jelly products:



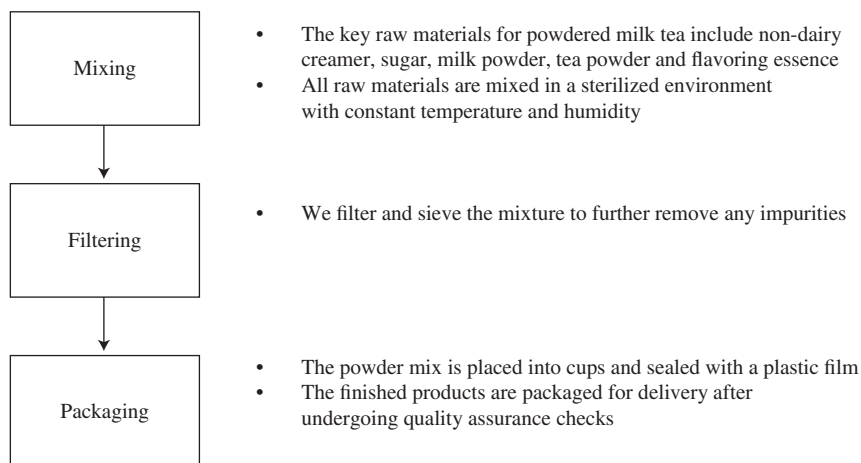
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### **Powdered milk tea**

The following chart depicts the production process of our powdered milk tea:



### **RAW MATERIALS AND SUPPLIERS**

#### ***Raw Materials***

We set out below the main raw materials used in the manufacture of our main products:

- The core raw materials we use in the manufacture of jelly products are jelly powder, sugar and syrup, water, canned fruit and flavoring essence.
- The core raw materials we use in the manufacture of powdered milk tea are sugar, milk powder, tea powder and flavoring essence.
- We also use various types of packaging materials in our manufacturing process, such as plastic containers and films, paper and cardboard boxes.

The costs of our raw materials (including packaging materials) used in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 amounted to RMB393.0 million, RMB394.3 million, RMB497.8 million and RMB301.1 million, respectively. Raw materials (including packaging materials) constituted 54.5%, 51.1%, 53.4% and 49.6% of our sales, and 89.6%, 81.6%, 84.4% and 83.6% of our cost of sales for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively.

#### **Packaging materials**

Packaging materials represents the largest component of our raw materials used. We package our products in various sizes and types of plastic cups, plastic packets and cardboard boxes. All our packaging materials are generally available from domestic suppliers. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we procured packaging materials from 30, 32, 27 and 29 different suppliers, respectively.

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The costs of our packaging materials for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 were RMB189.5 million, RMB196.9 million, RMB217.8 million and RMB137.3 million, respectively, accounting for 43.2%, 40.8%, 36.9% and 38.1% of our cost of sales, respectively.

### **Jelly powder**

Jelly powder consists of various types of powders, such as konjac powder, which is derived from the root of the konjac plant, and carrageen, an extract from seaweed. The proportion of ingredients that makes up the jelly powder we use in our manufacturing process varies depending on the type of products manufactured. We strive to obtain high quality ingredients for our production process, and our product development team seeks to improve the formula of our jelly powder to enrich the texture of our jelly products, while maintaining our production costs at a competitive level.

The ingredients that make up our jelly powder are generally available from a variety of domestic suppliers. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we procured the necessary ingredients for jelly powder from three, four, four and four different suppliers, respectively.

### **Sugar and syrup**

Sugar is a commodity generally available from a large number of domestic suppliers. We procure sugar on the spot market. Sugar prices have risen over the past few years in China. In order to maintain our production costs at a competitive level, our product development team seeks to incorporate sugar substitutes, such as fructose syrup, in our production process with an aim to adjusting the formulas and enhancing the texture of our jelly products. For each of the years ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we procured sugar and syrup from seven, seven, seven and six different suppliers.

### **Canned fruits**

We procure canned fruits, such as oranges, peaches, pineapples and grapes from a variety of domestic suppliers. We maintain an appropriate inventory level of certain types of canned fruits, depending on their seasonality and our planned production schedule. We closely monitor any inventory of canned fruits we keep to ensure they are consumed well before the expiration of their shelf lives. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we procured canned fruits from 10, nine, eight and seven different suppliers, respectively.

### **Other raw materials**

Other raw materials used in our production primarily include fruit juice, milk powder, tea powder and flavoring essence. We procure these materials from domestic suppliers.



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### **Water**

#### *Underground water*

We use some underground water in the production of our various products at our Fujian production facility. We conduct extensive procedures to process the underground water we extract and check its quality before we use such water in our manufacturing process. Extracted ground water undergoes various filtration and purification steps that remove impurities before it is boiled as part of the manufacturing process for jelly products.

We are required to apply for a water assumption permit (取水許可證) from the local water resources bureau before we are legally entitled to extract underground water. The water assumption permit is valid for five years and can be renewed by submitting the prescribed documents and renewal fees to the local water resources bureau before the expiration of the permit. Our current permit is valid until the end of 2012. We have not experienced any shortage of underground water at our Fujian production facility since the commencement of our operations.

#### *Tap water*

In addition to underground water, we use tap water at our Fujian production facility. We also use tap water at our Tianjin and Sichuan production facilities. We obtain tap water from the relevant local water supply companies or local resources bureaus upon the commencement of operations at each of our production facilities.

We have not experienced any water shortage or problems with water quality in the past and had not received any complaints or been subject to any penalty in connection with the quality of water used in our products in the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 or subsequently, up to the Latest Practicable Date.

### ***Procurement***

Our raw material procurement is determined by our production schedule. Our production and sales departments determine the expected production and sales volume at a particular time so as to formulate our procurement plan. Our procurement department then contacts the suppliers in relation to our raw materials requirements. All of our raw materials, including packaging materials, are sourced domestically. We adopt a centralized procurement system for the majority of our raw materials in order to enjoy economies of scale and maximize our bargaining power with suppliers. We believe this approach increases our bargaining power and allows us to obtain more competitive prices. Suppliers directly deliver raw materials to each of our production facilities so as to enhance time and cost efficiency.

We generally enter into procurement contracts which are renewable on a yearly basis. Other than sugar, we typically pay the contract price regardless of any subsequent changes in the market price of raw materials ordered, unless the changes in the market price are significant and the suppliers give us advance notice of any proposed price increase. We are only responsible for any subsequent increase in price if such increase occurred as a result of our inability to receive the delivery of raw materials on time. However, as sugar is a commodity, we typically pay the prevailing spot market price. Our suppliers typically engage third-party transportation companies to deliver raw materials to each of our production facilities at their

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own costs. The third-party transportation companies are liable for any loss or damage to the goods that occurs during transportation process. After the raw materials are delivered to our warehouses, we have up to 30 days (depending on the type of raw materials procured) within which to inspect the goods and notify the suppliers of any discrepancy in quantity or deficiency and defect in quality.

We closely monitor the quality of all raw materials provided by our suppliers. We inspect all raw materials delivered to our production facilities before accepting the materials to ensure that they comply with the national standards as stipulated by the Standardization Administration of the PRC (國家標準化管理委員會). We sample check the quality of raw materials based on specific criteria, such as the appearance, hygiene standards, and the chemical and impurity content of the raw materials. Raw materials which fail to comply with our standards and the national standards are returned to the suppliers. For new types of raw materials or raw materials procured from new suppliers, we typically sample them in small production trials to test whether the products manufactured using a particular supply of raw materials satisfy our quality standard in every respect before we continue to use such raw materials in our manufacturing process.

### *Suppliers*

We typically work with reputable, large domestic suppliers to secure key raw materials used in our production process. We have long-term relationships with the suppliers of our principal raw materials, which include sugar, jelly powder and canned fruits. Our raw materials are generally available from a number of domestic suppliers, and we normally have at least two sources of supply for each type of raw materials to reduce the dependency on a single supplier. Most of our suppliers have maintained a working relationship with us for at least five years. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we had 78, 81, 78 and 83 suppliers, respectively.

We select our suppliers on the basis of product quality, reputation, scale of production, price and ability to meet our delivery schedule. We require goods provided by our suppliers to meet our quality standards and the standards set by the AQSIQ of the PRC. If the goods supplied do not meet the quality standards we stipulate under the supply contracts, we may reject them and be compensated for any related costs. Furthermore, before we engage a new supplier, such supplier has to pass our internal quality control process, including inspection of their production facilities and production process, testing of their prototype materials and satisfactory trial production before we enter into a procurement agreement with them.

Payment terms granted by our suppliers vary depending on a number of factors including our relationship with the suppliers and the size of the transactions. On average, our suppliers typically provide us with credit terms of 30 to 60 days. We usually settle our trade payables by bank transfers and bank bills.

With a view to developing a long-term strategic cooperation with COFCO Corporation, we entered into a strategic cooperation framework agreement with COFCO on August 8, 2011, which is a memorandum pursuant to which the parties intend to enter into future specific agreements. Under this document, COFCO as our raw materials supplier assures the quality of raw materials it supplies, including syrup and flavoring essence. In the event that there is a shortage of raw materials, COFCO shall prioritize our purchase orders. Moreover, due to our long-term business relationship with COFCO, COFCO agrees to extend us credit terms which are longer and more flexible than those it typically grants to its customers. For more detail, please see “History and Corporate Structure — Strategic Cooperation Relationship with COFCO.”

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During the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, purchases of raw materials from our five largest suppliers represented 34.5%, 29.8%, 27.1% and 30.6% of our total cost of goods purchased, respectively, and purchases from our single largest supplier accounted for 9.0%, 8.3%, 6.8% and 7.9% of our total cost of goods purchased, respectively. None of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers during the Track Record Period.

### INVENTORY CONTROL AND LOGISTICS ARRANGEMENT

#### *Inventory Management*

Our inventory primarily consists of finished products and raw materials (including packaging materials). We have implemented an effective inventory control system that requires close co-ordination among our various functional departments, including sales and marketing, raw material procurement, production and storage.

We procure raw materials and plan our production based on actual and anticipated orders received from our customers. We usually maintain a safety inventory level for raw materials sufficient to meet 20 to 40 days' production requirements, depending on the type of raw material involved. Once the finished goods are produced, we endeavor to transport them to our customers at the earliest possible time. We manufacture goods upon receiving orders from our customers and do not typically maintain substantial safety inventory levels for finished goods, except during periods leading up to traditional Chinese festivals such as the Chinese New Year, in order to accommodate the increased demand for our products. We believe that we manage our inventory at a reasonable level based on the management's assessment, which minimizes storage space and carrying costs, enhances working capital efficiency and reduces the risk of deterioration of products while in storage, which is important for our stringent quality control policy.

Our safety inventory levels for raw materials vary according to season and may be adjusted depending on our production and sales plans, and are actively monitored by our procurement department based on our actual and expected procurement arrangements and the level of goods being delivered by our suppliers. Our safety inventory levels for finished products also vary according to season and may be adjusted depending on our production plan and sales requirements. In order to maintain accurate inventory records, we conduct monthly inventory counts on a rotation basis, and we conduct full inventory counts once every year. We also assess diminution in value of our inventory items on a regular basis.

#### *Transportation*

We engage independent third-party logistics services providers to deliver our products to wholesale distributors, key account customers, key account agents and export agents at our cost. The wholesale distributors then distribute to secondary distributors or retailers at their own costs. Similarly, the key account agents distribute to key account customers and the export agents deliver to our foreign customers at their own costs. Our OEM partners are generally responsible for the delivery of finished products to the warehouses of our production facilities at their own expense.

The vast majority of our products are delivered by road, with the remainder delivered by rail, from our production facilities to our customers' warehouses or to designated ports in China with respect to products sold to the export agents. We have long-term relationships with a number of third-party logistics

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providers, with which we enter into annual transportation agreements. We select logistics providers on the basis of their track record, distribution network coverage and scale of operation. We typically inspect the trucks transporting our products before they leave our facilities and require the logistics providers to follow certain storage and transportation procedures to ensure that our products are transported under proper conditions. We require the logistics providers to inspect the products and to confirm the quantity of products to be delivered and the destination for delivery. Once the goods to be delivered have been confirmed, the logistics providers are liable for any damage or loss which arises during transportation, including delay of delivery and spoilage, damage or loss of products, unless such delay, spoilage, damage or loss was caused by our mishandling of the products.

### QUALITY CONTROL

We have instituted rigorous quality control procedures in our manufacturing processes. We adhere to stringent quality control guidelines and conduct quality checks at various points of our entire production process, from sourcing of raw materials to processing, packaging and inventory storage. We have a dedicated quality control team headed by our executive Director, Mr. Zheng Yu Shuang and three executive personnel. This committee is responsible for ensuring that we adhere to our internal quality control procedures. During the Track Record Period and up to the Latest Practicable Date, we did not, due to product quality issues, (i) receive fines, product recall orders or other penalties from the PRC government or other regulatory bodies, (ii) receive any material goods return requests from our wholesale distributors, key account agents, key account customers or export agents, or (iii) receive any material complaints from consumers. As of October 31, 2011, we had a team of over 45 quality control staff that implement our quality control system.

We have maintained, since 2003, ISO 9001 and HACCP certifications in relation to our product quality and safety control systems for our Fujian and Tianjin production facilities. These certifications are subject to annual independent audits by third parties. As the Sichuan production facility only came into operation in July 2010, we intend to start the certification processes for obtaining ISO 9001 and HACCP certifications before the end of 2011. We have also obtained the QS Food Production Permits (食品生產許可證) for the manufacture of our products from the provincial-level Bureau of Quality and Technical Supervision (質量技術監督局) for all our production facilities. For our export sales, we have obtained the sanitary registration certificate of export commodities (出口商品衛生註冊證書) issued by the Certification and Accreditation Administration of PRC (中國國家認證認可監督管理委員會). In order to obtain and maintain the QS production permit and the sanitary registration certificate of export commodities, we have to meet the quality and hygiene standards set by the PRC government, covering different stages of the production process from raw material procurement, manufacturing, maintenance of production facilities, finished products and storage. Moreover, we are subject to annual inspection from the relevant PRC government authorities.

Our external internal control adviser, Crowe Horwath (HK) CPA Limited, performed an assessment on our internal control systems, including reviewing internal quality control guidelines and policies such as “Policies on Product Quality Assessment,” “Procedures on Handling Irregular Raw Materials and Packing Materials,” “Policies on Product Quality Analysis Management” and “Procedures on Production Processes,” which are implemented throughout our business production process. No insufficiency and ineffectiveness on the internal control system (including food safety and quality control) had been identified, as considered by the internal control adviser, in the course of the internal control review.

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Our quality control system covers the following:

*Raw materials quality control.* We require our raw materials suppliers to give us reports from independent laboratories with regard to the quality of their raw materials annually, and such practice is in line with industry norms. When these raw materials arrive at our warehouse, our quality control personnel check them to ensure that the quantity and quality of the raw materials meet our specifications, including having correct labeling and packaging, before they are accepted. We also perform laboratory tests to ensure that the raw materials and packaging materials are up to our specifications. We test the raw materials following the national quality standards stipulated under GB14881 General Hygienic Regulation for Food Enterprises (食品企業通用衛生規範). Any sub-standard raw materials will be returned.

We also conduct periodic inspection on the quality control compliance level of our procured raw materials by (i) sending the relevant raw materials to external laboratories, such as the Jinjiang Product Quality Supervision and Inspection Institute (晉江市產品質量監督檢驗所), which holds a Metrology Accreditation Certificate, and the Fujian Provincial Quality Control Center (福建省質量控制中心) for quality control testing in accordance with relevant national standards; and (ii) sending our quality control inspectors to our suppliers to conduct random quality control testing pursuant to the ISO 9001:2008 standards. Any raw materials that do not meet our standards are returned to the supplier.

*Production process quality control.* We strictly follow all relevant industry standards for the manufacture of our products. For example, in relation to jelly products, we adhere to the GB19883-2005 standard issued by AQSIQ and the Standardization Administration of the PRC (國家標準化管理委員會) as well as the GB19299-2003 standard issued by the Ministry of Health of the PRC (中華人民共和國衛生部). We conduct quality checks at key control points of our production process in order to ensure that the production process is operating properly and that there is no contamination or impurity affecting our products. We also conduct a comprehensive production process inspection annually to ensure that all of our production equipment and machinery satisfy the national hygiene and safety standards. When irregularities are found, we increase our sampling size and make necessary adjustments or corrections. If the problem persists, we will halt production and conduct a full investigation into the cause of the problem. Production will only be resumed when the problem has been resolved.

*Production environment and workplace safety control.* We conduct periodic health checkups for all of our employees and require them to maintain good personal hygiene. We provide regular product quality, production safety and other technical training to all our staff, including production personnel, quality control and inspection personnel as well as managerial personnel to ensure they are kept abreast of the latest safety and hygiene requirements.

*Finished goods quality control.* Our finished products are packaged and stored at our warehouses before they are delivered to our customers. These finished products are stored in designated zones within our warehouses according to their manufacturing dates and product categories. To maintain their freshness, our finished products are stored in well-ventilated, temperature and humidity controlled warehouses. Moreover, we undertake pest control regularly to ensure our warehouses are pest-free. We also take safety measures to minimize fire hazards and water damage to our finished goods.

In order to maintain the same quality standards as our own production facilities, we identify reliable raw materials suppliers and recommend that our OEM partners source from them. All of the raw materials used in production by our OEM partners are subject to our inspection, and we randomly sample each batch of raw materials for such inspection in accordance with relevant national standards on food safety. We also dispatch our quality control staff regularly to monitor the production process at our OEM partners'

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facilities. We conduct sample checks for every batch of finished products delivered to us to ensure they meet relevant national standards on visual appearance, product quality and food safety. In line with industry norms, we submit samples of our finished products to independent laboratories near each of our production facilities, such as the China National Quality Supervision and Testing Center for Processed Food (Fuzhou) (國家加工食品質量監督檢驗中心(福州)), for quality control checks in accordance with relevant national standards on visual appearance, product quality and food safety on a semi-annual basis.

Although plasticizers are common adjuvants in packaging materials when used under their legally permitted levels, there have been recent public concerns over the illegal usage of certain plasticizers as food additives after such incidents were first publicized in Taiwan in May 2011. None of us, our suppliers or our OEM partners has used any plasticizers to manufacture our food and beverage products, and plasticizers are not ingredients to the manufacture of our food and beverage products. Our products were sent in their original packaging to the China National Quality Supervision and Testing Center for Processed Food (Fuzhou) and Jinjiang Product Quality Supervision and Inspection Institute for inspections, both of which are qualified to conduct plasticizer inspections by virtue of their Metrology Accreditation Certificates issued by the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) that attest to these institutions' abilities to conduct such inspections. We also took proactive measures to arrange plasticizers testing by independent laboratories on our products submitted in their retail packaging. Furthermore, we urged our raw materials suppliers and OEM partners to arrange plasticizers testing by independent laboratories on the raw materials and the packaging materials supplied to us and the products manufactured by our OEM partners on our behalf and provide us confirmation thereafter. Through these measures, we have confirmed that none of our products contains any plasticizer (whether as a result of contamination during the production processes or migration from packaging materials), none of the raw materials we use and none of the products manufactured by our OEM partners on our behalf contains any plasticizer, and the packaging materials supplied to us do not contain plasticizers exceeding levels permitted under relevant PRC laws and regulations. In addition, there are no uniform international standards regulating the levels of plasticizers in packaging materials, and as of the Latest Practicable Date we had not received any governmental notices or inquiries from countries to which we export our products with regard to the usage of plasticizers in packaging materials. Moreover, the PRC State Food and Drug Administration published a list of manufactures of food-related raw materials which have been found to use plasticizers in their products in June 2011, and we confirm that none of our raw materials suppliers is on such list. In order to ensure that none of our food and beverage products contains any plasticizer, we have started to include plasticizers testing as part of our existing semi-annual quality control checks on samples of our finished products in their retail packaging in accordance with relevant national standards on visual appearance, product quality and food safety by independent laboratories. In addition, we have obtained confirmation letters from our raw materials suppliers and OEM partners in favor of us, warranting that they have not used any additives or adjuvants in raw materials supplied to us or OEM products manufactured on our behalf in violation of relevant laws and regulations, and agreeing to indemnify us for any loss incurred as a result of their such violations. We believe that the plasticizer incident has had no material adverse effect on our business, results of operations and financial conditions.

## RESEARCH AND PRODUCT DEVELOPMENT

We have successfully expanded our product offerings through continuous research and product development efforts. Our product development process focuses on enhancing and expanding our existing product lines, including quality improvement and introduction of new flavors and textures, as well as identifying new products in response to customer demand.



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We closely monitor the types of competing products available on the market, and our sales and marketing team and wholesale distributors also provide us with timely and direct customer feedback to assist in our product development efforts. We adopt a market-oriented product development approach. We carry out feasibility analyses prior to launching new products. We assess consumer preferences, and test flavors and textures of our new products to ensure they cater to our target consumers' tastes. We also conduct cost-benefit analyses on our new products and aim to optimize our existing production facilities where possible for the production of our new products. Our new product launches are typically scheduled in accordance with our marketing plans.

We have a dedicated research and product development team responsible for expanding the range and improving the quality of our products. We undertake the majority of our research and product development activities for our jelly products in-house. We also cooperate with higher education, academic and research institutions such as Fujian Agriculture and Forestry University (福建農林大學) and the College of Food Engineering and Biotechnology, Tianjin University of Science and Technology (天津科技大學食品工程與生物技術學院) to jointly develop new jelly products. We entered into cooperative joint research and development agreements with these third-party institutions for a term of five years, during which period they undertake to develop new formulas or products according to our product development plans and specifications, provide technical support and training to our production personnel, and assist with product quality control. In return, we have agreed to pay fees to these third-party institutions and attend classes or seminars organized by them to share our production expertise. Under our agreement with Fujian Agriculture and Forestry University, the university retains the proprietary right to any jointly developed patents, and we paid them a one-off fee of RMB50,000 for the exclusive right to produce certain types of jelly snacks using its patent. Under our agreement with Tianjin University of Science and Technology, we retain the proprietary right to any patents or products developed jointly, and we pay them RMB50,000 per year for a period of five years starting 2008.

In addition, we have been acting as the convenor in preparing for the establishment of the Jelly Products Working Group since 2008, and the Jelly Products Working Group was formally established on August 19, 2011. As a member of the Jelly Products Working Group, we will participate in the formulation of national standards for different types of various jelly products.

We invest in research and product development to maintain our competitiveness and to expand our sales, as demonstrated by our historical performance and our track record of bringing new products to the market successfully. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, our research and development expenditures were RMB12.6 million, RMB13.9 million, RMB19.0 million and RMB8.2 million, respectively. We aim to continually innovate and improve our products to cater to changing consumer preferences, focusing particularly on product tastes, textures and packaging, while maintaining our cost of production at acceptable levels. Our jelly product innovation efforts have led to the introduction of a number of new products, including "Eden Bar" ("異度果吧") and "Fresh Q" ("鮮 Q") jelly beverages. We have also produced jelly snacks with added probiotics such as our "Xiaoxin" ("小新") series of jelly snacks. We typically launch a number of new jelly products or flavors every year and eliminate less popular products from our product range. We have also expanded our product offerings to include jelly products with vitamins and probiotics, and other snack food categories such as confectionary products, powdered milk tea, dried bean curd products and baked products. In addition, with the growing desire for healthy diet and lifestyle among Chinese consumers, we intend to focus our research and product development efforts on low-sugar or low-calorie jelly products, as well as jelly products with vitamins and minerals content. Currently, we are participating in the lawmaking process to formulate industry standards for low-sugar jelly products by submitting our own comments and proposals, and intend to launch low-sugar jelly products after such standards are formulated.

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With a view to developing a long-term strategic cooperation with COFCO Corporation, we entered into a strategic cooperation framework agreement with COFCO on August 8, 2011, which is a memorandum pursuant to which the parties intend to enter into future specific agreements. Under this document, we and COFCO agree to cooperate on new product development and jointly contribute the necessary technical and staff resources to joint product development projects. If any intellectual property rights result from such joint development projects, we are entitled to sole ownership of such intellectual property rights, while COFCO is entitled to a priority right to use such intellectual properties. For more information please see “History and Corporate Structure — Strategic Cooperation Relationship with COFCO.”

### INTELLECTUAL PROPERTY

Our intellectual property rights are of fundamental importance to our business since we rely significantly on consumers’ recognition of our brand names.

#### *Intellectual Property Owned or Under Application*

We currently distribute our jelly and certain confectionary products under the core brand name  (“Labixiaoxin”), and we are currently consolidating all our existing brands with the intention to use “Labixiaoxin” as an umbrella brand to market all our products. We are dependent on the general recognition of the “Labixiaoxin” brand name. We have registered our trademarks, including our “Labixiaoxin” logo, in the PRC and Hong Kong and we have also applied for registration of such trademarks in other countries such as India and Mexico. We completed the registrations of our “Labixiaoxin” trademark in the PRC in classes covering our jelly products in 2000 (with registration number 1470228) and our confectionary products in 2002 (with registration number 1954434). At the time we applied for the registrations of our “Labixiaoxin” trademark, it was not identical or similar to any then existing registered trademarks in China, and therefore our PRC legal adviser, Jingtian & Gongcheng, has confirmed that our trademark was legally registered in the PRC. We are aware that “Crayon Shinchan,” a Japanese manga series, is commonly perceived to be known as “蠟筆小新” or “蜡笔小新” in Chinese (or “Labixiaoxin” in pinyin). Trademarks incorporating the manga series’ main character’s image or the Chinese characters “蠟筆小新” or “蜡笔小新” rendered in different artistic styles have been registered by third parties unrelated to us in various countries and regions, including the PRC, Taiwan and Hong Kong. We do not use the image of the “Crayon Shinchan” manga series’ main character in our trademarks, nor do we use that image to market our products. In 2005 and in 2007, Futabasha applied to the Trademark Board, the regulatory authority responsible for handling trademark disputes in the PRC, for the revocation of our “Labixiaoxin” trademark registrations in administrative proceedings primarily on the grounds that our trademark infringed copyrights owned by Futabasha in the “Crayon Shinchan” manga series, commonly perceived to be “蠟筆小新” or “蜡笔小新” (“labixiaoxin” in pinyin) in Chinese. The Trademark Board ruled in our favor in 2009 and 2010 on the following grounds:

- Our “Labixiaoxin” trademark does not contain the Chinese characters “蜡笔小新” rendered in the same artistic style as that used in Futabasha’s trademark, and we do not use the image of the “Crayon Shinchan” manga series’ main character in our trademark, and thus it is not similar or identical to Futabasha’s trademark.



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- The registrations of our “Labixiaoxin” trademark in classes covering our jelly products and confectionary products received regulatory approvals in 2000 and in 2002, respectively, before news and articles about the “Crayon Shinchan” manga series and the related merchandise first appeared in China, in 2003, and therefore before Futabasha’s trademark could have become a well-known trademark in China, which could have prevented similar marks from being registered in the same or other classes.
- Our “Labixiaoxin” trademark was not registered through improper means or with malicious intentions.

Furthermore, according to the Trademark Law, there is generally a five-year time limit to challenge an approved trademark registration starting from the registration date. Since the “Labixiaoxin” trademark was registered in classes covering our jelly products in 2000 (with registration number 1470228) and our confectionary products in 2002 (with registration number 1954434), the respective time limits have lapsed. We and our PRC legal adviser, Jingtian & Gongcheng, are of the view that (i) we have completed all legal procedures in the PRC necessary to register our core “Labixiaoxin” trademark in classes covering our jelly products in 2000 (with registration number 1470228) and confectionary products in 2002 (with registration number 1954434), and the SAIC has approved such trademark registrations before Futabasha completed its trademark registrations, (ii) such use has not infringed the intellectual property rights of any third parties, and (iii) it is unlikely that there will be any foreseeable complaint, claim, dispute or litigation made against us in connection with our “Labixiaoxin” trademark. In addition, our “Labixiaoxin” trademark does not use the image of the “Crayon Shinchan” manga series’ main character and presents the Chinese characters “蜡笔小新” vertically, while Futabasha’s trademarks may use such image and present the Chinese characters “蜡笔小新” horizontally in artistic styles different from ours. As such, our “Labixiaoxin” trademark and Futabasha’s trademarks are clearly distinguishable and not considered similar or identical. Furthermore, based on searches conducted on the PRC Trademark Bureau’s online database, (i) Futabasha received approvals to register its trademarks beginning in 2003, and (ii) our “Labixiaoxin” trademark and Futabasha’s trademarks are registered in different classes in the PRC, with the exception of class 30, where our “Labixiaoxin” trademark and Futabasha’s trademark are registered in different sub-classes. We further believe that our continuous use of the “Labixiaoxin” trademark will not infringe the intellectual property rights of any third parties in the future, and the risk of our not being able to use the “Labixiaoxin” trademark or brand name is remote. For more details, please see “Risk Factors — Risk Relating to Our Business — We may face challenges to our intellectual property rights and market confusion regarding our ‘Labixiaoxin’ brand name.”

As part of our anti-counterfeit measures to protect our trademark, we sued a third party (the “Defendant”) in the PRC for using our “Labixiaoxin” trademark on its herbal tortoise jelly products without our authorization in 2007. The infringing products were not in a class in which our “Labixiaoxin” trademark was then registered. During the course of the litigation, we made a petition to the SAIC, which subsequently recognized our “Labixiaoxin” trademark as a “China Well-Known Trademark” (中國馳名商標) in 2007 and prohibited the Defendant’s infringing use. According to our PRC legal adviser, Jingtian & Gongcheng, the “China Well-Known Trademark” recognition could only be made by the PRC Trademark Bureau or the Trademark Appeal Board of State Administration for Industry and Commerce of the PRC, based on a party’s petition for such recognition during a trademark infringement lawsuit, or a dispute originating from processes concerning (i) trademarks administration, (ii) trademark registrations, or (iii) trademark reviews and adjudication. Therefore, there is no practice or necessity to renew this recognition periodically. In the event of a future trademark dispute or lawsuit, our “Labixiaoxin”

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trademark's past recognition as a "China Well-Known Trademark" has evidentiary significance. If our past recognition is not disputed, the adjudicating body may take as a matter of fact that the trademark is still a "China Well-Known Trademark," which can prevent the registration of identical or similar marks in the same or different classes in the future.

We undertake proactive anti-counterfeiting measures, including (i) timely registration of marks we intend to use as trademarks in relevant jurisdictions, (ii) active monitoring of the market for potential infringement activities, and (iii) frequent communications with our wholesale distributors to respond to potential infringement activities they have identified in their respective distribution areas. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any infringement of our intellectual property rights having a material adverse effect on our business.

In March 2011, we entered into a trademark application transfer agreement pursuant to which Labixiaoxin (Xiamen) Trading Co., Ltd. (蠟筆小新(廈門)商貿有限公司), a company jointly owned by the daughters of two of our executive Directors, Mr. Zheng Yu Long and Mr. Zheng Yu Shuang, transferred the application rights to the trademark "Xiangdoufang" ("鄉豆坊") to us for consideration of RMB1,000, and we applied for the registration of such trademark with the Trademark Office of the SAIC. We are entitled to enjoy the exclusive right to use the "Xiangdoufang" trademark during the period between the date of the trademark transfer agreement and the date that the trademark registration becomes effective, which is expected to be in late 2011. We currently use "Xiangdoufang" to market our dried bean curd products. In March 2011, we also entered into six patent transfer agreements pursuant to which two of our executive Directors transferred the application rights to six patents relating to product packaging designs to us for no consideration, and the Patent Office of the National Intellectual Property Bureau approved our applications to transfer the ownership of such patents to us in April and May 2011. One of such transferred patents expired in June 2011.

In August 2011, we entered into a trademark transfer agreement pursuant to which Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司), a company jointly owned by two of our executive Directors, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, agreed to transfer certain trademarks ("Transferred Trademarks") to us for consideration of RMB1,000. The Transferred Trademarks are registered in classes 2 (paints), 3 (cleaning preparations), 5 (pharmaceuticals), 6 (metal goods), 8 (hand tools), 9 (electrical and scientific apparatus), 11 (environmental control apparatus), 12 (vehicles), 14 (jewelry), 16 (paper goods and printed matter), 20 (furniture and articles not otherwise classified), 24 (fabrics), 26 (fancy goods), 32 (light beverages), 33 (wines and spirits), 34 (smokers' articles) and 35 (advertising and business services). The Transferred Trademarks are visually similar or identical to trademarks owned by us, and Mr. Zheng Yu Long and Mr. Zheng Yu Huan deem it advisable to consolidate the ownership of such similar trademarks in our Group. We have applied for the transfer of the Transferred Trademarks with the Trademark Office of the SAIC, and are entitled to the exclusive right to use the Transferred Trademarks during the period between the date of the trademark transfer agreement and the date that the transfer of the Transferred Trademarks becomes effective, which is expected to be before February 2012.

We have been exporting our products under our "Larbee" () brand. We do not export our products under our "Labixiaoxin" trademark because it contains Chinese characters which make it less effective to elicit brand recognition and loyalty from non-Chinese consumers. We are aware that the PRC is a signatory to major international conventions concerning intellectual property rights, such as the Paris Convention for the Protection of Industrial Property (the "Paris Convention"), and the Madrid System for the International Registration of Marks (the "Madrid System"). Under the Paris Convention, if an

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applicant has filed a trademark application in a member country, its subsequent application in another member country may enjoy the same filing date as the original application, provided that the latter application is filed within six months from the original application. Under the Madrid System, it is possible for an applicant in a member country to file a trademark application directly with its own national or regional trademark office and obtain protection for such trademark in other member countries. Because (i) we do not use the “Labixiaoxin” trademark on our exported products and (ii) export sales only accounted for 8.2%, 5.8%, 7.7% and 5.5% of our total sales during the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively, we do not believe the potential advantages the Paris Convention or the Madrid System may afford us in connection with the registration of our “Labixiaoxin” trademark in other countries will significantly benefit our export sales, and have not availed and do not plan to avail ourselves to such potential advantages. Furthermore, regardless of whether Futabasha’s trademarks have been or will be registered under the Paris Convention or the Madrid System, our PRC legal adviser, Jingtian & Gongcheng, has confirmed that Futabasha will not have any priority rights over our registered “Labixiaoxin” trademark in the PRC, because we have completed the registrations of our core “Labixiaoxin” trademark in the PRC in classes covering our jelly products in 2000 (with registration number 1470228) and our confectionary products in 2002 (with registration number 1954434) before Futabasha completed its trademark registrations in the PRC. In addition, since our “Labixiaoxin” trademark and Futabasha’s trademark are clearly distinguishable and not considered similar or identical, we believe that Futabasha will not have any valid trademark infringement claims against us in the PRC, whether such claims arise under PRC laws and regulations, the Paris Convention or the Madrid System. Based on the foregoing, we believe our current trademark administration practice does not and will not have any material adverse effect on the Group.

As of the Latest Practicable Date, we had registered 162 trademarks in China and overseas. As of the same date, we also had 10 registered patents in China relating to our product packaging designs. As of the Latest Practicable Date, we had made 43 trademark and six patent applications in China. We have submitted our registration applications for those trademarks and patents and our applications are being processed by the Trademark Office of the SAIC. For details, please see “Statutory and General Information” in Appendix VII to this prospectus.

### *Intellectual Property under Licensing Agreement*

We distribute certain of our jelly products using the “Snoopy” logo and other characters in the “Peanuts” comics series pursuant to an exclusive copyright licensing agreement entered into in December 2007 with Nanjing Fangzhiyuan Food Products Company Limited (南京芳之圓食品有限公司) (the “Licensor”), an Independent Third Party, which is the licensed copyright owner in the PRC. The Licensor is authorized under its licensing agreement with its licensor to sublicense to us the rights to use the “Snoopy” logo and other characters in the “Peanuts” comics series. The copyright licensing agreement was for a term of three years and we subsequently renewed the agreement in December 2010 for a further term of two years till the end of 2012. Upon expiration, we intend to renew our licensing agreement with the Licensor. Under the licensing agreement, we are required to pay a predetermined licensing fee within the first month of entering into the agreement, and we are required to sell products which bear the “Snoopy” logo at agreed prices. The Licensor is required to do what is reasonably necessary to protect our exclusive right to use the “Snoopy” logo under the agreement and assist us with designing and conducting advertising and promotional campaigns with respect to products bearing the “Snoopy” logo.

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On July 1, 2009, we were granted an exclusive right by Fujian Agriculture and Forestry University to produce certain types of jelly snacks pursuant to a registered patent with a validity period of five years commencing from July 1, 2009. We paid Fujian Agriculture and Forestry University a one-off fee of RMB50,000 for the exclusive use of the registered patent. Our sales attributable to the jelly snacks produced under such patent accounted for 0.1% in 2009, 0.2% in 2010 and 0.2% in the first five months of 2011 of our sales. We may negotiate with Fujian Agriculture and Forestry University to extend the right to use its patent if we deem it commercially advisable when the current license is near expiration.

Details of our registered intellectual property portfolio are provided in the section headed “Statutory and General Information — Information about the Business — Intellectual property rights of the Group” in Appendix VII to this prospectus.

### COMPETITION

While the PRC jelly products industry had over 500 jelly manufacturers in 2010, according to Euromonitor, the top five jelly manufacturers commanded approximately 50% of the total market share in terms of total retail sales value of jelly products. According to Euromonitor, the top five jelly manufacturers in China in 2010 were Guangdong Strong Group Co., Ltd. (廣東喜之郎集團有限公司), us, Want Want China Holdings Limited (中國旺旺控股有限公司), Fujian Qinqin Co., Ltd. (福建親親股份有限公司) and Dongguan Hsu Fu Chi Foods Co., Ltd. (東莞徐福記食品有限公司) in terms of total jelly products retail sales value.

Competition for jelly products is primarily on the basis of brand recognition, consumer preference, product innovation and price. According to Euromonitor, in the year ended December 31, 2010, we were the second largest manufacturer of jelly products in China with a total market share of 10.3% in terms of retail sales value of jelly products. For the same period, the largest manufacturer had a market share of 19.7%. We had reinforced our leading position over the Track Record Period by gaining the most market share from 2008 to 2010 out of the top five jelly manufacturers, according to Euromonitor. Furthermore, according to Euromonitor, we were the fastest growing jelly beverages manufacturer out of the top five jelly beverages manufacturers, increasing our market share of jelly beverages products from 9.0% in 2008 to 13.3% in 2010.

For more details, please see “Industry Overview.”

### INSURANCE

Our insurance policies primarily cover social insurance and damages to certain fixed assets, such as our production plants and equipment as well as raw materials and finished products in storage caused by natural disasters such as droughts, floods, earthquakes, hailstorms, windstorms and snowstorms. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we incurred expenses for such insurance policies in the amount of approximately RMB27,000, RMB25,000, RMB51,000 and RMB44,000, respectively. We do not maintain product liability insurance coverage with respect to our domestic and export sales, which is not compulsory in China, nor is it contrary to market practice in our industry. We rely on our stringent quality control to limit our product liability risks, and we have not experienced any product liability claims in relation to our products since our inception. After taking into account (i) our stringent quality control procedures, (ii) our compliance in all material respects with the relevant laws and regulations applicable to us in the PRC and in destination countries to which we export our products through obtaining the relevant health and food safety approvals, certificates,

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registrations or any other legally required documentation, (iii) the limited types of insurance coverage that are currently available in the PRC, and (iv) the amount of export sales as a relatively small percentage of our total sales, our Directors have concluded that the cost of purchasing product liability insurance coverage outweighs the benefits that we would derive from such insurance coverage, and our insurance policies are reasonable and in line with the general practices in our industry in China. We are also not insured against business interruptions resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities.

### ENVIRONMENTAL COMPLIANCE

We are subject to PRC environmental and safety laws and regulations promulgated by both the central and local governments. The laws and regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例). Pursuant to those laws and regulations, each construction project is required to undergo an environmental assessment and an environmental impact assessment report (項目環境影響報告) is required to be submitted to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, or in the scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. Other than a new construction project at our Fujian production facility, we have submitted environmental impact assessment reports for construction projects in relation to all our production facilities for assessment by the PRC government and have obtained the relevant approvals. Under relevant PRC laws and regulations, completed construction projects, including production facilities, must undergo environmental protection inspection procedures carried out by the local environmental protection bureaus, which will issue pollutant discharge permits (排放污染物許可證) if the completed construction projects pass the inspection procedures. Although the food and beverage industry is generally regarded as low polluting, during the course of food production, there may be increased noise pollution and increased waste water, exhaust gas and solid waste. We have obtained the pollutant discharge permit for the discharge of pollutants such as waste water, solid waste and other waste with respect to our Fujian production facility. We submitted the environmental impact assessment reports and obtained the approvals to commence construction of our Tianjin production facility in January 2006 and our Sichuan production facility in April 2008, and the construction projects including pollution control equipment were completed on March 2008 and July 2010, respectively. After taking into account our expansion plan, our low polluting production, the pollution control equipment in place and the uncertainty as to the length of time the local environmental protection bureaus may take to complete their inspection procedures, we decided to commence production at our Tianjin and Sichuan production facilities in March 2008 and July 2010, respectively, as they were undergoing the environmental protection inspection procedures after which they would obtain the pollutant discharge permits. In letters issued in March 2011, the local environmental protection bureaus in Tianjin and Sichuan confirmed that (i) we were in the process of undergoing the relevant environmental protection inspection procedures, (ii) each of our Tianjin and Sichuan production facilities could obtain its pollutant discharge permit after it had passed the inspection procedures, and (iii) our pollution treatment practices at the Tianjin and Sichuan production facilities were in compliance with the relevant PRC environmental protection laws and regulations. In August 2011, our Sichuan production facility obtained the pollutant discharge permit. We are currently in the process of applying for the relevant environmental protection inspection procedures to be undertaken with respect to our Tianjin production facility, and we expect to obtain the pollutant discharge permit



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before the end of 2011. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that there are no foreseeable legal impediments in obtaining the pollutant discharge permit for our Tianjin production facility. Jingtian & Gongcheng has further advised that each instance of non-compliance at the Sichuan and Tianjin production facilities may subject us to a maximum fine of RMB100,000, for an aggregate amount of RMB200,000.

We seek to optimize resource utilization and water use in our production activities, enhance environmental awareness of our staff, and monitor environment protection programs through pollution indicators. We have implemented environmental protection measures, including procedures and programs related to wastewater discharge management, noise control, resources and energy use control, environmental protection enhancement and sustainable development, internal environmental examination and evaluation, environmental emergency response and impact control. We believe that our operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

We have maintained an ISO14001 environmental management system certificate (環境管理體系認證證書) issued by Beijing Century Certification Co., Ltd. (北京新世紀認證有限公司) in relation to LBXX Fujian and LBXX Tianjin, which evidences that our production environment and waste disposal systems meet the latest relevant standards required by ISO14001: 2004.

For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we incurred costs of approximately RMB7,000, RMB9,000, RMB20,000 and RMB58,000, respectively, in connection with our compliance with applicable environmental laws and regulations. We expect to incur similar amount of costs in the near future, subject to any future changes in applicable environmental laws and regulations which may arise.

## OCCUPATIONAL HEALTH AND SAFETY AND LABOR ISSUES

We have adopted certain management rules on production safety based on the safety laws and regulations of the PRC in order to ensure that we provide a safe working environment for our employees. It is mandatory for all of our employees to abide by these safety rules. We have implemented a number of safety measures and established a safety supervision team that is responsible for formulation and implementation of such safety measures. Our work place safety training program for our employees covers operation of new equipment, as well as each stage of the manufacturing process. Since 2003, we have maintained an occupational health and safety management system certificate from Beijing Century Certification Co., Ltd. (北京新世紀認證有限公司), certifying that our occupational health and safety management system is in conformity with the GB/T 28001-2001 standard. We believe our production facilities were in compliance with the requirements and provisions of applicable PRC production safety laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, there was no material violation of applicable PRC labor, health and safety regulations, nor were there any material employee safety issues involving us. We intend to fully comply with the new PRC labor contract laws and do not expect such compliance to affect our business operations in any material respect. We believe that by protecting the interests of our employees, we are able to enhance employee morale and long-term retention of quality personnel.

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In order to comply with the relevant PRC laws and regulations, we participate in various defined retirement contribution plans (including pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing provident fund) organized by the PRC provincial and municipal governments for our employees. Prior to February 2011, neither LBXX Fujian nor LBXX Sichuan registered with the relevant authorities, maintained designated accounts, or made any contributions to the housing provident fund. On February 28, 2011 and March 7, 2011, we obtained confirmation letters from Jinjiang Management Department of the Quanzhou City Housing Provident Fund Management Center (泉州市住房公積金管理中心晉江市管理部) and Pujiang Management Department of the Chengdu City Housing Provident Fund Management Center (成都市住房公積金管理中心蒲江縣管理部), respectively, regarding the unpaid housing provident fund contributions prior to February 2011. According to the confirmation letters, the housing provident fund management centers have decided not to impose any financial penalties or other forms of administrative penalties on LBXX Fujian and LBXX Sichuan, or require LBXX Fujian and LBXX Sichuan to make good any overdue contributions. Since February 2011, LBXX Fujian and LBXX Sichuan have registered with the relevant housing provident fund management centers, maintained accounts with designated banks and made contributions to the relevant housing provident funds as required under the contribution plans.

Except for this non-compliance of the housing provident fund, we believe that we were in compliance with the relevant social welfare laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. We also maintain insurance coverage for our employees for any accidents at our production facilities. Our human resources personnel look after our labor, health and safety issues. They generally have sound knowledge of administration and human resources issues, and they endeavor to keep abreast of the latest legal developments in this area and to ensure that we are in compliance with the relevant requirements.

### LEGAL PROCEEDINGS AND COMPLIANCE

In September and October 2009, some local governmental authorities in the PRC determined that certain of our product packaging did not adhere to the new food labeling laws, which became effective on June 1, 2009. We promptly reviewed and improved our packaging to bring them into compliance with the new food labeling laws. We wrote off RMB19.3 million in 2009 in relation to the disposal of the non-complying packaging. We have not received any penalty notices from relevant governmental authorities. We have also obtained no-penalty certificates from the relevant local authorities in the PRC in relation to these incidents.

Save as disclosed above, all of our subsidiaries have obtained and currently maintain all necessary permits and licenses required for their production and sales activities, such as their business licenses, food hygiene permits and QS Food Production Permits (食品生產許可證). As of the Latest Practicable Date, we were not aware of any litigation or arbitration proceedings currently existing, pending or threatened against us that could have a material adverse effect on our business, results of operations or financial position.

According to our PRC legal adviser, Jingtian & Gongcheng, save as disclosed in the prospectus, we have complied in all material respects with all applicable laws, rules and regulations in the PRC during the Track Record Period and as of the Latest Practicable Date.



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### *Preparation of accounts of our Hong Kong subsidiaries*

Pursuant to section 122 of the Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause the profit and loss account and balance sheet of the company to be made up and laid before the company at each of its annual general meetings. Since the incorporation of LBXX Holdings and LBXX Investments, our subsidiaries which were incorporated in Hong Kong on October 8, 2007, their then directors have delegated their secretarial accounting matters to a company secretarial firm associated with a law firm. As confirmed by our Directors, the principal activity of each of LBXX Holdings and LBXX Investments since its respective incorporation is investment holding and it has not carried out any business in Hong Kong since its respective incorporation. In respect of LBXX Holdings, no accounts for each of the two years ended December 31, 2010 (the “LBXX Holdings Accounts”) were prepared and laid before its sole member in a general meeting. In respect of LBXX Investments, no accounts for the period from October 8, 2007 to December 31, 2008 and each of the two years ended December 31, 2010 (the “LBXX Investments Accounts”) were prepared and laid before its sole member in a general meeting.

On November 3, 2011, LBXX Holdings and LBXX Investments applied to the High Court of Hong Kong for an extension of time for laying the LBXX Holdings Accounts and the LBXX Investments Accounts before their respective sole member in a general meeting pursuant to section 122 of the Companies Ordinance. On November 10, 2011, the requested court orders were granted by the High Court of Hong Kong, pursuant to which the period for the laying of the LBXX Holdings Accounts and the LBXX Investments Accounts was extended to December 31, 2011. We will ensure that each of LBXX Holdings and LBXX Investments will lay the LBXX Holdings Accounts and LBXX Investments Accounts, respectively, on or before December 31, 2011 and upon which the aforesaid non-compliance will be fully rectified.

### EMPLOYEES

As of October 31, 2011, we had 2,354 employees. The following table provides a breakdown of our employees by responsibilities as of October 31, 2011:

| <b>Function</b>                                  | <b>Number of Employees</b> |
|--|----------------------------|
| Management and administration. . . . .           | 113                        |
| Finance and accounting. . . . .                  | 21                         |
| Sales and marketing . . . . .                    | 379                        |
| Production . . . . .                             | 1,700                      |
| Procurement. . . . .                             | 10                         |
| Quality control and product development. . . . . | 131                        |
| <b>Total</b> . . . . .                           | <b>2,354</b>               |

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We enter into individual employment contracts with our employees covering matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. These employment contracts generally have a term of three years and are typically renewed upon expiration. To streamline our operational system and reduce administrative burden, we have historically worked with an Independent Third Party employment agency to engage some of our production line workers. Since 2008, our subsidiary, LBXX Tianjin, has employed workers at our Tianjin production facility through such employment agency. We pay a lump sum to the employment agency which in turn pays wages to the workers and makes contributions to the various statutory employee benefits on behalf of these workers. If the employment agency fails to make the necessary contributions as required by PRC law, we would become jointly and severally liable to compensate the affected workers for any loss and damage suffered. We received confirmations from the employment agency in April 2011 that they had made the necessary contributions in compliance with PRC laws and regulations. During the Track Record Period, approximately 15% to 30% of our employees were retained through the employment agency. We may employ temporary contract workers to cope with increases in workload during peak seasons as a result of increased production volume.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their position. Sales and marketing staff are also eligible for commissions. In addition, a year-end bonus may also be awarded to our employees, at our discretion and based on the performance and contribution of the individual staff to our company. Performance appraisals are conducted every year to ensure that our employees receive feedback on their performance. For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, we incurred employee costs (including Directors) of RMB56.8 million, RMB63.7 million, RMB73.0 million and RMB35.7 million, respectively.

We also invest in continuing education and training programs for our management staff and other employees to improve their skills and knowledge. We provide our employees with detailed guidelines in relation to our production process and on-the-job training in various areas, such as sanitary requirements, production safety and quality management. We also provide induction programs and team-building training.

Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We believe we have maintained a good working relationship with our employees. As of the Latest Practicable Date, no significant labor disputes occurred which adversely affected or were likely to have an adverse effect on the operations of our business.

## PROPERTIES

Our production facilities and warehouse facilities are situated in Jinjiang, Fujian Province, Tianjin Municipality and Chengdu, Sichuan Province.

### *Land*

As of August 31, 2011, we owned 12 parcels of land with a total site area of approximately 516,373.1 square meters, of which four parcels are located in Jinjiang, Fujian Province, three parcels are located in Chengdu, Sichuan Province, and four parcels are located in Tianjin Municipality and a parcel of land located in Chuzhou, Anhui Province. All the parcels of land were for industrial use. As of the Latest Practicable Date, we had obtained the relevant land use rights with respect to all parcels of land.

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We own a parcel of land in Chuzhou, Anhui Province which has a total site area of approximately 133,332 square meters, and commenced construction of our Anhui production facility in August 2011. We plan to start manufacturing primarily jelly snacks and jelly beverages at our Anhui production facility in the first half of 2013.

### *Buildings*

#### **Owner-Occupied Buildings**

As of August 31, 2011, we owned several floors in six buildings in Jinjiang, Fujian Province, with a total gross floor area of approximately 73,158.4 square meters for employee dormitory and production purposes. We also owned eight buildings with a total gross floor area of 54,517.4 square meters in Chengdu, Sichuan Province for production purposes, and one building with a total gross floor 41,876 square meters in Tianjin Municipality for our production and warehouse facilities, as well as staff quarters and offices.

As of the Latest Practicable Date, we had not obtained the construction works planning permits (建設工程規劃許可證) and the construction permits (建築工程施工許可證), nor had we undertaken the completion acceptance inspection procedures with respect to a structure covering a total gross floor area of 410 square meters at our Fujian production facility, the net book value of which was approximately RMB61,000 as of August 31, 2011. We use such structure as the boiler room. Under relevant PRC laws and regulations, owners of buildings without the requisite permits may be subject to administrative penalties including fines of up to RMB18,000, orders to suspend construction if the buildings are under construction, or orders to demolish completed buildings. Based on our communication with the relevant authorities, we were informed that the boiler room structure did not fit within the application criteria for the relevant permits and certificates. Our PRC legal adviser, Jingtian & Gongcheng, shares the same view of the relevant authorities. We plan to demolish the structure before the end of 2011. Since the structure was only constructed to shelter the LBXX Fujian's boiler, its demolition will not have a material effect on the production process and the Group's operation. The aggregate value of the structure and the amount of the potential penalties are insignificant, and would not result in a material adverse effect on our business or financial results. In addition, we had not undertaken the necessary completion acceptance inspection procedures with respect to buildings on properties with a total gross floor area of 7,527.3 square meters at our Tianjin production facility as of the Latest Practicable Date. We currently use such buildings as warehouses for storage purposes. Under relevant PRC laws and regulations, we may be subject to administrative penalties such as fines. Once we have passed the necessary completion acceptance procedures, we plan to apply for the building ownership certificates. Except as disclosed above, we had obtained all the building ownership certificates with respect to all our owned buildings as of the Latest Practicable Date.

#### **Buildings Leased Out By Us**

As of August 31, 2011, we had leased out buildings with a total gross floor area of approximately 11,535.8 square meters in the PRC to Independent Third Parties, including our OEM partners, for production purpose.

All of our leased properties are reflected in the property valuation report as set out in Appendix IV to this prospectus.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately upon completion of the Capitalization Issue and the Global Offering, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong will, via Alliance Holding, indirectly and beneficially own in total 54.3% of the issued share capital of our Company taking no account Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme, and hence Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan, Mr. Li Hung Kong and Alliance Holding are our Controlling Shareholders. For further details, please see “Substantial Shareholders.”

Apart from the business relating to the manufacture of snack food products in China, the associates of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, and Mr. Li Hung Kong are currently operating other businesses such as the manufacture and sale of super absorbent products, the provision of networking information services, agricultural related business, real estate development, paper packaging and commercial trading (the “Excluded Businesses”). The Excluded Businesses will not form part of our Group after Listing.

None of our Controlling Shareholders or Directors is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-Competition in favor of our Company to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

### DELINEATION OF BUSINESSES

Our Directors are of the view that there is a clear delineation between the Excluded Businesses and our business, as a result of which, none of the Excluded Businesses would compete, or is expected to compete, directly or indirectly with our business.

Operations of our Group are independent and separate from the Excluded Businesses. The Excluded Businesses were not injected into our Group as our Directors are of the view that such businesses neither form part of our core business nor are in line with our strategy to strengthen our market position in the snack food industry. Our Group is a snack food provider in China with a leading position in the jelly products market. On the other hand, the Excluded Businesses comprise principally the manufacture and sale of super absorbent products, the provision of networking information services, agricultural related business, real estate development, paper packaging and commercial trading.

Given the different nature of our business and the Excluded Businesses, our Directors do not expect there to be any overlap or competition of the Excluded Businesses and our Group’s business after the Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has undertaken to us in the Deed of Non-Competition that it/he will not, and will procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes with our business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with our business except where our Controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not control 10% or more of the composition of the Board of Directors of our Company.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their associates cease to hold, whether directly or indirectly, any of our Shares or our Shares cease to be listed on the Stock Exchange.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-Competition includes the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he/she will provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates (other than our Group) after Listing for the following reasons:

- (i) as of the Latest Practicable Date, no executive Director had overlapping roles or responsibilities in any business operation other than our business;
- (ii) as of the Latest Practicable Date, none of our Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with our business;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iii) as of the Latest Practicable Date, we had our own independent operation capabilities and independent access to customers and suppliers and we had not entered into any connected transactions with any connected person of our Company. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in term of capital and employees to operate independently; and
- (iv) we are financially independent of our Controlling Shareholders and their associates. All loans, advances and balances due to and from our Controlling Shareholders and their respective associates have been fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective associates on our Group's borrowing have been fully released. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

Our Directors are satisfied that we are capable of carrying on our business independently from any of our Controlling Shareholders (including their respective associates) after our Company is listed on the Stock Exchange.

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## DIRECTORS AND SENIOR MANAGEMENT

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Our Board currently consists of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and financial reports, formulating proposals for profit distributions and for the increase or reduction of our registered capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Bye-laws. We have entered into service contracts with each of our executive Directors. We have also entered into letters of appointment with each of our independent non-executive Directors.

The table below shows certain information in respect of members of the Board of Directors of the Company:

| Name                      | Age | Position                                       |
|---------------------------|-----|--|
| Zheng Yu Long . . . . .   | 46  | Chairman and executive Director                |
| Zheng Yu Shuang . . . . . | 43  | Chief executive officer and executive Director |
| Zheng Yu Huan . . . . .   | 40  | Executive Director                             |
| Li Gang . . . . .         | 37  | Non-executive Director                         |
| Li Hung Kong . . . . .    | 43  | Vice-chairman and non-executive Director       |
| Li Zhi Hai . . . . .      | 57  | Independent non-executive Director             |
| Sun Kam Ching . . . . .   | 39  | Independent non-executive Director             |
| Chung Yau Tong . . . . .  | 39  | Independent non-executive Director             |

### *Executive Directors*

**Mr. Zheng Yu Long (鄭育龍)**, aged 46, is our chairman and executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of our Group. He is also actively involved in the marketing of our products and branding of our Group, and procurement of raw materials of our products from suppliers. Mr. Zheng is a key contact person between our Group and our business partners. He is one of the founders of our jelly products business and is also a director of our subsidiary, Timeluck. Mr. Zheng joined us in 2000 as a managing director of LBXX Fujian. Mr. Zheng has over 20 years of experience in the marketing and manufacturing of snack food products. Since joining our Group in 2000, Mr. Zheng has dedicated the past 11 years to expand and promote our Group's business from a manufacturer of jelly products to a recognized snack food brand in China. From 1991 to 2000, Mr. Zheng was the general manager of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司), where he was responsible for the daily operations, sales, production, procurement and business development of this company. Through such experiences, Mr. Zheng has developed extensive relationships with the industry partners and is able to keep abreast of the latest development of the snack food industry. Mr. Zheng is a brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and a brother-in-law of Mr. Li Hung Kong. Mr. Zheng Yu Long was brought up in the PRC. Mr. Zheng has never been a full time government official of any country, or a full time employee of any state or government-owned/operated entity for a substantial period of time.



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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Zheng Yu Shuang (鄭育雙)**, aged 43, is our chief executive officer and executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for the overall operations of our Company. He heads our production department and oversees our quality control department. Mr. Zheng is one of the founders of our jelly products business and is also a director of a number of our subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck. Mr. Zheng has over 17 years of experience in the manufacture of snack food products. He joined us in 2000 as the general manager of LBXX Fujian. From 1994 to 2000, Mr. Zheng was a general manager of the production and quality control department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration in May 2006 from Renmin University of China (中國人民大學). He received a certificate qualifying as a senior quality control inspector (高級質量(品質)管理師) from China Professional Development Centre (中國專業人才庫管理中心) in July 2009. Mr. Zheng has also assumed several social positions, such as the honorary chairman of Jinjiang Food Industry Association (晉江市食品行業協會) from 2007 to 2010, a member of the Tianjin Chinese People's Political Consultative Conference (天津市人民政治協商會議) from 2008 to 2012, and the vice-chairman of China National Confectionary Association (中國食協糖果專業委員會) from May 2010 to May 2013. Mr. Zheng is the brother of Mr. Zheng Yu Long and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

**Mr. Zheng Yu Huan (鄭育煥)**, aged 40, is our executive Director. He was appointed as our Director on June 15, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for our sales and marketing operations, including formulating our advertising and promotional programs. Mr. Zheng is one of the founders of our jelly products business and is also a director of a number of our subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 15 years of experience in sales and marketing of snack food products. He joined us in 2000 as a deputy general manager of LBXX Fujian. From 1996 to 2000, Mr. Zheng was a general manager of the sales and marketing department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration from Renmin University of China (中國人民大學) in 2006. Mr. Zheng graduated from an executive development program for senior management from Xiamen University (廈門大學) in December 2010. Mr. Zheng has also assumed several social positions, such as a representative of the Eleventh Jinjiang Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省晉江市委員會) since 2006, the vice-president of the Sixth Fujian Provincial Youth Federation (第六屆福建省青年聯合會), and member of the Tenth Fujian Provincial Youth Federation (第十屆福建省青年聯合會). He was recognized as one of the China Industrial Economy Top 10 Outstanding Youth (中國工業經濟十大傑出青年) in December 2009 by China Industrial Forum (中國工業論壇). Mr. Zheng is the brother of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and the brother-in-law of Mr. Li Hung Kong.

### *Non-executive Directors*

**Mr. Li Gang (李綱)**, aged 37, is our non-executive Director. He was appointed as our non-executive Director on October 24, 2011. Mr. Li has over 12 years of experience in financial management, investor relations and private equity. From 1996 to 2003, Mr. Li was with Agricultural Bank of China, Heilongjiang branch (中國農業銀行黑龍江分行), where he last held the position of the operations manager of the international business division. He served as a quantity analyst in China Securities Co., Ltd. (中信建投證券有限責任公司) in early 2007 and a institution strategy analyst of China Asset Management Co., Ltd. (華夏基金管理有限責任公司) from 2007 to 2008. From 2008 to 2010, Mr. Li served as the general manager of investment management department of COFCO Trust Co., Ltd. (中糧信託有限責任公司). He is currently

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## DIRECTORS AND SENIOR MANAGEMENT

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the general manager of investment management department of COFCO Agricultural Industry Fund Management Co., Ltd. (中糧農業產業基金管理有限責任公司). Mr. Li received a bachelor's degree in economy from China Institute of Finance (中國金融學院) in 1996 and a master's degree in finance from Concordia University in 2005. Mr. Li is a chartered member of the Chartered Financial Analysts Institute.

**Mr. Li Hung Kong (李鴻江)**, aged 43, is our vice-chairman and non-executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as a non-executive Director on September 23, 2011. He is an experienced entrepreneur who has over 17 years of experience in investing and managing manufacturing business. He is also a director of a number of our subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined us in 2000 as a director of LBXX Fujian. Prior to joining us, Mr. Li founded the following companies in the 1990s, Jinjiang Xingtai Packing Wear Co., Ltd. (晉江市興泰包裝用品有限公司), Fujian Huatai Packing Co., Ltd. (福建華泰包裝用品有限公司), companies engaged in the paper packaging business, and Jen Yuon Trading Co. (晉融貿易公司), a company engaged in commercial trading, and has been as a director in each of these companies since their establishment. Mr. Li is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan.

### *Independent non-executive Directors*

**Mr. Li Zhi Hai (李志海)**, aged 57, is our independent non-executive Director. He was appointed as our independent non-executive Director on September 23, 2011. Mr. Li has over 20 years of experience in the traditional Chinese medicine and health food industries and held key leadership positions in institutions and societies, including the director of the Specialist Research Center of the China Traditional Chinese Medicine Association (中華中醫藥學會專病研究所) from 2002 to 2004. Mr. Li currently serves as the dean of Tangshan Chinese and Western Medicine Specialist Hospital (唐山中西醫專科醫院) since 1990, the director of Beijing Guofang Traditional Chinese Medicine Research Center (北京國方中醫藥研究院) since 2001, the vice-president of the China Medicine Culture Research Center (中國藥文化研究會) since 2004, and the director of the CHC National Food Production Association (CHC全國高科技食品產業化委員會) since 2007.

**Ms. Sun Kam Ching (孫錦程)**, aged 39, is our independent non-executive Director. She was appointed as our independent non-executive Director on September 23, 2011. Ms. Sun has over 15 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group (晉江愛樂集團) ("Jinjiang Aile") in 1996 and held various positions in Jinjiang Aile, including head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd. (晉江愛樂鞋服公司), a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel (晉江愛樂假日酒店) and Shishi Aile Holiday Hotel (石獅愛樂假日酒店) since 2000. Ms. Sun received a bachelor's degree in business administration from Huaqiao University (華僑大學) in 1994. She also attended the training course for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Chung Yau Tong (鍾有棠)**, aged 39, is our independent non-executive Director. He was appointed as our independent non-executive Director on September 23, 2011. Mr. Chung has over 16 years of experience in audit practice, financial management and compliance assurance of listed companies in Hong Kong. From 1994 to 2000, Mr. Chung was with PricewaterhouseCoopers, where he last held the position of a manager. Mr. Chung was with CITIC 21CN Company Limited (Stock code: 00241) from 2000 to 2005, where he last held the position as the group financial controller. He was a qualified accountant of Gome Electrical Appliances Holding Company Limited (Stock code: 00493) from 2005 to March 2007. Mr. Chung was the financial controller and company secretary of Vongroup Limited (Stock code: 00318) from March 2007 to December 2007. He currently serves as the financial controller and company secretary of Chaoyue Group Limited (Stock code: 00147) since 2008. Mr. Chung received a bachelor's degree in business administration from The University of Hong Kong in 1994. He is a fellow of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Each of our Directors has not been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, none of our Directors has been a director of other listed entities for the three years immediately preceding the date of this prospectus.

### SENIOR MANAGEMENT

The table below sets forth certain information concerning our other senior management members:

| Name                      | Age | Position  |
|---------------------------|-----|---|
| Yap Yung . . . . .        | 38  | Chief financial officer and company secretary                   |
| Lian Xi . . . . .         | 48  | Head of sales and marketing department                          |
| Chen Jian Ming . . . . .  | 46  | Head of procurement department                                  |
| Zhang Xiao Dong . . . . . | 40  | Head of research and development and quality control department |

**Mr. Yap Yung (葉勇)**, aged 38, is our chief financial officer and company secretary. He is responsible for the overall management of our finance, accounting and corporate finance matters. Mr. Yap joined us as our financial controller in 2003. Prior to joining us in 2003, Mr. Yap was with PricewaterhouseCoopers from 1995 to 2002, where he last held the position of an audit manager. From August 2002 to August 2003, he was a financial controller at Tai Hing Motors (International) Limited (大興汽車(國際)有限公司). Mr. Yap received his bachelor's degree in mechanical engineering from The University of Hong Kong in 1995. Mr. Yap obtained the British Chevening Scholarship in 2003 and completed an advanced management program at Cambridge University in 2003 on scholarship. He is an associate of the Hong Kong Institute of Certified Public Accountants.

**Mr. Lian Xi (連熙)**, aged 48, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 15 years of experience in the food production industry. Mr. Lian joined us in 2002 as the production manager of LBXX Fujian. From 1984 to 1992, Mr. Lian worked at Fujian Pharmaceutical (福州製藥廠) where he last held the position of an assistant engineer. Prior to joining us in 2002, Mr. Lian was the manager of the marketing department and the deputy manager of the sales department of Fujian Lv De Biology Holding Ltd. (福建綠得生物股份有限公司). Mr. Lian received his bachelor's degree in light industrial machinery from Fuzhou University (福州大學) in 1984, his postgraduate certificate in business administration from the Open University of Hong Kong in 2001, and his master's degree in business administration from the Open University of Hong Kong in 2003.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Chen Jian Ming (陳建明)**, aged 46, is the head of our procurement department. He is primarily responsible for the sourcing and procurement of raw materials for the Group. He has over 15 years of commercial experience. Mr. Chen joined us in 2010. Prior to joining us, Mr. Chen served in various positions at China Construction Bank, Quanzhou branch (中國建設銀行泉州分行) between January 1990 and October 2010, including deputy branch manager, deputy manager and manager of the credit department. Mr. Chen received a bachelor's degree in finance from Hunan University (湖南大學) through online courses in July 2005. He is also recognized as a qualified professional in economics (經濟師) by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人事部).

**Mr. Zhang Xiao Dong (張曉東)**, aged 40, is the head of research and development and our quality control department. He is responsible for the administration of the development and quality control of our products. He has also been the director of the technical department of LBXX Fujian since February 2010. He has over 15 years of experience in product engineering and product research. Mr. Zhang joined us in May 2005 as the manager of the quality technological department of LBXX Fujian. From July 1994 to December 1995, he was a technician at the food production base of Lanzhou military headquarters (蘭州軍區司令部副食品生產基地). From May 2002 to April 2005, he was a research engineer at Hainan Yi De Food Products Co., Ltd. (海南億德食品有限公司). Mr. Zhang received a bachelor's degree in food engineering from Gansu Agricultural University (甘肅農業大學) in June 1994.

### COMPANY SECRETARY

**Mr. Yap Yung** is our company secretary for the purposes of Rule 8.17 of the Listing Rules. For details of Mr. Yap Yung's background, please see "— Senior Management" above.

### BOARD COMMITTEE

#### *Audit Committee*

We have established an audit committee on September 23, 2011 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee consists of three independent non-executive Directors, being Mr. Chung Yau Tong, Ms. Sun Kam Ching and Mr. Li Zhi Hai, with Mr. Chung Yau Tong serving as chairman of the audit committee. Mr. Chung Yau Tong has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

#### *Remuneration Committee*

We have established a remuneration committee on September 23, 2011 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of two independent non-executive Directors, being Mr. Chung Yau Tong and Ms. Sun Kam Ching, and one executive Director, being Mr. Zheng Yu Long, with Mr. Zheng Yu Long serving as chairman of the remuneration committee. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the

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## DIRECTORS AND SENIOR MANAGEMENT

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Directors regarding our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

### *Nomination Committee*

We have established a nomination committee on September 23, 2011 with written terms of reference as recommended under the Code on Corporate Governance Practices, set out in Appendix 14 to the Listing Rules. The nomination committee consists of two independent non-executive Directors, being Mr. Li Zhi Hai and Mr. Chung Yau Tong, and one executive Director, being Mr. Zheng Yu Shuang, with Mr. Zheng Yu Shuang serving as chairman of the nomination committee. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

### COMPENSATION OF DIRECTORS, SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 and was RMB9.0 million, RMB8.4 million, RMB2.6 million and RMB1.0 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 was RMB8.9 million, RMB8.3 million, RMB3.4 million and RMB1.4 million, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011. Save for Mr. Zheng Yu Long, Mr. Zheng Yu Huan and Mr. Zheng Yu Shuang who waived their discretionary bonuses in the year ended December 31, 2010 and the five months ended May 31, 2011, none of our Directors waived any discretionary bonus for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending December 31, 2011 is estimated to be no more than RMB2.5 million.

We enter into individual employment contracts with our employees. For further details, please see “Business — Employees.”



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## DIRECTORS AND SENIOR MANAGEMENT

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As required by PRC regulations as well as compulsory rules of the PRC local governments, we participate in various social welfare schemes including pension, medical, maternity, work-related injury insurances and housing provident fund contributions. We are required under PRC law to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirements, up to a maximum amount specified by the relevant local governments from time to time. The total amount of contributions we made to such social welfare schemes for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 was RMB5.2 million, RMB4.6 million, RMB5.7 million and RMB3.1 million, respectively.

We will adopt a share option scheme for our senior management and employees. You may find detailed information in “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix VII to this prospectus. As of the date of this prospectus, we have not granted any share option under our Share Option Scheme to any person.

### COMPLIANCE ADVISER

We have appointed Guangdong Securities Limited as our compliance adviser upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance adviser’s agreement with Guangdong Securities Limited that contains the following material terms:

- we have appointed Guangdong Securities Limited as our compliance adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- Guangdong Securities Limited will provide us with services, including guidance and advise as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines; and
- we may terminate the appointment of Guangdong Securities Limited as our compliance adviser only if its work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to the compliance adviser as permitted by Rule 3A.26 of the Listing Rules.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, all applicants applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of the applicant’s executive directors must be ordinarily resident in Hong Kong. The business and operations of our Group are primarily located, managed and conducted in Jinjiang, Fujian Province in China. Substantially all customers of our Group are also located in China. None of our executive Directors are ordinarily based in Hong Kong. We do not and, in the foreseeable future, will not have any management presence in Hong Kong.

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## DIRECTORS AND SENIOR MANAGEMENT

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Accordingly, we have applied for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and ourselves:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that our Company comply with the Listing Rules at all times. The two authorized representatives are Mr. Zheng Yu Shuang, an executive Director and Mr. Yap Yung, the company secretary of our Company. Mr. Yap Yung is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Each of the two authorized representatives is authorized to communicate on our behalf with the Stock Exchange. We have been registered as a non-Hong Kong company under the Companies Ordinance and Mr. Yap Yung has been also authorized to accept service of legal process and notices in Hong Kong on our behalf.
- (b) Each of the authorized representatives has means to contact all members of our Board (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each executive Director, non-executive Director and independent non-executive Director will have to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the authorized representatives; (b) in the event that an executive Director, non-executive Director or independent non-executive Director expects to travel or is out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorized representatives; and (c) all the executive Directors, non-executive Director, independent non-executive Directors and authorized representatives will provide their office phone numbers, mobile phone numbers, fax numbers and email addresses (if applicable) to the Stock Exchange.
- (c) In addition, each of the Directors (including the independent non-executive Directors), who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange within a reasonable period.
- (d) In compliance with Rule 3A.19 of the Listing Rules, our Company has appointed a compliance adviser to act as the alternate channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 in respect of its financial results for the first full financial year commencing after the Listing Date. The contact person of the compliance adviser will be fully available to answer enquiries addressed to the compliance adviser from the Stock Exchange.



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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*Long positions in the Shares and underlying Shares of our Company*

| Name of shareholder | Nature of interest                   | Interests in Shares | Approximate percentage shareholding | Note |
|---------------------|--------------------------------------|---------------------|-------------------------------------|------|
| Alliance Holding    | Beneficial owner                     | 610,915,527         | 54.3%                               | 1    |
| Zheng Yu Long       | Beneficial owner                     | 110,208,060         | 9.8%                                |      |
|                     | Interest of a controlled corporation | 610,915,527         | 54.3%                               | 1    |
| Zheng Yu Shuang     | Interest of a controlled corporation | 610,915,527         | 54.3%                               | 1    |
| Zheng Yu Huan       | Interest of a controlled corporation | 610,915,527         | 54.3%                               | 1    |
| Li Hung Kong        | Interest of a controlled corporation | 610,915,527         | 54.3%                               | 1    |
| COFCO BVI           | Beneficial owner                     | 72,000,000          | 6.4%                                | 2    |
| COFCO (BVI) Limited | Interest of a controlled corporation | 72,000,000          | 6.4%                                | 2    |
| COFCO Corporation   | Interest of a controlled corporation | 72,000,000          | 6.4%                                | 2    |

Notes:

- (1) Alliance Holding is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.
- (2) COFCO BVI is wholly owned by COFCO (BVI) Limited, which is in turn wholly owned by COFCO Corporation. Each of COFCO (BVI) Limited and COFCO Corporation is deemed to be interested in the Shares held by COFCO BVI for the purpose of the SFO.

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## SUBSTANTIAL SHAREHOLDERS

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If the Over-allotment Option is fully exercised, the beneficial interests of each of Alliance Holding, Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan, Li Hung Kong, COFCO BVI, COFCO (BVI) Limited and COFCO Corporation will be approximately 52.3%, 61.7%, 52.3%, 52.3%, 52.3%, 6.2%, 6.2% and 6.2%, respectively.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), have beneficial interests or short positions in any of our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid as of the date of this prospectus and immediately before and after completion of the Capitalization Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the Over-allotment Option and the Share Option Scheme).

|  | <u>Nominal value</u> |
|--|----------------------|
|  | US\$                 |
| <b>Authorized Share capital:</b>   |                      |
| 5,000,000,000 Shares . . . . .   | 250,000,000.00       |
| <b>Issued Share capital:</b>   |                      |
| 546,936,522 Shares in issue as of the date of this prospectus* . . . . .       | 27,346,826.10        |
| <b>Shares to be issued:</b>  |                      |
| 353,063,478 Shares to be issued pursuant to the Capitalization Issue . . . . . | 17,653,173.90        |
| 225,600,000 Shares to be issued pursuant to the Global Offering . . . . .      | 11,280,000.00        |
| <b>Total issued Share capital on completion of the Global Offering:</b>        |                      |
| 1,125,600,000 Shares . . . . .   | 56,280,000.00        |

\* *Among these Shares, together with the Shares issued pursuant to the Capitalization Issue, 56,400,000 Shares will be Sale Shares, all of which will be offered for sale by the Selling Shareholders under the International Offering*

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issuance of Shares pursuant to the Global Offering. It does not take into account any Shares which may be allotted and issued or repurchased pursuant to the general mandate given to the Directors for allotment and issuance of Shares referred to in Appendix VII to this prospectus or the Buyback Mandate referred to in Appendix VII to this prospectus, as the case may be.

### RANKINGS

The Offer Shares will be ordinary shares in the share capital of our Company and will rank equally with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalization Issue.

### GENERAL MANDATE TO ISSUE NEW SHARES

Assuming the Global Offering becomes unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

225,120,000

20% of the total nominal amount of our share capital in issue immediately following the completion of Capitalization Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme; and the total nominal amount of our share capital repurchased by us under the mandate as mentioned in the paragraph headed “— general mandate to Repurchase Shares” below.

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## SHARE CAPITAL

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The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Bye-laws, or pursuant to the exercise of options which may be granted under the Share Option Scheme or the Capitalization Issue or the Global Offering or upon the exercise of the Over-allotment Option.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of Bermuda or the Bye-laws to hold its next annual general meeting; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth in the paragraph headed "Statutory and General Information — Further Information about our Group — Resolutions in writing of the Shareholders of our Company" in Appendix VII to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus, our Directors have been granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering, excluding any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Statutory and General Information — Further Information about our Group — Repurchases of our Shares" in Appendix VII to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of Bermuda or the Bye-laws to hold its next annual general meeting; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.


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## FINANCIAL INFORMATION

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*The following discussion should be read in conjunction with our consolidated financial information together with the accompanying notes. Please see the Accountant's Report in Appendix I to this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Accordingly, you should not place undue reliance on any such statements. Our future results could differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" in this prospectus.*

### OVERVIEW

We are a snack food provider in China with a leading position in the jelly products market. According to Euromonitor, we were the second largest manufacturer of jelly products in China with a market share of 10.3% in 2010 in terms of retail sales value. We market our products under our core brand, “” (“Labixiaoxin”) as well as other sub-brands. Our “Labixiaoxin” brand is a well-recognized snack food brand in China and was recognized as a “China Well-Known Trademark” (中國馳名商標) by the SAIC in 2007. We offer a broad range of quality snack food products. Our main products are jelly products, which comprise jelly snacks and jelly beverages. We also market and sell confectionary products, which primarily include lollipops, milk candies, gummy candies and chocolates. Our other products primarily comprise powdered milk tea. For the year ended December 31, 2010, sales from our jelly products, confectionary products and other products accounted for 83.3%, 11.4% and 5.3% of our sales, respectively.

Over the last 10 years, we have established an extensive distribution network. As of October 31, 2011, we worked with over 190 independent wholesale distributors, covering 31 provinces, municipalities and autonomous regions in China, which on-sell our products to secondary distributors and retailers. We have also established good business relationships with a number of large and well-known retailers in China, which we consider to be our key account customers. Over 90% of our sales during the Track Record Period was generated domestically through our established nationwide distribution network, while the remainder was generated from export sales through our export agents. To facilitate our nationwide sales, we have established three major production facilities located in strategic areas, namely Jinjiang, Fujian Province, Tianjin Municipality and Chengdu, Sichuan Province, giving us convenient access to major markets in different regions in China. We have commenced the construction of our fourth production facility in Chuzhou, Anhui Province. We manufacture all of our jelly products and powdered milk tea and outsource the manufacture of confectionary products and the remainder of other products to third parties through OEM arrangements.

We are committed to high standards of quality in all our products and follow stringent quality control procedures throughout our production processes. We obtained QS Food Production Permits (食品生產許可證) for all our production facilities and ISO 9001 and HACCP certifications for our Fujian and Tianjin production facilities. We believe we have strong research and product development capabilities. We adjust our product offerings and introduce new and improved products in response to changing consumer preferences and demand. We believe our product development capabilities will help to strengthen our competitiveness through product differentiation and innovation.

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## FINANCIAL INFORMATION

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We believe that we are well positioned to benefit from the rapid economic growth of China. From 2003 to 2010, China's real GDP grew at a CAGR of 11.0%, and the level of per capita disposable income in the PRC increased significantly, with a CAGR of 12.3% and 12.3% from 2003 to 2010 for urban and rural residents, respectively. We expect such historical trends will sustain in the near future, and believe consumer spending on snack food will also increase. According to Euromonitor, the estimated retail sales value of jelly products and confectionary products represented 7.5% and 51.5% of the snack food market in China in 2010, respectively, and the retail sales value of jelly products and confectionary products are expected to increase with a CAGR of 14.2% and 7.4% from 2010 to 2013, respectively.

Our sales grew from RMB721.1 million in 2008 to RMB771.4 million in 2009 and RMB931.7 million in 2010 and, our share of the total jelly products retail sales value in China grew steadily from 9.0% in 2008 to 9.6% in 2009 and 10.3% in 2010 according to Euromonitor. Our profit for the year was RMB68.6 million, RMB53.5 million and RMB147.8 million in 2008, 2009 and 2010 respectively. Our sales grew by 46.6% from RMB414.4 million for the five months ended May 31, 2010 to RMB607.4 million for the five months ended May 31, 2011.

### **BASIS OF PRESENTATION**

Our Company was incorporated in Bermuda as a company with limited liability on May 4, 2004. Our Group was formed on March 28, 2005 pursuant to a group restructuring exercise. As part of the group restructuring exercise, our Company became the holding company of our various subsidiaries. For more details, please see "History and Corporate Structure."

The subsidiaries acquired pursuant to the group restructuring exercise under common control have been consolidated using the pooling-of-interest method.

Our consolidated financial information has been prepared in accordance with IFRS issued by the IASB. Our consolidated financial information has been prepared under the historical cost convention and is presented in Renminbi unless otherwise indicated.

Our consolidated financial information as of and for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011 was audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our business, results of operations and financial condition and prospects have been, and will continue to be, affected by a number of factors, many of which are beyond our control, including:

#### *China's General Economic Conditions and Spending on Snack Food*

Our sales volume and results of operations are influenced by consumer spending on snack food in China, which is largely dependent on the continued growth of China's economy. During periods of slow economic growth or recession, consumers may reduce their spending on snack food, thereby reducing demand for, and sales of, our products. In recent years, we have benefited from the steady growth of China's economy, which has led to rapid urbanization and a rise in the affluence of the urban population in China. Disposable income levels and purchasing power of both urban and rural households have

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increased with the growth of China's economy. For more information, please see "Industry Overview." We expect that the increased purchasing power of consumers in China will promote their spending on snack food, including our products, and that the demand for such products in China will continue to grow in the near future and serve as a key driver for our sales volume growth. However, if there is any economic slowdown in China, consumer spending on snack food may be negatively impacted, which could in turn have a material adverse effect on our results of operations. Please see "Risk Factors — Risks Relating to the Food and Beverage Industry in China — The food and beverage industry in China is significantly impacted by fluctuations in the global economy and financial markets."

### *Pricing of Our Products*

We price our products based on a combination of different factors, primarily our ability to differentiate our products from those of our competitors and the extent of market competition. Historically, we have generally maintained our sales prices at desired levels by regularly introducing new or improved products. From time to time, we were able to increase the selling prices of some of our products due to our enhanced brand recognition and market position. Our ability to continue to price our products at desired levels has been, and will continue to be, important to our results of operations and financial performance.

The pricing of our products is affected by the competitive landscape of the snack food industry in China. We face competition from domestic and international manufacturers producing jelly products as well as other snack products. Our competitors may have substantially greater financial resources, stronger distribution capabilities or greater brand recognition than we do. We expect that the competition we face in the snack food industry will further intensify. As a result, our ability to maintain or increase the average selling price of our products will largely depend on our ability to compete effectively by reacting rapidly to market trends and differentiating ourselves through our strong brand recognition, product innovation, nationwide sales and distribution network and extensive product portfolio. Inability to sustain our competitive advantage could adversely affect our pricing and results of operations.

### *Branding and Promotion of Our Products*

Our results of operations and financial position have been, and will continue to be, affected by our ability to maintain and enhance brand recognition and popularity of our products. We market our products under our core brand,  ("Labixiaoxin"), as well as other sub-brands. Our "Labixiaoxin" brand in particular has received significant recognition. Please see "Business — Sales and Marketing — Branding." We believe our core brand "Labixiaoxin" is a well-recognized brand in the snack food market in China, thereby promoting sales and serving as a competitive advantage.

In order to further strengthen the image and market awareness of our core brand, we plan to increase advertising and promotional activities. We plan to increase our prime time television advertising on national and regional satellite television networks, and sponsor certain popular television programs, local sports activities and festive events. From time to time, we may also engage celebrities as our product spokespersons to promote our products. We plan to regularly undertake in-store product promotion campaigns to encourage sales. In addition, we plan to continue to participate in industry and trade shows to enhance our brand and product recognition in the snack food industry in China and attract new buyers. Advertising and promotion activities have contributed to our strong branding, which we believe has been,



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and will continue to be, a factor driving our results of operation. Our advertising and promotion expenses represented 9.9%, 10.6%, 8.3% and 7.3% of our sales for the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011, respectively. Our advertising and promotion expenses are likely to increase as our business scale expands. While advertising and promotional expenditures may affect our profitability, we consider such expenditures a necessary investment for a sustainable and profitable business.

### *Consumer Perception and Confidence*

Demand for our products is also influenced by consumer perceptions of the safety and quality of our products. Media coverage regarding the safety or quality of food and beverages, or the raw materials and additives used or processes involved in their manufacture, may influence consumer confidence in these products. For example, in September 2008, a significant amount of milk and infant formula in China was found to be contaminated with melamine, which affected hundreds of thousands of consumers, and caused the deaths of several infants and illness in thousands of young children. This incident resulted in large-scale dairy product recalls and the closure of one of China's largest dairy products manufacturers, which resulted in reduced consumer confidence in dairy and dairy-related products in general.

Although some of our confectionary products contain dairy content, none of our confectionary products were contaminated with melamine. Nevertheless, the demand for and sales volume of these products were adversely affected as a result of the reduced consumer confidence, leading to a decrease in sales of our confectionary products by 31.3% from 2008 to 2009 after the outbreak of the melamine scandal. Moreover, in May 2011, governmental authorities in Taiwan determined that certain local suppliers had been illegally using certain types of plasticizers as additives in their raw materials, which were used to manufacture a variety of processed food and beverage products, including snack food products. Although our food products do not contain such plasticizers, contamination or food safety incidents similar to the melamine or the plasticizer incident could affect consumer perception of the safety and quality of food and beverages, including our products, which could in turn materially and adversely harm our business, results of operations and financial position. Please also see "Risk Factors — Risks Relating to Our Business — We may be adversely impacted by any negative publicity suffered by the food and beverage industry in China or abroad." However, the sales of our confectionary products picked up significantly in 2010 to pre-melamine scandal level due to improved market conditions and our strong product quality control.

### *Access to Distribution Channels*

Our results of operations are affected by our access to distribution channels and the coverage of our distribution network. The market penetration of our products depends on the number and scale of the wholesale distributors with which we work.

As of October 31, 2011, we had established an extensive nationwide sales and distribution network with over 190 independent wholesale distributors located throughout China covering 31 provinces, municipalities and autonomous regions in China, which allows us to reach end consumers nationwide. Maintaining and developing our distribution channels require time, managerial and financial resources, but, based on our proven track record of success, we believe such efforts are an investment in future sales and profitability growth. We actively manage our distribution network with our sales and marketing representatives assigned to service each wholesale distributor across the country, with a view to enhance

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our strong working relationships with our wholesale distributors. Our ability to maintain our existing distribution network and engage additional wholesale distributors to sell our products as our business grows will have a direct impact on our sales volume and hence our results of operations.

### *Product Mix*

We currently offer an extensive variety of products in three broad segments, namely jelly products, confectionary products and other products. We believe our diverse product offerings enable us to capitalize on changing market trends and consumer preferences in China. Different products have different gross profit margins depending on factors such as raw material costs, production costs, product pricing and our marketing and branding strategy. As a result, our overall gross margin will vary depending on product mix across segments.

Our sales composition, margins and profit level have varied and may continue to vary as our product mix evolves. Our ability to expand our product offerings and the diversity of our product mix will have a significant impact on our results of operations and our competitiveness in the snack food industry in China. We intend to continue to optimize our product portfolio in response to the changes in market conditions and consumer preferences to maximize our sales and profits.

### *Cost of Raw Materials*

Our raw materials primarily comprise packaging materials, sugar, canned fruit, jelly powder and other additives. Raw materials accounted for 89.6%, 81.6%, 84.4% and 83.6%, respectively, of our cost of sales during the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011. All of the raw materials we procure, including packaging materials, are purchased from domestic suppliers to ensure adequate supply and efficient delivery to our production facilities. We also manufacture some plastic jelly containers for internal use to minimize the costs of packaging materials used for our products.

The price of raw materials, including packaging materials, are determined principally by market forces such as commodity price fluctuations and changes in governmental policies, as well as our bargaining power vis-a-vis suppliers. During the Track Record Period, we generally experienced rising raw material costs, consistent with the increase in the production price index in China, except for the period following the global financial crisis in the fourth quarter of 2008, when raw materials prices were markedly lower.

As we increase our production in accordance with our expansion plans, we expect that our demand for raw materials will increase. We expect that the prices of our raw materials will continue to fluctuate and be affected by inflation in the near future. We have been able to maintain our production costs at a competitive level by using more economical substitutes to offset the effects of rising prices in certain raw materials while ensuring our product quality. However, we cannot assure you that we will continue to be able to find suitable substitutes at acceptable prices, and any significant increase in raw materials prices could adversely impact our business and results of operations. Please also see “Risk Factors — Risks Relating to Our Business — We are susceptible to fluctuations in raw materials prices.”

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### *Seasonality*

Sales for different products are also subject to different seasonal fluctuations. Historically, we have experienced higher sales of our jelly and confectionary products during the traditional Chinese festival and holiday seasons, such as the Chinese New Year, which is typically in the first quarter of our financial year. Seasonal variations may cause fluctuations in our interim sales and profits. As a result, our results of operations fluctuate and our interim results may not proportionately reflect our annual results.

### *Taxation*

Our profitability may be affected by changes in tax rates, particularly PRC enterprise income tax rates applicable to some of our PRC subsidiaries. PRC companies are subject to the new national enterprise income tax rate of 25% unless the company qualifies under certain limited exceptions pursuant to the new PRC Enterprise Income Tax Law adopted by the National People's Congress in March 2007 and its implementation rules, effective from January 1, 2008. There are preferential income tax treatments available to eligible companies pursuant to relevant national or local regulations. For example, our PRC subsidiary LBXX Fujian was designated an NHTE in October 2009 and has thus enjoyed a preferential income tax rate of 15% since 2010. LBXX Fujian's status as an NHTE is subject to review and renewal every three years. We intend to apply for such renewal in 2012. If LBXX Fujian fails to retain its status as an NHTE, it will be subject to the regular PRC enterprise income tax rate of 25%. Under the NHTE Notice, in order to be designated an NHTE, a company must meet a number of criteria, including being engaged in a business which the government considers to involve advanced technologies, having proprietary rights over the know-how or techniques involved in the manufacture of products, having a prescribed minimum ratio of personnel with college or higher degrees to the total number of employees, having a ratio of research and development personnel to total employees of more than 10% and spending on research and development related activities of not less than a prescribed minimum amount.

Under the Notice for Approval of Income Tax Reduction and Exemption (減免稅審批通知書) issued by the Tianjin Municipality Tax Bureau, our PRC subsidiary LBXX Tianjin, a foreign-invested enterprise, was granted full exemption from PRC income tax for two years from its first profit-making year of operation and enjoyed a 50% reduction in income tax rate for the following three years. The first profit-making year for LBXX Tianjin was 2008. Accordingly, LBXX Tianjin enjoyed an applicable tax rate of nil, nil, 12.5% and 12.5% during the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. Such preferential tax treatment is expected to expire in 2012 after which LBXX Tianjin will be subject to the regular PRC enterprise income tax rate of 25%.

We enjoyed tax concessions amounting to RMB9.9 million, RMB0.4 million, RMB21.6 million and RMB12.8 million, respectively, in the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011. Termination of, or changes in, our subsidiaries' preferential or applicable tax rate that may result from changes in China's tax policy, will impact on our level of profit after taxation which in turn will affect our results of operations and financial position. Please also see "Risk Factors — Risks Relating to Our Business — The discontinuation of any of the preferential tax treatments currently available would likely increase our enterprise income tax expenses."

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting policies and estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results as reported in our consolidated financial information included elsewhere in this prospectus. Some of the accounting policies require us to make significant and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies and estimates that we believe are both important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We also have other accounting policies, estimates and judgments that we consider to be less significant which are set forth in detail in Notes 3 and 5 to the Accountant's Report set out in Appendix I to this prospectus.

#### ***Revenue Recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of value-added tax, rebates, discounts and sales returns and after eliminating sales within our Group.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

#### **Sale of goods**

Revenue from sale of goods is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when we have delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

It is the Group's policy to sell its products to the customers with a right to return due to quality issues caused by the Group. Accumulated experience is used to estimate and provide for such returns at the time of sale.

#### **Interest income**

Interest income is recognized on a time proportion basis using the effective interest method.

#### **Rental income**

Rental income under operating leases (net of any incentives given to the lessees) is recognized on a straight-line basis over the lease periods.

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### *Property, Plant and Equipment*

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

|                                  | <u>Useful lives</u> |
|----------------------------------|---------------------|
| Buildings . . . . .              | 20 years            |
| Leasehold improvements . . . . . | 5 years             |
| Plant and equipment . . . . .    | 5-10 years          |
| Motor vehicles . . . . .         | 5 years             |

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction.

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

### *Land Use Rights*

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of leases.

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### *Impairment of Interests in Associated Company and Jointly Controlled Entity*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The provision for impairment of interests in associated company and jointly controlled entity is determined using the higher of fair value less cost to sell or the value in use of individual cash-generating unit. The fair value less cost to sell method requires the entity to estimate the fair value of the cash-generating unit, which has been prepared on the basis of management's assumptions and estimates by referring to sales contracts in an arms' length transaction. If there is a significant adverse change in the estimated fair value of the cash-generating unit, it may be necessary to take an impairment charge to the statement of comprehensive income.

### *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### *Current and Deferred Income Tax*

We are subject to income taxes in the PRC. The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our subsidiaries, associated company and jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and jointly controlled entity except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

### *Trade Receivables*

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

## CERTAIN STATEMENT OF COMPREHENSIVE INCOME ITEMS

### *Sales*

We generate sales primarily from the manufacture and sales of a large range of jelly products. We also market and sell confectionary products. In addition, we generate sales from the manufacture and sale of powdered milk tea and market and sell other products, which primarily include dried bean curd products and baked products.

The table below sets forth our sales by product segment for the periods indicated, both in actual terms and as a percentage of total sales, and the sales volume of each product segment:

|                                     | Year ended December 31,        |                                 |                           |                                |                                 |                           |                                |                                 |                           | Five months ended May 31,      |                                 |                           |                                |                                 |                           |
|-------------------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------------|---------------------------------|---------------------------|
|                                     | 2008                           |                                 | 2009                      |                                |                                 | 2010                      |                                |                                 | 2010                      |                                |                                 | 2011                      |                                |                                 |                           |
|                                     | Sales<br>(RMB in<br>thousands) | Percentage<br>of total<br>sales | Sales<br>volume<br>(tons) | Sales<br>(RMB in<br>thousands) | Percentage<br>of total<br>sales | Sales<br>volume<br>(tons) | Sales<br>(RMB in<br>thousands) | Percentage<br>of total<br>sales | Sales<br>volume<br>(tons) | Sales<br>(RMB in<br>thousands) | Percentage<br>of total<br>sales | Sales<br>volume<br>(tons) | Sales<br>(RMB in<br>thousands) | Percentage<br>of total<br>sales | Sales<br>volume<br>(tons) |
|                                     | (unaudited)                    |                                 |                           |                                |                                 |                           |                                |                                 |                           |                                |                                 |                           |                                |                                 |                           |
| Jelly products                      |                                |                                 |                           |                                |                                 |                           |                                |                                 |                           |                                |                                 |                           |                                |                                 |                           |
| Jelly snacks . . .                  | 474,247                        | 65.8%                           | 70,453                    | 486,281                        | 63.0%                           | 68,040                    | 530,201                        | 56.9%                           | 72,872                    | 258,133                        | 62.3%                           | 37,309                    | 330,090                        | 54.4%                           | 42,391                    |
| Jelly beverages . .                 | 121,380                        | 16.8%                           | 20,187                    | 183,328                        | 23.8%                           | 33,443                    | 245,614                        | 26.4%                           | 44,119                    | 98,623                         | 23.8%                           | 18,684                    | 173,237                        | 28.5%                           | 27,218                    |
|                                     | 595,627                        | 82.6%                           | 90,640                    | 669,609                        | 86.8%                           | 101,483                   | 775,815                        | 83.3%                           | 116,991                   | 356,756                        | 86.1%                           | 55,993                    | 503,327                        | 82.9%                           | 69,609                    |
| Confectionary<br>products . . . . . | 107,005                        | 14.8%                           | 6,587                     | 73,563                         | 9.5%                            | 5,037                     | 106,115                        | 11.4%                           | 7,669                     | 40,100                         | 9.7%                            | 2,922                     | 62,127                         | 10.2%                           | 3,453                     |
| Other products . . .                | 18,508                         | 2.6%                            | 1,016                     | 28,188                         | 3.7%                            | 1,329                     | 49,750                         | 5.3%                            | 2,153                     | 17,563                         | 4.2%                            | 780                       | 41,990                         | 6.9%                            | 2,032                     |
| <b>Total . . . . .</b>              | <b>721,140</b>                 | <b>100.0%</b>                   | <b>98,243</b>             | <b>771,360</b>                 | <b>100.0%</b>                   | <b>107,849</b>            | <b>931,680</b>                 | <b>100.0%</b>                   | <b>126,813</b>            | <b>414,419</b>                 | <b>100.0%</b>                   | <b>59,695</b>             | <b>607,444</b>                 | <b>100.0%</b>                   | <b>75,094</b>             |

Note: Other products comprised entirely powdered milk tea in 2008 and 2009 and comprised substantially all powdered milk tea in 2010. In the five months ended May 31, 2011, a majority of the other products were powdered milk tea, while the remainder included dried bean curd products and baked products.



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Our sales of jelly products grew to RMB669.6 million in 2009 from RMB595.6 million in 2008, which was primarily due to the increase in our jelly beverages sales to RMB183.3 million in 2009 from RMB121.4 million in 2008. Our sales of jelly products further grew to RMB775.8 million in 2010 from RMB669.6 million in 2009, which was also primarily due to the increase in our jelly beverages sales to RMB245.6 million in 2010 from RMB183.3 million in 2009. Such growth continued in the five months ended May 31, 2011, during which period our sales of jelly products and jelly beverages grew to RMB503.3 million and RMB173.2 million, respectively, from RMB356.8 million and RMB98.6 million for the five months ended May 31, 2010, respectively. Our sales of other products also grew from RMB18.5 million in 2008 to RMB28.2 million in 2009 and then to RMB49.8 million in 2010. Sales of our other products for the five months ended May 31, 2011 amounted to RMB42.0 million, due in part to the launch of our dried bean curd products and baked products.

We sold 70,453 tons, 68,040 tons, 72,872 tons and 42,391 tons of jelly snacks in the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011, respectively, and we sold 20,187 tons, 33,443 tons, 44,119 tons and 27,218 tons of jelly beverages in the same periods, respectively. In addition, we sold 6,587 tons, 5,037 tons, 7,669 tons and 3,453 tons of confectionary products in the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011, respectively, and we sold 1,016 tons, 1,329 tons, 2,153 tons and 2,032 tons of other products in the same periods, respectively. The average selling prices of our jelly products remained relatively stable from 2008 to 2010, amounting to RMB6,571.3 per ton in 2008, RMB6,598.2 per ton in 2009 and RMB6,631.4 per ton in 2010. Due primarily to increases in raw materials prices and the beginning of our engagement with key account agents and the beginning of our initial direct sales efforts to key account customers in 2011, the average selling prices of our jelly products increased to RMB7,230.8 per ton for the five months ended May 31, 2011. We are able to raise our average selling prices in direct sales because (i) we can eliminate the revenue which distributors would otherwise be entitled to had our products been distributed through them, and (ii) we are in a position to sell to our key account customers at higher prices. With respect to our sales to key account agents, we allocate additional time and resources to a series of direct negotiations with our key account customers including the terms of sales and a range of recommended retail prices, and location and size of our shelves in the stores. We also help our key account agents to sell our products through on-site decoration, promotion campaign, and providing training to our key account agents' product promoters. In addition, we typically grant our key account agents a longer credit terms of 90 days which is in line with the credit term offered by the key account customers. By having such arrangements under which we fulfill a number of functions that are traditionally handled by wholesale distributors, we are in a position to sell our products at higher prices to our key account agents, compared to the prices we usually sell to our wholesale distributors. The average selling prices of our confectionary products decreased from RMB16,244.9 per ton in 2008 to RMB14,604.5 per ton in 2009 and to RMB13,836.9 per ton in 2010, primarily due to our introduction of certain confectionary products with lower average selling prices in 2009 and 2010. The average selling prices of our confectionary products increased to RMB17,992.2 per ton for the five months ended May 31, 2011, primarily due to the beginning of our engagement with key account agents and the beginning of our initial direct sales efforts to key account customers in 2011. We believe that because our other products include different products such as powdered milk tea, dried bean curd products and baked products, a generalized average selling prices of such other products may not accurately reflect how they affected our sales during the Track Record Period.

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The table below sets forth our sales by geographical location for the periods indicated:

|                               | Year ended December 31,                |               |                |               |                |               | Five months ended May 31, |               |                |               |
|-------------------------------|--|---------------|----------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|
|                               | 2008                                   |               | 2009           |               | 2010           |               | 2010                      |               | 2011           |               |
|                               | (unaudited)                            |               |                |               |                |               |                           |               |                |               |
|                               | (RMB in thousands, except percentages) |               |                |               |                |               |                           |               |                |               |
| <b>Domestic Sales</b>         |  |               |                |               |                |               |                           |               |                |               |
| Eastern China <sup>(1)</sup>  | 224,160                                | 31.1%         | 239,422        | 31.0%         | 265,449        | 28.5%         | 119,723                   | 28.9%         | 173,988        | 28.6%         |
| Central China <sup>(2)</sup>  | 176,148                                | 24.4%         | 175,790        | 22.8%         | 208,307        | 22.3%         | 93,990                    | 22.7%         | 124,564        | 20.5%         |
| Northern China <sup>(3)</sup> | 107,203                                | 14.9%         | 124,917        | 16.2%         | 155,553        | 16.7%         | 70,376                    | 17.0%         | 111,232        | 18.3%         |
| Western China <sup>(4)</sup>  | 77,986                                 | 10.8%         | 98,315         | 12.8%         | 120,802        | 13.0%         | 54,358                    | 13.1%         | 84,005         | 13.8%         |
| Southern China <sup>(5)</sup> | 76,711                                 | 10.6%         | 87,890         | 11.4%         | 109,704        | 11.8%         | 47,957                    | 11.6%         | 80,350         | 13.2%         |
| Sub-total . . . . .           | 662,208                                | 91.8%         | 726,334        | 94.2%         | 859,815        | 92.3%         | 386,404                   | 93.2%         | 574,140        | 94.5%         |
| <b>Export Sales . . . . .</b> | <b>58,932</b>                          | <b>8.2%</b>   | <b>45,026</b>  | <b>5.8%</b>   | <b>71,865</b>  | <b>7.7%</b>   | <b>28,015</b>             | <b>6.8%</b>   | <b>33,304</b>  | <b>5.5%</b>   |
| <b>Total . . . . .</b>        | <b>721,140</b>                         | <b>100.0%</b> | <b>771,360</b> | <b>100.0%</b> | <b>931,680</b> | <b>100.0%</b> | <b>414,419</b>            | <b>100.0%</b> | <b>607,444</b> | <b>100.0%</b> |

Notes:

- (1) Eastern China represents Shanghai, Jiangsu, Zhejiang, Shandong and Anhui.
- (2) Central China represents Hubei, Hunan, Henan and Jiangxi.
- (3) Northern China represents Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
- (4) Western China represents Sichuan, Chongqing, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Xinjiang, Qinghai and Ningxia.
- (5) Southern China represents Guangdong, Guangxi, Hainan and Fujian.

### *Cost of sales*

Our cost of sales consists of costs of raw materials (including packaging materials), direct labor expenses attributable to production personnel, utilities expenses, depreciation and amortization, other production costs and changes in inventories of finished goods.

Costs of raw materials, which mainly comprise packaging materials, jelly powder, sugar, water, canned fruit and flavoring essence, formed the largest component of our cost of sales, representing 89.6%, 81.6%, 84.4% and 83.6%, respectively, of our total cost of sales in 2008, 2009 and 2010 and for the five months ended May 31, 2011. Costs of packaging materials, which is a significant component of our costs of raw materials, mainly comprise plastic containers and packets, cardboard boxes and paper and represented 43.2%, 40.8%, 36.9% and 38.1%, respectively, of our total cost of sales in 2008, 2009 and 2010 and for the five months ended May 31, 2011.

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The table below sets forth our cost of sales by product segment for the periods indicated, both in actual terms and as a percentage of total cost of sales:

|  | Year ended December 31, |                      |                       |                      |                       |                      | Five months ended May 31, |                      |                       |                      |
|--|-------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|---------------------------|----------------------|-----------------------|----------------------|
|  | 2008                    |                      | 2009                  |                      | 2010                  |                      | 2010                      |                      | 2011                  |                      |
| (unaudited)                            |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| (RMB in thousands, except percentages) |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| Jelly products                         |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| Jelly snacks . . . . .                 | 263,821                 | 60.2%                | 302,234               | 62.6%                | 324,054               | 55.0%                | 158,250                   | 60.3%                | 190,924               | 53.0%                |
| Jelly beverages . . . . .              | 81,458                  | 18.6%                | 114,054               | 23.6%                | 153,145               | 25.9%                | 62,794                    | 23.9%                | 103,179               | 28.7%                |
|  | <u>345,279</u>          | <u>78.8%</u>         | <u>416,288</u>        | <u>86.2%</u>         | <u>477,199</u>        | <u>80.9%</u>         | <u>221,044</u>            | <u>84.3%</u>         | <u>294,103</u>        | <u>81.7%</u>         |
| Confectionary products . . . . .       | 79,462                  | 18.1%                | 46,526                | 9.6%                 | 73,636                | 12.5%                | 27,479                    | 10.5%                | 36,523                | 10.1%                |
| Other products . . . . .               | 13,686                  | 3.1%                 | 20,096                | 4.2%                 | 38,847                | 6.6%                 | 13,732                    | 5.2%                 | 29,489                | 8.2%                 |
| <b>Total . . . . .</b>                 | <b><u>438,427</u></b>   | <b><u>100.0%</u></b> | <b><u>482,910</u></b> | <b><u>100.0%</u></b> | <b><u>589,682</u></b> | <b><u>100.0%</u></b> | <b><u>262,255</u></b>     | <b><u>100.0%</u></b> | <b><u>360,115</u></b> | <b><u>100.0%</u></b> |

The table below sets forth a breakdown of the components of our cost of sales for the periods indicated, both in actual terms and as a percentage of total cost of sales:

|  | Year ended December 31, |                      |                       |                      |                       |                      | Five months ended May 31, |                      |                       |                      |
|--|-------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|---------------------------|----------------------|-----------------------|----------------------|
|  | 2008                    |                      | 2009                  |                      | 2010                  |                      | 2010                      |                      | 2011                  |                      |
| (unaudited)  |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| (RMB in thousands, except percentages)             |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| Raw materials:                                     |                         |                      |                       |                      |                       |                      |                           |                      |                       |                      |
| Packaging materials . . . . .                      | 189,469                 | 43.2%                | 196,852               | 40.8%                | 217,767               | 36.9%                | 106,456                   | 40.6%                | 137,329               | 38.1%                |
| Other raw materials . . . . .                      | 203,528                 | 46.4%                | 197,425               | 40.9%                | 280,013               | 47.5%                | 85,132                    | 32.5%                | 163,793               | 45.5%                |
| Total raw materials costs . . . . .                | <u>392,997</u>          | <u>89.6%</u>         | <u>394,277</u>        | <u>81.6%</u>         | <u>497,780</u>        | <u>84.4%</u>         | <u>191,588</u>            | <u>73.1%</u>         | <u>301,122</u>        | <u>83.6%</u>         |
| Direct labor expenses . . . . .                    | 19,281                  | 4.4%                 | 30,071                | 6.2%                 | 41,349                | 7.0%                 | 17,570                    | 6.7%                 | 22,375                | 6.2%                 |
| Utilities expenses . . . . .                       | 13,206                  | 3.0%                 | 13,670                | 2.8%                 | 17,353                | 3.0%                 | 7,537                     | 2.9%                 | 9,776                 | 2.7%                 |
| Depreciation and amortization . . . . .            | 14,714                  | 3.4%                 | 21,001                | 4.3%                 | 24,186                | 4.1%                 | 8,941                     | 3.4%                 | 12,017                | 3.3%                 |
| Other production costs . . . . .                   | 7,531                   | 1.7%                 | 9,583                 | 2.0%                 | 9,331                 | 1.6%                 | 3,873                     | 1.5%                 | 3,055                 | 0.9%                 |
| Changes in inventories of finished goods . . . . . | <u>(9,302)</u>          | <u>(2.1%)</u>        | <u>14,308</u>         | <u>3.0%</u>          | <u>(317)</u>          | <u>(0.1%)</u>        | <u>32,746</u>             | <u>12.5%</u>         | <u>11,770</u>         | <u>3.3%</u>          |
| <b>Total . . . . .</b>                             | <b><u>438,427</u></b>   | <b><u>100.0%</u></b> | <b><u>482,910</u></b> | <b><u>100.0%</u></b> | <b><u>589,682</u></b> | <b><u>100.0%</u></b> | <b><u>262,255</u></b>     | <b><u>100.0%</u></b> | <b><u>360,115</u></b> | <b><u>100.0%</u></b> |

The packaging materials costs included a one-off inventory write-off in 2009 amounting to RMB19.3 million, representing 2.5% of our total sales in 2009, due to the disposal of packaging materials that were produced in compliance of the then existing legal requirement but did not contain certain additional information required under the new and more stringent labeling standards for packaging materials that were introduced under the Food Safety Law of the PRC (中華人民共和國食品安全法) that became effective in June 2009. The Food Safety Law requires that pre-packaged food needs to bear labels showing

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certain additional information such as the general names of the food additives under the national standards and the contact information of the manufacturer. We cannot assure you that the PRC government will not introduce new or more stringent legal requirements on food and beverage products in the future. Any non-compliance with these requirements could cause a disruption in our operations and lead to potential liability, including imposition of fines, confiscation of proceeds from the sales of food products without proper labeling as well as revocation of food production permits in serious cases. The occurrence of any of these may adversely affect our business and results of operations. Please see “Risk Factors — Risks Relating to the Food and Beverage Industry in China — Changes in the existing food safety laws may affect our business operations.”

Other production costs primarily include repair costs for our equipment, employee expenses and benefits with respect to certain supervisory personnel involved in our production process.

### *Gross profit and gross profit margin*

The table below sets forth our gross profit and gross profit margin by each of our product segments for the periods indicated:

| Product segments                 | Year ended December 31, |                     |              |                     |              |                     | Five months ended May 31, |                     |              |                     |
|----------------------------------|-------------------------|---------------------|--------------|---------------------|--------------|---------------------|---------------------------|---------------------|--------------|---------------------|
|                                  | 2008                    |                     | 2009         |                     | 2010         |                     | 2010                      |                     | 2011         |                     |
|                                  | Gross Profit            | Gross profit margin | Gross Profit | Gross profit margin | Gross Profit | Gross profit margin | Gross Profit              | Gross profit margin | Gross Profit | Gross profit margin |
|                                  | (unaudited)             |                     |              |                     |              |                     |                           |                     |              |                     |
| Jelly products . . . . .         | 250,348                 | 42.0%               | 253,321      | 37.8%               | 298,616      | 38.5%               | 135,712                   | 38.0%               | 209,224      | 41.6%               |
| Confectionary products . . . . . | 27,543                  | 25.7%               | 27,037       | 36.8%               | 32,479       | 30.6%               | 12,621                    | 31.5%               | 25,604       | 41.2%               |
| Other products. . . . .          | 4,822                   | 26.1%               | 8,092        | 28.7%               | 10,903       | 21.9%               | 3,831                     | 21.8%               | 12,501       | 29.8%               |

For information on gross profit and the reasons for the fluctuation of gross profit margins for each of our product segments, please see “Gross profit and gross profit margin” for the relevant periods in the paragraph headed “Results of Operations” below.

### *Other income*

Other income primarily consists of rental income from the leasing of production plants to an associated company, a jointly controlled entity and independent third parties, and interest income from our bank deposits.

Pursuant to the supplemental agreement to an investment project agreement (蠟筆小新農產品(食品)項目投資補充協議書) entered into between us and an agency of the local government of Pujiang (蒲江縣工業區管委會) dated November 2010, LBXX Sichuan may be eligible to receive certain government grants from 2011. These government grants are typically calculated based on the total income tax paid by a business enterprise in the preceding fiscal year and are granted to eligible business enterprises to incentivize them to invest in local areas, create employment opportunities and introduce new technologies. LBXX Sichuan has paid PRC enterprise income tax at a rate of 25% since it began its operations in 2010.

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### *Selling and distribution expenses*

Selling and distribution expenses consist of advertising and promotional expenses, freight and transportation expenses for the delivery of our products from our warehouses to our customers, as well as other expenses related to employee benefits expenses and traveling expenses for our sales representatives.

The table below sets forth the components of our selling and distribution expenses for the periods indicated, both in actual terms and as a percentage of total selling and distribution expenses:

|   | Year ended December 31,                |               |                |               |                |               | Five months ended May 31, |               |               |               |
|---|--|---------------|----------------|---------------|----------------|---------------|---------------------------|---------------|---------------|---------------|
|   | 2008                                   |               | 2009           |               | 2010           |               | 2010                      |               | 2011          |               |
|   | (unaudited)                            |               |                |               |                |               |                           |               |               |               |
|   | (RMB in thousands, except percentages) |               |                |               |                |               |                           |               |               |               |
| Advertising and promotion expenses . . . . .  | 71,119                                 | 61.9%         | 81,572         | 61.3%         | 77,675         | 57.6%         | 36,818                    | 58.8%         | 44,227        | 57.9%         |
| Freight and transportation expenses . . . . . | 23,870                                 | 20.8%         | 32,311         | 24.3%         | 35,681         | 26.5%         | 17,104                    | 27.3%         | 20,632        | 27.0%         |
| Others . . . . .                              | 19,846                                 | 17.3%         | 19,255         | 14.4%         | 21,434         | 15.9%         | 8,661                     | 13.9%         | 11,535        | 15.1%         |
| <b>Total . . . . .</b>                        | <b>114,835</b>                         | <b>100.0%</b> | <b>133,138</b> | <b>100.0%</b> | <b>134,790</b> | <b>100.0%</b> | <b>62,583</b>             | <b>100.0%</b> | <b>76,394</b> | <b>100.0%</b> |

### *Administrative expenses*

Administrative expenses primarily consist of salaries and benefits for our management and administrative staff as well as to a lesser extent, depreciation of property, plant and equipment, SGX-ST service fees and related compliance costs and other miscellaneous administrative expenses.

### *Other (losses)/gains, net*

Other net losses or gains primarily consist of gains on sales of scrap materials, such as plastic jelly cups, paper, cardboard and other packaging materials discarded from our production process that we sell to third parties for recycling, offset by losses on disposal of property, plant and equipment and net exchange losses.

### *Finance costs*

Finance costs primarily consist of interest expenses on bank borrowings.

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### *Share of loss of an associated company and impairment of investment in an associated company*

Share of loss of an associated company represents loss after taxation that is attributable to us as a result of our investment in an associated company, Super Lifestyle Food, in which we held a 32% equity interest during the Track Record Period. We co-invested in Super Lifestyle Food with Super Coffeemix Manufacturing Ltd, an Independent Third Party which held a 50% interest and Chance Cove Group Limited, a company wholly owned by Mr. Zheng Yu Long which held an 18% interest, in 2006 with an aim to manufacturing potato chips for sale in China. As of December 31, 2009, we had made total investment and shareholder loans to the associated company amounting to RMB8.9 million. In 2010, we agreed with our co-investors to cease all business operations of Super Lifestyle Food because the business was making a loss and the business venture no longer appeared to be commercially viable. We are currently working with our co-investors to have the associated company deregistered. As of May 31, 2011, the investment in, and the shareholder loans to, the associated company had been fully provided for.

### *Share of loss of a jointly controlled entity and impairment of investment in a jointly controlled entity*

Share of loss of a jointly controlled entity represents our loss after taxation that is attributable to us as a result of our investment in a jointly controlled entity, Coco Foods. We invested in Coco Foods in May 2007 with Cocoland Industry Sdn. Bhd, an Independent Third Party, and each held 50% of the equity interest. Coco Foods primarily produced gummy candies. With the view that the jointly controlled entity was incurring losses and its profitability was not expected to significantly improve in the foreseeable future, we recognized an impairment allowance of RMB5.0 million in 2008. In June 2010, we reached an agreement to sell Coco Foods to an Independent Third Party because our joint venture partner decided to pull out of Coco Foods. The purchaser of Coco Foods has since become our OEM partner responsible for manufacturing gummy candies for us.

### *Income tax expense*

Income tax expense primarily consists of income tax payable by our subsidiaries in the PRC. During the Track Record Period, we did not have any assessable income in Bermuda, the BVI and Hong Kong.

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### RESULTS OF OPERATIONS

The table below summarizes our consolidated results for the years ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2010 and 2011:

#### *Consolidated Statements of Comprehensive Income*

|   | Year ended December 31, |               |                | Five months ended May 31, |                |
|---|-------------------------|---------------|----------------|---------------------------|----------------|
|   | 2008                    | 2009          | 2010           | 2010                      | 2011           |
|   | (unaudited)             |               |                |                           |                |
|   | (RMB in thousands)      |               |                |                           |                |
| Sales . . . . .   | 721,140                 | 771,360       | 931,680        | 414,419                   | 607,444        |
| Cost of sales . . . . .   | (438,427)               | (482,910)     | (589,682)      | (262,255)                 | (360,115)      |
| Gross profit . . . . .  | 282,713                 | 288,450       | 341,998        | 152,164                   | 247,329        |
| Other income . . . . .  | 3,488                   | 2,765         | 1,573          | 635                       | 560            |
| Selling and distribution expenses . .   | (114,835)               | (133,138)     | (134,790)      | (62,583)                  | (76,394)       |
| Administrative expenses . . . . .   | (53,750)                | (48,260)      | (44,854)       | (15,686)                  | (23,811)       |
| Other (losses)/gains, net . . . . .   | (10,384)                | 283           | 2,314          | 738                       | (456)          |
| Operating profit . . . . .  | 107,232                 | 110,100       | 166,241        | 75,268                    | 147,228        |
| Finance costs . . . . .   | (2,040)                 | (3,014)       | (3,518)        | (1,386)                   | (3,316)        |
| Share of loss of an associated<br>company . . . . .                                   | (2,593)                 | (4,145)       | –              | –                         | –              |
| Provision for impairment of<br>investment in an associated<br>company . . . . .       | –                       | (5,128)       | –              | –                         | –              |
| Provision for impairment of loans<br>to an associated company . . . . .               | –                       | (1,999)       | (1,778)        | (1,778)                   | –              |
| Share of loss of a jointly<br>controlled entity . . . . .                             | (1,731)                 | (1,632)       | (432)          | (432)                     | –              |
| Provision for impairment of<br>investment in a jointly<br>controlled entity . . . . . | (5,000)                 | –             | –              | –                         | –              |
| Gain on disposal of investment in<br>a jointly controlled entity . . . . .            | –                       | –             | 344            | –                         | –              |
| Profit before income tax . . . . .  | 95,868                  | 94,182        | 160,857        | 71,672                    | 143,912        |
| Income tax expense . . . . .  | (27,237)                | (40,694)      | (13,019)       | (13,076)                  | (28,334)       |
| <b>Profit and total comprehensive<br/>income for the year/period . . . . .</b>        | <b>68,631</b>           | <b>53,488</b> | <b>147,838</b> | <b>58,596</b>             | <b>115,578</b> |



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### *Five months ended May 31, 2011 compared to five months ended May 31, 2010*

**Sales.** Our sales increased by 46.6% to RMB607.4 million for the five months ended May 31, 2011 from RMB414.4 million for the five months ended May 31, 2010, primarily attributable to (i) an increase in sales volume from all of our product segments, (ii) a general increase in the average selling prices of some of our products due to increasing raw materials prices, and (iii) an increase in average selling prices due to the beginning of our engagement with key account agents and the beginning of our initial direct sales efforts to key account customers in 2011. For more details, please see “Business — Sales and Marketing — Key account customers and other retailers.”

- *Jelly products* – Sales of jelly products increased by 41.1% to RMB503.3 million for the five months ended May 31, 2011 from RMB356.8 million for the five months ended May 31, 2010, primarily attributable to an increase in the average selling prices of our jelly products, which was in turn primarily due to an increase in raw materials prices, and an increase of sales of our jelly beverage products. The sales of our jelly beverage products increased by 75.7% to RMB173.2 million for the five months ended May 31, 2011 from RMB98.6 million for the five months ended May 31, 2010. Such increase was primarily due to (i) our concentrated sales and marketing efforts to promote certain types of our jelly products, and (ii) the expansion of our distribution network and an increase in the number of retail outlets that carried our jelly beverages products, as evidenced in the increase of our key account customers’ retail outlets, from approximately 760 as of May 31, 2010 to over 1,100 retail outlets as of May 31, 2011, and the trend of an increase in the number of our wholesale distributors during the Track Record Period.
- *Confectionary products* – Sales of confectionary products increased by 54.9% to RMB62.1 million for the five months ended May 31, 2011 from RMB40.1 million for the five months ended May 31, 2010. The increase was primarily due to an increase in market demand for our confectionary products, especially during the Chinese New Year holiday period in 2011, and the increase in average selling prices of our confectionary products.
- *Other products* – Sales of other products increased by 139.1% to RMB42.0 million for the five months ended May 31, 2011 from RMB17.6 million for the five months ended May 31, 2010. The increase was primarily due to (i) an increase in sales of our powdered milk tea by 59.0% to RMB27.9 million for the five months ended May 31, 2011 from RMB17.6 million for the five months ended May 31, 2010, and (ii) the introduction of our dried bean curd products and baked products in 2011.

**Cost of sales.** Our cost of sales increased by 37.3% to RMB360.1 million for the five months ended May 31, 2011 from RMB262.3 million for the five months ended May 31, 2010. The increase was primarily due to our increased sales volume.

- *Jelly products* – The cost of sales for our jelly products increased by 33.1% to RMB294.1 million for the five months ended May 31, 2011 from RMB221.0 million for the five months ended May 31, 2010, which was primarily due to the increase in sales for our jelly snacks and jelly beverages and the increase in raw materials prices.
- *Confectionary products* – The cost of sales for our jelly products increased by 32.9% to RMB36.5 million for the five months ended May 31, 2011 from RMB27.5 million for the five months ended May 31, 2010, which was primarily due to the increase in sales for our confectionary products and the increase in raw materials prices.

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- *Other products* – The cost of sales for our other products increased by 114.7% to RMB29.5 million for the five months ended May 31, 2011 from RMB13.7 million for the five months ended May 31, 2010, primarily due to an increase in sales of our other products, and the introduction of our dried bean curd products and baked products.

**Gross profit and gross profit margin.** Our gross profit increased by 62.5% to RMB247.3 million for the five months ended May 31, 2011 from RMB152.2 million for the five months ended May 31, 2010. Our gross profit margin increased to 40.7% for the five months ended May 31, 2011 from 36.7% for the five months ended May 31, 2010. Such increase was primarily due to the beginning of our engagement with our key account agents and the beginning of our initial direct sales efforts to our key account customers in 2011, by which we are able to sell our products to them at higher prices, compared to the prices at which we sell our products to our wholesale distributors. For more details, please see “Business — Sales and Marketing — Key account customers and other retailers.” As a result, the gross profit margin from our sales to key account agents and key account customers reached 54.5% for the five months ended May 31, 2011, as compared to the gross profit margin of 38.3% from our sales to wholesale distributors generally in the same period, thus contributing to our overall increase in gross profit margin in the same period.

- *Jelly products* – Gross profit from our jelly products increased by 54.2% to RMB209.2 million for the five months ended May 31, 2011 from RMB135.7 million for the five months ended May 31, 2010. Gross profit margin for our jelly products increased to 41.6% for the five months ended May 31, 2011 from 38.0% for the five months ended May 31, 2010, primarily due to our sales to key account agents and key account customers, and an increase in the average selling prices of our jelly products to wholesale distributors by a margin greater than the increase in raw materials prices that were used in such products.
- *Confectionary products* – Gross profit from our confectionary products increased by 102.9% to RMB25.6 million for the five months ended May 31, 2011 from RMB12.6 million for the five months ended May 31, 2010. Gross profit margin for our confectionary products increased to 41.2% for the five months ended May 31, 2011 from 31.5% for the five months ended May 31, 2010, primarily due to our sales to key account agents and key account customers which carried a higher gross margin, and an increase in the average selling prices of our confectionary products.
- *Other products* – Gross profit from our other products increased by 226.3% to RMB12.5 million for the five months ended May 31, 2011 from RMB3.8 million for the five months ended May 31, 2010. Gross profit margin for our other products increased to 29.8% for the five months ended May 31, 2011 from 21.8% for the five months ended May 31, 2010, primarily due to our sales to key account agents and key account customers which carried a higher gross margin. In addition, we also began selling dried bean curd products and baked products in 2011, both had a higher gross profit margin than that of powdered milk tea.

**Other income.** Our other income decreased by 11.8% to approximately RMB0.5 million for the five months ended May 31, 2011 from RMB0.6 million for the five months ended May 31, 2010, primarily due to a decrease in rental income, which was attributable to the lower monthly rents we charged.

**Selling and distribution expenses.** Our selling and distribution expenses increased by 22.1% to RMB76.4 million for the five months ended May 31, 2011 from RMB62.6 million for the five months ended May 31, 2010, primarily due to an increase in our advertising and promotion expenses and an increase in freight and transportation expenses.

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**Administrative expenses.** Our administrative expenses increased by 51.8% to RMB23.8 million for the five months ended May 31, 2011 from RMB15.7 million for the five months ended May 31, 2010, primarily due to (i) an increase in depreciation of property, plant and equipment, which was primarily due to depreciation attributable to the office buildings located at our Sichuan production facility, which commenced operations in July 2010, and (ii) an increase in fees and expenses associated with the preparation for the Global Offering.

**Other (losses)/gains, net.** Our other losses amounted to RMB0.5 million for the five months ended May 31, 2011, compared to our other gains amounting to RMB0.7 million for the five months ended May 31, 2010. Our other losses for the five months ended May 31, 2011 were primarily attributable to exchange losses in connection with our Hong Kong dollar-denominated Pre-IPO Investment net proceeds, as the Hong Kong dollar weakened against the Renminbi. Our other gains for the five months ended May 31, 2010 were primarily due to gains from sales of excess raw and scrap materials used in our production process, such as plastic jelly cups, paper, cardboard and other packaging materials.

**Finance costs.** Our finance costs increased by 139.3% to RMB3.3 million for the five months ended May 31, 2011 from RMB1.4 million for the five months ended May 31, 2010, primarily attributable to an increase in both bank borrowings and the effective interest rates of such borrowings.

**Provision for impairment of investment in, and loans to, an associated company.** Our provision for impairment of investment in, and loans to, an associated company decreased to nil for the five months ended May 31, 2011 from RMB1.8 million for the five months ended May 31, 2010, because our associated company, Super Lifestyle Food, ceased business operations in 2010.

**Share of loss of a jointly controlled entity.** Our share of loss of a jointly controlled entity decreased to nil for the five months ended May 31, 2011 from RMB0.4 million for the five months ended May 31, 2010, because in June 2010 we disposed of our interests in our jointly controlled entity, Coco Foods.

**Income tax expenses.** Our income tax expenses increased by 116.7% to RMB28.3 million for the five months ended May 31, 2011 from RMB13.1 million for the five months ended May 31, 2010, primarily due to (i) an increase in our profit before income tax, and (ii) an increase in our effective tax rate to 19.7% for the five months ended May 31, 2011 from 18.2% for the five months ended May 31, 2010, which was primarily because our Sichuan production facility became subject to the regular PRC enterprise income tax rate of 25% as it commenced production in July 2010 and it incurred nil income tax expenses in the five months ended May 31, 2010 before its commencement.

**Profit for the period and net profit margin.** As a result of the foregoing, our profit for the period increased by 97.2% to RMB115.6 million for the five months ended May 31, 2011 from RMB58.6 million for the five months ended May 31, 2010, and our net profit margin increased to 19.0% for the five months ended May 31, 2011 from 14.1% for the five months ended May 31, 2010.

### **Year ended December 31, 2010 compared to year ended December 31, 2009**

**Sales.** Our sales increased by 20.8% to RMB931.7 million in 2010 from RMB771.4 million in 2009, primarily attributable to an increase in sales from all our product segments.

- **Jelly products** – Sales of jelly products increased by 15.9% to RMB775.8 million in 2010 from RMB669.6 million in 2009, primarily attributable to an increase in sales volume from 101,483 tons in 2009 to 116,991 tons in 2010. The increase in sales volume was primarily driven by an increase in sales volume of jelly beverages by 31.9% in 2010 compared to 2009.

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- *Confectionary products* – Sales of confectionary products increased by 44.3% to RMB106.1 million in 2010 from RMB73.6 million in 2009, primarily attributable to a recovery in sales volume from 5,037 tons in 2009 to 7,669 tons in 2010, partially offset by a slight drop in the average selling price of confectionary products as a result of the introduction of certain new products in 2010, which had lower selling prices to attract customers from different income groups.
- *Other products* – Sales of other products increased by 76.5% to RMB49.8 million in 2010 from RMB28.2 million in 2009, primarily attributable to an increase in sales volume from 1,329 tons in 2009 to 2,153 tons in 2010, and an increase in the average selling price of powdered milk tea. The increase in sales volume and average selling price were primarily attributable to the introduction of our improved powdered milk tea formula in late 2009. In addition, we also launched our dried bean curd products in late 2010.

**Cost of sales.** Our cost of sales increased by 22.1% to RMB589.7 million in 2010 from RMB482.9 million in 2009, which was generally in line with our increased sales volume. Our cost of sales also increased due to an increase in the market prices of raw materials used in production, such as sugar.

- *Jelly products* – The cost of sales of our jelly products increased by 14.6% to RMB477.2 million in 2010 from RMB416.3 million in 2009, primarily due to an increase in our sales volume and an increase in the cost of raw materials used in production, which was in line with general market trends.
- *Confectionary products* – The cost of sales of our confectionary products increased by 58.3% to RMB73.6 million in 2010 from RMB46.5 million in 2009, primarily due to an increase in our sales volume and an increase in the purchase price of confectionary products we paid to our OEM partners which was due to a general increase in raw materials prices.
- *Other products* – The cost of sales of our other products increased by 93.3% to RMB38.8 million in 2010 from RMB20.1 million in 2009, primarily due to an increase in the costs of raw materials used in producing our powdered milk tea.

**Gross profit and gross profit margin.** Our gross profit increased by 18.6% to RMB342.0 million in 2010 from RMB288.5 million in 2009. Our gross profit margin decreased slightly to 36.7% in 2010 from 37.4% in 2009, primarily attributable to an increase in the cost of raw materials used in production and changes in product mix. Our gross profit margin in 2009 was negatively affected in part by a one-off inventory write-off in 2009 amounting to RMB19.3 million, which represented approximately 2.5% of our sales for that year.

- *Jelly products* – Gross profit from our jelly products increased by 17.9% to RMB298.6 million in 2010 from RMB253.3 million in 2009. The gross profit margin for our jelly products increased to 38.5% in 2010 from 37.8% in 2009, primarily due to the fact that our gross margins in 2009 were negatively affected by the one-off inventory write-off, despite a general increase in raw materials prices in 2010 as compared to those in 2009 as a result of the global economic recovery.

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- *Confectionary products* – Gross profit from our confectionary products increased by 20.1% to RMB32.5 million in 2010 from RMB27.0 million in 2009. The gross profit margin for our confectionary products decreased to 30.6% in 2010 from 36.8% in 2009, primarily due to a general increase in raw materials prices in 2010 as compared to those in 2009 as a result of the global economic recovery.
- *Other products* – Gross profit from our other products increased by 34.7% to RMB10.9 million in 2010 from RMB8.1 million in 2009. The gross profit margin for our other products decreased to 21.9% in 2010 from 28.7% in 2009, primarily due to a general increase in raw materials prices in 2010 as compared to those in 2009 as a result of the global economic recovery.

**Other income.** Our other income decreased by 43.1% to RMB1.6 million in 2010 from RMB2.8 million in 2009, primarily attributable to a decrease in rental income in 2010. Our associated company, Super Lifestyle Food, ceased its business operations in mid-2010 and no longer needed to lease its production plant from us. As a result, no rental income was derived from Super Lifestyle Food in 2010.

**Selling and distribution expenses.** Our selling and distribution expenses increased by 1.2% to RMB134.8 million in 2010 from RMB133.1 million in 2009, primarily attributable to an increase in freight and transportation costs from RMB32.3 million in 2009 to RMB35.7 million in 2010, as a result of increased sales volume of our products.

**Administrative expenses.** Our administrative expenses decreased by 7.1% to RMB44.9 million in 2010 from RMB48.3 million in 2009, primarily because we incurred no share option amortization costs in 2010 as we cancelled all unexercised and outstanding share options under our employee share option scheme in August 2009. Furthermore, we did not pay any bonus to our Directors in 2010, which contributed to lower administrative expenses.

**Other (losses)/gains, net.** Our other gains increased by 717.7% to RMB2.3 million in 2010 from RMB0.3 million in 2009, primarily due to a decrease in exchange losses in 2010, which was a result of a decrease in the number of Singapore dollar-denominated transactions in connection with our previous listing on the SGX-ST, offset by gains on sales of scrap materials. Our Singapore dollar-denominated transactions decreased after we delisted from the SGX-ST in 2010.

**Finance costs.** Our finance costs increased by 16.7% to RMB3.5 million in 2010 from RMB3.0 million in 2009, primarily due to an increase in both bank borrowings and the effective interest rates of such borrowings.

**Share of loss of an associated company.** Our share of loss of an associated company was nil in 2010 compared to RMB4.1 million in 2009, because our associated company, Super Lifestyle Food, ceased business operations in 2010.

**Provision for impairment of investment in, and loans to, an associated company.** Our provision for impairment of investment in, and loans to, an associated company decreased by 75.1% to RMB1.8 million in 2010 from RMB7.1 million in 2009, because our associated company, Super Lifestyle Food, ceased business operations in mid-2010, and our investment in, and shareholder loans to, the associated company were fully provided for as of December 31, 2010.

**Share of loss of a jointly controlled entity.** Our share of loss of a jointly controlled entity decreased by 73.5% to RMB0.4 million in 2010 from RMB1.6 million in 2009, because we only shared loss of our jointly controlled entity, Coco Foods, for the period before we disposed of it in June 2010.



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***Gain on disposal of investment in a jointly controlled entity.*** We received a gain of RMB0.3 million on our disposal of our investment in Coco Foods, our jointly controlled entity, in June 2010.

***Income tax expenses.*** Our income tax expenses decreased by 68.0% to RMB13.0 million in 2010 from RMB40.7 million in 2009, and our effective tax rate decreased to 8.1% in 2010 from 43.2% in 2009. The decrease in income tax expenses and effective tax rate were primarily due to the write-back of an income tax expense provision of RMB21.4 million that we recorded in 2009. Pursuant to Notice No. 59, promulgated by the Ministry of Finance and the State Administration of Taxation issued on April 30, 2009, which became effective retrospectively on January 1, 2008, we determined that LBXX Tianjin, which was under full tax exemption in 2008 and 2009, would be subject to an income tax rate of 25% in 2008 and 2009. Consequently, in 2009 we recorded a provision for the aggregate income tax liability for 2008 and 2009 amounting to RMB21.4 million. In 2010, our Directors sought clarification from the relevant PRC tax authorities on the tax position of LBXX Tianjin, and such PRC tax authorities determined that LBXX Tianjin could continue to enjoy the tax holiday until its expiry in 2012. As such, LBXX Tianjin wrote back the tax provision in 2010.

In addition, there was a reduction in the income tax rate applicable to LBXX Fujian from 25% in 2009 to 15% in 2010 as a result of its designation as an NHTE in 2009, which further contributed to our decrease in income tax expense and effective tax rate.

The above factors were offset by the increase in withholding income tax on dividends paid by our PRC subsidiaries to their non-PRC holding companies which increased by 411.8% to RMB17.2 million in 2010 from RMB3.4 million in 2009. According to the relevant PRC tax laws and regulations, dividends distributed out of profit earned by foreign-invested enterprises in the PRC after January 1, 2008 is subject to PRC corporate withholding income tax at a rate of 5% to 10%. In 2009 and 2010, withholding income tax was provided for our PRC subsidiaries with respect to the dividends distributed and the portion of the retained profits which would be distributed in the foreseeable future at a tax rate of 10%. The increase in the withholding income tax expenses in 2010 was due to the distribution of an interim dividend of RMB76.7 million in 2010, while there was no such dividend distribution in 2009.

***Profit for the year and net profit margin.*** As a result of the foregoing, our profit for the year increased by 176.4% to RMB147.8 million in 2010 from RMB53.5 million in 2009 and our net profit margin increased to 15.9% in 2010 from 6.9% in 2009.

### ***Year ended December 31, 2009 compared to year ended December 31, 2008***

***Sales.*** Despite the difficult business environment as a result of the general economic slowdown, our sales increased by 7.0% to RMB771.4 million in 2009 from RMB721.1 million in 2008, primarily attributable to an increase in sales in jelly products and other products, partially offset by a decrease in our sales in confectionary products.

- ***Jelly products*** – Sales of jelly products increased by 12.4% to RMB669.6 million in 2009 from RMB595.6 million in 2008, primarily attributable to an increase in sales volume from 90,640 tons in 2008 to 101,483 tons in 2009 as a result of increased market demand for our jelly products. The increase in sales volume was primarily driven by an increase in sales volume of jelly beverages by 65.7% in 2009 compared to 2008 as a result of increased market demand and the fact that we had placed more focus and resources on promoting our jelly beverages.

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- *Confectionary products* – Sales of confectionary products decreased by 31.3% to RMB73.6 million in 2009 from RMB107.0 million in 2008, primarily attributable to a decrease in the sales volume of some of our confectionary products containing dairy content, as an indirect result of the melamine scandal that occurred in China in 2008. Although none of our confectionary products contained melamine, the scandal had a severe impact on the dairy industry in general as well as consumer confidence in food products containing dairy content.
- *Other products* – Sales of other products increased by 52.3% to RMB28.2 million in 2009 from RMB18.5 million in 2008, primarily attributable to an increase in sales volume and average selling price of our powdered milk tea as a result of the introduction of our “Humor” brand powdered milk tea in late 2009, which was a new product.

**Cost of sales.** Our cost of sales increased by 10.1% to RMB482.9 million in 2009 from RMB438.4 million in 2008 in line with increased sales. As our sales volume increased, the amount of raw materials used in production also increased, leading to an overall increase in our cost of sales. However, this was partially offset by a decrease in the cost of raw materials and the purchase price of confectionary products we paid to our OEM partners, following the global financial crisis that began in the fourth quarter of 2008.

**Gross profit and gross profit margin.** Our gross profit increased by 2.0% to RMB288.5 million in 2009 from RMB282.7 million in 2008. Our gross profit margin decreased to 37.4% in 2009 from 39.2% in 2008. Our gross profit margin decreased in 2009 because we had a one-off inventory write-off in 2009 amounting to RMB19.3 million, which represented 2.5% of our sales for that year.

- *Jelly products* – Gross profit from our jelly products increased by 1.2% to RMB253.3 million in 2009 from RMB250.3 million in 2008. The gross profit margin for our jelly products decreased to 37.8% in 2009 from 42.0% in 2008, primarily due to the one-off inventory write-off in 2009, despite a general decrease in raw materials prices in 2009 as compared to those in 2008 as a result of the global economic downturn.
- *Confectionary products* – Gross profit from our confectionary products decreased by 1.8% to RMB27.0 million in 2009 from RMB27.5 million in 2008. Despite a decrease in the average selling prices of our confectionary products from 2008 to 2009, the gross profit margin for our confectionary products increased to 36.8% in 2009 from 25.7% in 2008, primarily due to a general decrease in raw materials prices in 2009 as compared to those in 2008 by a margin greater than the decrease in average selling prices as a result of the global economic downturn.
- *Other products* – Gross profit from our other products increased by 67.8% to RMB8.1 million in 2009 from RMB4.8 million in 2008. The gross profit margin for our other products increased to 28.7% in 2009 from 26.1% in 2008, primarily due to a general decrease in raw materials prices in 2009 as compared to those in 2008 as a result of the global economic downturn.

**Other income.** Our other income decreased by 20.7% to RMB2.8 million in 2009 from RMB3.5 million in 2008, primarily attributable to a decrease in interest income as a result of a reduction in our bank deposits as we deployed our cash resources for the development of our Sichuan production facility. In addition, our bank deposits accrued interest income at a lower interest rate in 2009.

**Selling and distribution expenses.** Our selling and distribution expenses increased by 15.9% to RMB133.1 million in 2009 from RMB114.8 million in 2008, primarily attributable to an increase in our



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advertising and promotional expenses, which was largely in line with our increased sales. In addition, the cost of transportation also increased in 2009 compared to 2008 as a result of the general oil price hike in 2009 across China caused in part by the PRC government's proposal to reform its oil product pricing mechanism based on changes in the domestic and international markets, which put upward pressure on our transportation charges.

**Administrative expenses.** Our administrative expenses decreased by 10.2% to RMB48.3 million in 2009 from RMB53.8 million in 2008, primarily attributable to the fact that we fully depreciated our property, plant and equipment in connection with the merger of our operations at our Tianjin production facility in 2008, and a decrease in expenses relating to amortization of share options granted pursuant to an employee share option scheme.

**Other (losses)/gains, net.** We made other losses of RMB10.4 million in 2008 compared to gains of RMB0.3 million in 2009. Our other losses in 2008 were primarily attributable to losses on disposal of machinery and marshmallow production equipment to a third party. Our other gains from sales of scrap materials, such as plastic jelly cups, paper, cardboard and other packaging materials discarded from our production process increased from RMB0.8 million in 2008 to RMB3.9 million in 2009.

**Finance costs.** Our finance costs increased by 47.8% to RMB3.0 million in 2009 from RMB2.0 million in 2008, primarily attributable to an increase in bank borrowings as we commenced construction of our Sichuan production facility and required additional financing to fund our expansion plan.

**Share of loss of an associated company.** Share of loss of an associated company increased by 59.9% to RMB4.1 million in 2009 from RMB2.6 million in 2008, primarily attributable to the loss incurred by Super Lifestyle Food, in which we held a 32% equity interest. Our associated company ceased all business operations in 2010.

**Share of loss of a jointly controlled entity.** Share of loss of a jointly controlled entity decreased by 5.7% to RMB1.6 million in 2009 from RMB1.7 million in 2008, attributable to the loss made by Coco Foods, in which we held a 50% equity interest.

**Provision for impairment of investment in jointly controlled entity.** We made a provision for impairment of investment in jointly controlled entity of RMB5.0 million in 2008 because our jointly controlled entity, Coco Foods, was incurring losses and its profitability was not expected to substantially improve in the foreseeable future.

**Income tax expense.** Our income tax expense increased by 49.4% to RMB40.7 million in 2009 from RMB27.2 million in 2008 and our effective tax rate increased to 43.2% in 2009 from 28.4% in 2008, despite a slight decrease in our profit before income tax. This was mainly due to a tax provision amounting to RMB21.4 million we made pursuant to Notice No. 59. Pursuant to Notice No. 59, which became effective retrospectively on January 1, 2008, we determined that our PRC subsidiary, LBXX Tianjin, which was under full tax exemption in 2008 and 2009, would be subject to the regular income tax rate of 25% in 2008 and 2009. Accordingly, we made a provision for the aggregate income tax liability for 2008 and 2009 amounting to RMB21.4 million in the year ended December 31, 2009.

**Profit for the year and net profit margin.** As a result of the foregoing, our profit for the year decreased by 22.1% to RMB53.5 million in 2009 from RMB68.6 million in 2008 and our net profit margin decreased to 6.9% in 2009 from 9.5% in 2008.

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### LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to capital expenditures for the purchase of property, plant and equipment. We have historically met our working capital and other liquidity requirements principally from cash generated from our operations, bank borrowings and equity contributions from shareholders. Going forward, we expect to fund our foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from our operations, bank borrowings and the net proceeds from the Global Offering.

#### *Cash Flows*

The following table presents selected cash flow data from our consolidated statements of cash flows for the periods indicated:

|  | Year ended December 31, |               |               | Five months ended May 31, |                |
|--|-------------------------|---------------|---------------|---------------------------|----------------|
|  | 2008                    | 2009          | 2010          | 2010                      | 2011           |
|  |                         |               |               | (unaudited)               |                |
|  | (RMB in thousands)      |               |               |                           |                |
| Net cash generated from operating activities . . . . .           | 103,411                 | 96,459        | 165,495       | 124,019                   | 92,936         |
| Net cash used in investing activities . . . . .                  | (124,659)               | (130,709)     | (101,219)     | (2,867)                   | (106,812)      |
| Net cash generated from/(used in) financing activities . . . . . | 7,471                   | 10,818        | (56,919)      | (5,675)                   | 141,645        |
| Net (decrease)/increase in cash and cash equivalents . . . . .   | (13,777)                | (23,432)      | 7,357         | 115,477                   | 127,769        |
| Cash and cash equivalents at beginning of year/period . . . . .  | 48,088                  | 34,311        | 10,879        | 10,879                    | 18,236         |
| <b>Cash and cash equivalents at end of year/period . . . . .</b> | <b>34,311</b>           | <b>10,879</b> | <b>18,236</b> | <b>126,356</b>            | <b>146,005</b> |

#### *Cash flows from operating activities*

For the five months ended May 31, 2011. Our net cash generated from operating activities was RMB92.9 million for the five months ended May 31, 2011. This net cash inflow was primarily a result of (i) profit for the period in the amount of RMB115.6 million; (ii) the adjustment of income tax expenses amounting to RMB28.3 million; (iii) the adjustment for amortization and depreciation amounting to RMB19.9 million; (iv) an increase in receivables and prepayments in the amount of RMB70.4 million, which was in turn primarily due to an increase in sales and the longer credit terms we granted to our key account agents; and (v) an increase in trade and other payables in the amount of RMB28.1 million, which was in turn due to an increase in raw materials purchases. We paid an income tax of RMB30.0 million.

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*For the five months ended May 31, 2010.* Our net cash generated from operating activities was RMB124.0 million for the five months ended May 31, 2010. This net cash inflow was primarily a result of (i) profit for the period in the amount of RMB58.6 million; (ii) a decrease in receivables and prepayments in the amount of RMB23.3 million primarily due to higher receivables and prepayments at the end of the previous calendar year and the settlement of such receivables and prepayments during the five months ended May 31, 2010; (iii) the adjustment for amortization and depreciation in the amount of RMB14.2 million; (iv) the adjustment for income tax expenses in the amount of RMB13.1 million; and (v) a decrease in inventories in the amount of RMB34.6 million as inventories accumulated at the end of 2009 in preparation of the Chinese New Year period in 2010 were used or sold during the five months ended May 31, 2010.

*For the year ended December 31, 2010.* Our net cash generated from operating activities was RMB165.5 million in 2010. This net cash inflow primarily reflects gross cash generated from operations of RMB195.0 million. This net cash inflow was primarily a result of (i) profit for the year in the amount of RMB147.8 million; (ii) the adjustment of income tax expense amounting to RMB13.0 million; (iii) the adjustment of amortization and depreciation amounting to RMB40.0 million; (iv) an increase in trade and other payables amounting to RMB66.6 million due to increased purchase of raw materials as a result of the commencement of production at our Sichuan production facility, resulted in an operating cash inflow by the same amount; (v) an increase in receivables and prepayments amounting to RMB62.3 million mainly due to an increase in sales volume as a result of an increase in market demand and expansion of our business scale, resulted in an operating cash outflow by the same amount; and (vi) by an increase in inventories amounting to RMB15.4 million due to an increase in our business scale as our Sichuan production facility commenced production, resulted in an operating cash outflow by the same amount. We paid an income tax of RMB29.5 million.

*For the year ended December 31, 2009.* Our net cash generated from operating activities was RMB96.5 million in 2009. This net cash inflow was primarily a result of (i) profit for the year in the amount of RMB53.5 million; (ii) the adjustment of income tax expense amounting to RMB40.7 million; (iii) the adjustment of amortization and depreciation amounting to RMB33.3 million; (iv) inventories written off of RMB19.3 million; and (v) an increase in receivables and prepayments amounting to RMB45.2 million mainly due to an increase in sales volume as a result of market demand and expansion of our business, resulted in an operating cash outflow by the same amount. We paid an income tax of RMB15.1 million.

*For the year ended December 31, 2008.* Our net cash generated from operating activities was RMB103.4 million in 2008. This net cash inflow was primarily a result of (i) profit for the year in the amount of RMB68.6 million; (ii) the adjustment of income tax expense amounting to RMB27.2 million; (iii) the adjustment of amortization and depreciation amounting to RMB30.3 million; (iv) loss on disposal of property, plant and equipment amounting to RMB10.2 million with respect to the disposal of a production plant for marshmallow and related machinery and equipment; and (v) an increase in inventories amounting to RMB25.2 million due to an increase in our business as our Tianjin production facility commenced full production, resulted in an operating cash outflow by the same amount. We paid an income tax of RMB23.2 million.

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### *Cash flows from investing activities*

*For the five months ended May 31, 2011.* Our net cash used in investing activities was RMB106.8 million for the five months ended May 31, 2011. This net cash outflow was primarily due to (i) the payment made for the purchase of land use rights in connection with the parcel of land we purchased in Anhui Province, amounting to RMB46.8 million; and (ii) deposits of RMB42.9 million and payments of RMB17.4 million made to acquire machinery and equipment to expand our production capacity.

*For the five months ended May 31, 2010.* Our net cash used in investing activities was RMB2.9 million for the five months ended May 31, 2010. This net cash outflow was due to purchases of property, plant and equipment in the amount of RMB1.9 million, and deposits paid for property, plant and equipment in the amount of RMB1.1 million, both of which were for the expansion of our production capacity.

*For the year ended December 31, 2010.* Our net cash used in investing activities was RMB101.2 million in 2010. This net cash outflow primarily reflected (i) the payment made for the purchase of property, plant and equipment amounting to RMB78.2 million mainly with respect to our Sichuan production facility; and (ii) deposit paid for plant and equipment amounting to RMB26.1 million with respect to deposit paid to a construction company for our Anhui production facility.

*For the year ended December 31, 2009.* Our net cash used in investing activities was RMB130.7 million in 2009. This net cash outflow primarily reflected (i) the payment made for the purchase of land use rights and property, plant and equipment amounting to RMB115.1 million mainly with respect to our Sichuan production facility; and (ii) deposits paid for plant and equipment amounting to RMB14.7 million with respect to our Sichuan production facility.

*For the year ended December 31, 2008.* Our net cash used in investing activities was RMB124.7 million in 2008. This net cash outflow primarily reflected (i) the payment made for the purchase of land use rights and property, plant and equipment amounting to RMB107.3 million with respect to the purchase of land for our Sichuan production facility and the purchase of equipment mainly for our Tianjin production facility; and (ii) deposits paid for plant and equipment amounting to RMB18.5 million with respect to our Sichuan production facility.

### *Cash flows from financing activities*

*For the five months ended May 31, 2011.* Our net cash generated from financing activities amounted to RMB141.6 million for the five months ended May 31, 2011, which was primarily due to the net proceeds from the Pre-IPO Investment of RMB139.1 million (equivalent to HK\$164.8 million based on the specified exchange rate of HK\$1.00 to RMB0.8440) and proceeds from our bank borrowings of RMB90.0 million, partially offset by repayment of bank borrowings of RMB43.0 million and the interim dividend we declared and paid in February 2011 for the year ending December 31, 2011, amounting to RMB40.0 million.

*For the five months ended May 31, 2010.* Our net cash used in financing activities amounted to RMB5.7 million for the five months ended May 31, 2010, representing primarily repayments of borrowings of RMB20.0 million, partially offset by proceeds from bank borrowings of RMB13.0 million.

*For the year ended December 31, 2010.* Our net cash used in financing activities was RMB56.9 million in 2010, representing primarily proceeds from bank borrowings of RMB92.0 million, and partially offset by repayment of bank borrowings of RMB57.5 million and dividends paid of RMB76.7 million.

*For the year ended December 31, 2009.* Our net cash generated from financing activities was RMB10.8 million in 2009, representing primarily proceeds from bank borrowings of RMB102.5 million, and partially offset by repayment of bank borrowings of RMB82.5 million.

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For the year ended December 31, 2008. Our net cash generated from financing activities was RMB7.5 million in 2008, representing primarily proceeds from bank borrowings of RMB37.5 million and partially offset by repayment of bank borrowings of RMB20.0 million and dividends paid of RMB10.0 million.

### NET CURRENT (LIABILITIES)/ASSETS

Details of our current assets and liabilities at each of the indicated balance sheet dates are as follows:

|   | As of December 31, |                 |                 | As of           | As of                 |
|---|--------------------|-----------------|-----------------|-----------------|-----------------------|
|   | 2008               | 2009            | 2010            | May 31,<br>2011 | September 30,<br>2011 |
|   |                    |                 |                 |                 | (unaudited)           |
|   | (RMB in thousands) |                 |                 |                 |                       |
| <b>Current assets:</b>                            |                    |                 |                 |                 |                       |
| Inventories . . . . .                             | 77,506             | 61,497          | 76,860          | 78,560          | 55,916                |
| Trade receivables . . . . .                       | 58,828             | 106,572         | 147,615         | 210,881         | 161,279               |
| Prepayments and other<br>receivables . . . . .    | 13,276             | 10,700          | 31,968          | 39,071          | 34,752                |
| Pledged bank deposits . . . . .                   | 10,485             | 16,653          | 27,904          | 29,073          | 20,536                |
| Cash and cash equivalents . . . . .               | 34,311             | 10,879          | 18,236          | 146,005         | 122,523               |
|   | 194,406            | 206,301         | 302,583         | 503,590         | 395,006               |
| <b>Current liabilities:</b>                       |                    |                 |                 |                 |                       |
| Trade and other payables . . . . .                | 171,525            | 162,920         | 229,684         | 257,761         | 177,833               |
| Dividend payable . . . . .                        | 180                | 180             | -               | -               | -                     |
| Borrowings . . . . .                              | 37,500             | 57,500          | 92,000          | 139,000         | 139,000               |
| Current income tax liabilities . . . . .          | 5,873              | 33,353          | 11,340          | 11,122          | 8,263                 |
|   | 215,078            | 253,953         | 333,024         | 407,883         | 325,096               |
| <b>Net current (liabilities)/assets . . . . .</b> | <b>(20,672)</b>    | <b>(47,652)</b> | <b>(30,441)</b> | <b>95,707</b>   | <b>69,910</b>         |

Our net current liabilities positions in 2008, 2009 and 2010 were mainly due to the fact that our business operations were expanding rapidly during those years. We constructed our Sichuan production facility as part of our production expansion plan and we mainly financed the development of our Sichuan production facility using our internal cash resources and bank borrowings from 2008 to 2010. As of May 31 and September 30, 2011, we had net current assets of RMB95.7 million and RMB69.9 million, respectively. The key components of our current assets as of September 30, 2011, being the latest practicable date for determining our net current assets, included trade receivables, cash and cash equivalents and inventories. The key components of our current liabilities as of the same date included trade and other payables and borrowings.

### WORKING CAPITAL

We have funded our working capital requirements through a combination of cash inflow from our operations, bank borrowings and capital contributions from our Shareholders. We recorded net current liabilities as of December 31, 2008, 2009 and 2010. The construction of our Sichuan production facility

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as part of our production expansion plan resulted in a large amount of capital expenditures in 2008, 2009 and 2010, which was partially funded by incurring short-term bank borrowings. However, we recorded operating cash inflows during the Track Record Period, in the amount of RMB103.4 million, RMB96.5 million, RMB165.5 million and RMB92.9 million for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. As of May 31, 2011, we recorded net current assets of RMB95.7 million, and as of September 30, 2011, we had unutilized banking facilities in the amount of RMB138.7 million. Taking into account the net proceeds we received in March 2011 from the Pre-IPO Investment of approximately RMB139.1 million (equivalent to HK\$164.8 million based on the specified exchange rate of HK\$1.00 to RMB0.8440), our estimated net proceeds from the Global Offering of approximately HK\$541.9 million, based on the Offer Price of HK\$2.65 per Share (assuming the Over-allotment Option is not exercised), banking facilities available to us and cash flows from our operations, our Directors believe that we have sufficient working capital to service our bank borrowings and our capital commitments, and to satisfy our reasonably foreseeable cash requirements in our operations for at least the next 12 months from the date of this prospectus. The basis of our Directors' conclusion includes, but is not limited to, (i) the forecast of demand in our products based on the Chinese economy's expected growth, (ii) the assumption that we can successfully execute our business strategies, (iii) our planned capital expenditures, (iv) the assumption that there will be no material changes in our ability to manage our working capital, and (v) the assumption that there will be no material change in our operating environment in the PRC or other countries to which we export our products.

### CAPITAL EXPENDITURES

#### *Historical Capital Expenditures*

We regularly make capital expenditures to expand our operations, maintain our equipment and increase our operating efficiency. The following table sets forth our historical capital expenditures for the periods indicated:

|  | Year ended December 31, |                |                | Five months<br>ended May 31, |
|--|-------------------------|----------------|----------------|------------------------------|
|  | 2008                    | 2009           | 2010           | 2011                         |
|  | (RMB in thousands)      |                |                |                              |
| Property, plant and equipment and land<br>use rights . . . . . | 125,842                 | 129,846        | 104,324        | 107,007                      |
| <b>Total . . . . .</b>   | <b>125,842</b>          | <b>129,846</b> | <b>104,324</b> | <b>107,007</b>               |

#### *Planned Capital Expenditures*

Our capital expenditures are expected to primarily consist of expenditures related to the construction of additional production facilities, and upgrading and expanding existing production facilities. We intend to invest approximately RMB550 million to construct a production facility in Chuzhou, Anhui Province by utilizing partial net proceeds from the Global Offering and the Pre-IPO Investment, and cash generated from our operations. The parcel of land in Chuzhou, Anhui Province which we own for the construction of our Anhui production facility has a total site area of approximately 133,332 square meters, and we commenced construction of our Anhui production facility in August 2011. We plan to start manufacturing primarily jelly snacks and jelly beverages at our Anhui production facility in 2013. Upon full production, the Anhui production facility is expected to have a production capacity of 90,000 tons of jelly products annually.



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In addition, we also plan to invest approximately RMB450 million to upgrade our production equipment and technology and expand our existing production capacities at our Tianjin production facility by utilizing partial net proceeds from the Global Offering and the Pre-IPO Investment, as well as cash generated from our operations. The production capacity of our Tianjin production facility is expected to increase from 55,000 tons to over 100,000 tons of jelly products in the next five years through expansion of this facility.

Furthermore, we are in the process of expanding the jelly products production capacity at our Sichuan production facility by 30,000 tons per year to 80,000 tons per year, and the expansion is expected to be completed in early 2012. We expect the cost of the expansion will amount to approximately RMB70 million when completed. We have been funding and will continue to fund this expansion project with cash generated from our operations, and we may utilize banking facilities available to us if necessary.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in China and the world, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in the PRC and other factors. We may also pursue new expansion through internal development, acquisitions of existing operations, investments in other businesses, or joint ventures with third parties.

### CERTAIN BALANCE SHEET ITEMS

#### *Inventories*

Our inventories comprise raw materials (including packaging materials) and finished goods, which we store in our own warehouses. We have not experienced any material shortage of inventory during the Track Record Period.

The following table sets forth our inventory balance as of the dates indicated:

|   | As of December 31, |               |               | As of May 31, |
|---|--------------------|---------------|---------------|---------------|
|   | 2008               | 2009          | 2010          | 2011          |
|   | (RMB in thousands) |               |               |               |
| Raw materials <sup>(1)</sup> . . . . .  | 38,003             | 36,302        | 51,348        | 64,818        |
| Finished goods <sup>(2)</sup> . . . . . | 39,503             | 25,195        | 25,512        | 13,742        |
| <b>Total</b> . . . . .                  | <b>77,506</b>      | <b>61,497</b> | <b>76,860</b> | <b>78,560</b> |

Notes:

- (1) Raw materials mainly represent raw materials used in our production such as packaging materials, sugar, canned fruit, jelly powder and other additives such as flavoring essence.
- (2) Finished goods comprises our finished jelly products, confectionary products and powdered milk tea.

Our inventories increased by 2.2% to RMB78.6 million as of May 31, 2011 from RMB76.9 million as of December 31, 2010. The increase was primarily due to an increase in raw materials as we purchased a sizeable amount of inventories at the end of May 2011, largely offset by a decrease in finished products. As of December 31, 2010, we had a higher amount of finished goods on hand to accommodate the expected increased sales during the 2011 Chinese New Year holiday period.



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Our inventories increased by 25.0% to RMB76.9 million as of December 31, 2010 from RMB61.5 million as of December 31, 2009. The increase was primarily attributable to an increase in raw materials used as a result of an increase in our operating scale as our Sichuan production facility commenced commercial production.

Our inventories decreased by 20.7% to RMB61.5 million as of December 31, 2009 from RMB77.5 million as of December 31, 2008. The decrease was primarily attributable to a lower level of finished products we accumulated at the end of 2009 as compared to the end of 2008 due to the timing of the Chinese New Year holiday period. In 2009, the Chinese New Year fell in the first week of February, and therefore we accumulated more finished products at the end of 2008 to accommodate the expected increase in demand during the holiday season. However, in 2010, the Chinese New Year fell relatively later, in the third week of February, which gave us sufficient time to prepare for the expected increase in demand and obviated the need for us to start accumulating finished products at the end of 2009. Our level of finished products as of December 2009 and 2010 was relatively stable even though Chinese New Year in 2011 fell in the first week of February because, even though we started to accumulate finished goods inventory at the end of 2010 to accommodate the expected increase in demand during the 2011 Chinese New Year period, strong demand at the end of 2010 consumed much of our finished goods inventory.

For the year ended December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011, our inventory turnover days were 25 days, 29 days, 29 days and 23 days, respectively. We calculate the inventory turnover days using the average of the monthly ending inventory balances for the period, divided by cost of sales for the period, multiplied by the number of days for the relevant period (365 days for 2008, 2009 and 2010 and 151 days for the five months ended May 31, 2011). Inventory turnover days increased slightly in 2009 compared to 2008 because we purchased additional raw materials, such as packaging materials, sugar and canned fruits at the end of 2008 when the prices of raw materials were low following the onset of the global financial crisis in the fourth quarter of 2008. These raw materials are non-perishable and were consumed throughout the year resulting in slightly longer inventory turnover days in 2009.

As of the Latest Practicable Date, approximately 70% of the raw materials and all of the finished goods as of May 31, 2011 were utilized or sold.

### *Trade Receivables, Prepayments and Other Receivables*

Trade receivables mainly represent the balances due from our customers. We typically sell our products on credit and grant most of our customers credit terms ranging from 30 to 60 days depending on a number of factors, such as their credit history, scale of operation and financial resources. Only a small amount of our products are sold and delivered against cash payment. We grant credit terms of 90 days to our key account agents, given our key account customers usually require a credit term of up to 90 days in line with customary market practice. We typically assess our customers' creditworthiness by reviewing their past sales and payment trends. We grant our customers appropriate credit periods for settlement of orders taking into account seasonal demands, sales and their respective customer base. We also conduct a periodic review of the outstanding balances owing from our customers. For new customers and customers with smaller orders or smaller market share, we typically require cash against delivery. For larger customers or customers with larger market share and especially those with a longer and more reliable track record with us, we may grant more favorable credit terms, in the form of higher credit limits. When the outstanding balance owed to us by a particular customer is close to the credit limit granted to such customer, we will inform the customer accordingly, and request the customer to make payments to reduce the amount outstanding. All credit terms are recommended by our sales and marketing department and are subject to review and approval by our executive Director.

Prepayments and other receivables mainly represent prepayments made to suppliers of raw materials and prepaid advertising and promotional expenses.

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Other receivables mainly represent value-added tax recoverable, and rental income owed to us by a jointly controlled entity, an associated company and an Independent Third Party.

The following table sets forth our trade and other receivables of the dates indicated:

|   | As of December 31, |                |                | As of May 31,  |
|---|--------------------|----------------|----------------|----------------|
|   | 2008               | 2009           | 2010           | 2011           |
|   | (RMB in thousands) |                |                |                |
| Trade receivables . . . . .                 | 58,828             | 106,572        | 147,615        | 210,881        |
| Prepayments and other receivables . . . . . | 13,276             | 10,700         | 31,968         | 39,071         |
|   | <b>72,104</b>      | <b>117,272</b> | <b>179,583</b> | <b>249,952</b> |

Our trade receivables increased by 42.9% to RMB210.9 million as of May 31, 2011 from RMB147.6 million as of December 31, 2010. The increase was primarily due to an increase in sales and the longer credit term we granted to our key account agents and key account customers.

Our trade receivables increased by 38.5% to RMB147.6 million as of December 31, 2010 from RMB106.6 million as of December 31, 2009. The increase was primarily attributable to an increase in sales volume as a result of increased market demand and an expansion of our business scale.

Our trade receivables increased by 81.2% to RMB106.6 million as of December 31, 2009 from RMB58.8 million as of December 31, 2008. The increase was primarily attributable to an increase in sales volume as a result of increased market demand and an expansion of our business scale. We also offered some of our wholesale distributors more favorable credit terms of up to 60 days during peak seasons in order to consolidate our relationships with these distributors.

For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, our trade receivables turnover days were 30 days, 34 days, 33 days and 41 days, respectively. The increase in our trade receivables turnover days for the five months ended May 31, 2011 was primarily due to our commencement in 2011 of sales to key account agents and key account customers, to which we granted a longer credit term of 90 days. We believe that the increase in trade receivable days does not have a material adverse impact on our liquidity and cash flow. We calculate the trade receivables turnover days using the average of the monthly ending net trade receivable balances for the period, divided by revenue for the period, multiplied by the number of days for the relevant period (365 days for 2008, 2009 and 2010 and 151 days for the five months ended May 31, 2011).

The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

|                                 | As of December 31, |                |                | As of May 31,  |
|---------------------------------|--------------------|----------------|----------------|----------------|
|                                 | 2008               | 2009           | 2010           | 2011           |
|                                 | (RMB in thousands) |                |                |                |
| Less than 30 days . . . . .     | 53,926             | 83,715         | 133,161        | 123,129        |
| Between 31 to 90 days . . . . . | 4,902              | 22,857         | 14,454         | 87,752         |
|                                 | <b>58,828</b>      | <b>106,572</b> | <b>147,615</b> | <b>210,881</b> |

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We have evaluated the credit situation of our specific customers to which such receivables relate and expect to fully recover such receivables. During the Track Record Period, we did not experience significant difficulties in collecting our trade receivables, and as a result did not make any provision for impairment of trade receivables. Based on the foregoing, we believe that our credit management and policies on making provisions are appropriate. As of the Latest Practicable Date, substantially all of the trade receivables as of May 31, 2011 were settled.

### *Trade and Other Payables*

Trade payables mainly represent the balances due to our suppliers of raw materials to which we are generally granted credit terms ranging from 30 to 60 days. Bills payable mainly represent purchases of raw materials settled by bank bills. Other payables mainly represent sales rebates accrued and yet to be paid to our wholesale distributors, accrued expenses in relation to employee wages, salaries and bonuses yet to be paid and other tax payables.

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

|  | As of December 31, |                |                | As of May 31,  |
|--|--------------------|----------------|----------------|----------------|
|  | 2008               | 2009           | 2010           | 2011           |
|  | (RMB in thousands) |                |                |                |
| <b>Trade payables:</b>                           |                    |                |                |                |
| Third parties . . . . .                          | 92,547             | 87,094         | 114,509        | 128,622        |
| A jointly controlled entity . . . . .            | 4,019              | –              | –              | –              |
|  | 96,566             | 87,094         | 114,509        | 128,622        |
| <b>Bills payable:</b> . . . . .                  | 34,950             | 31,710         | 67,548         | 83,563         |
|  | 131,516            | 118,804        | 182,057        | 212,185        |
| <b>Other payables:</b>                           |                    |                |                |                |
| Amount due to an associated company . . . . .    | –                  | 272            | –              | –              |
| Accrued sales rebates . . . . .                  | 15,089             | 16,496         | 17,676         | 21,112         |
| Other accrued expenses . . . . .                 | 13,172             | 14,109         | 17,749         | 15,640         |
| Directors' fees and emoluments payable . . . . . | 7,327              | 7,875          | 4,282          | 4,904          |
| Sundry creditors . . . . .                       | 4,421              | 5,364          | 7,920          | 3,920          |
| <b>Trade and other payables</b> . . . . .        | <b>171,525</b>     | <b>162,920</b> | <b>229,684</b> | <b>257,761</b> |

Our trade payables increased by 12.3% to RMB128.6 million as of May 31, 2011 from RMB114.5 million as of December 31, 2010. The increase was primarily due to our purchase of a sizeable amount of raw materials at the end of May 2011 to satisfy our anticipated production needs. As of the Latest Practicable Date, approximately 70% of the raw materials as of May 31, 2011 were utilized.

Our trade payables increased by 31.5% to RMB114.5 million as of December 31, 2010 from RMB87.1 million as of December 31, 2009. The increase was primarily attributable to increased purchase of raw materials as a result of the commencement of production at our Sichuan production facility.

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## FINANCIAL INFORMATION

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Our trade payables decreased by 9.8% to RMB87.1 million as of December 31, 2009 from RMB96.6 million as of December 31, 2008. The decrease was primarily attributable to a relative decrease in raw material purchases towards the end of 2009. We purchased more raw materials towards the end of 2008 compared to the same period in 2009 because raw materials prices were relatively low in the fourth quarter of 2008 following the economic downturn in China. This resulted in relatively higher trade and other payables as of December 31, 2008 compared to December 31, 2009.

Our bills payable increased by 23.7% to RMB83.6 million as of May 31, 2011 from RMB67.5 million as of December 31, 2010. The increase was primarily due to our increased use of bills payable to enhance our working capital management.

Our bills payable increased by 113.0% to RMB67.5 million as of December 31, 2010 from RMB31.7 million as of December 31, 2009. The increase was primarily attributable to increased raw materials purchased in line with our expanded scale of operations, as well as an increase in our available bank facilities, which provided us with a higher credit limit for bank bills.

Our bills payable decreased by 9.3% to RMB31.7 million as of December 31, 2009 from RMB35.0 million as of December 31, 2008. The decrease was primarily attributable to the same reason that our trade payables decreased as of December 31, 2009 as compared to December 31, 2008.

Our other payables increased by 10.3% from RMB40.0 million as of December 31, 2008 to RMB44.1 million as of December 31, 2009, and further increased by 8.0% to RMB47.6 million as of December 31, 2010. The steady increase was primarily attributable to an increase in sales rebates in line with our increased sales, as well as an increase in value added tax payable in line with our increase in operating scale. Our other payables decreased slightly by 4.3% to RMB45.6 million as of May 31, 2011 from RMB47.6 million as of December 31, 2010.

For the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, our trade payables turnover days were 96 days, 84 days, 85 days and 89 days, respectively. We calculate the trade payables turnover days using the average of the monthly trade payables balances for the period, divided by the purchases for the period, multiplied by the number of days for the relevant period (365 days for 2008, 2009 and 2010 and 151 days for the five months ended May 31, 2011). Trade payables turnover days decreased in 2009 compared to 2008 primarily due to the fact that we purchased a larger amount of raw materials at the end of 2008 due to the lower market price of raw materials following the onset of the economic slowdown in China in the fourth quarter of 2008.

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

|                                 | As of December 31, |               |                | As of May 31,  |
|---------------------------------|--------------------|---------------|----------------|----------------|
|                                 | 2008               | 2009          | 2010           | 2011           |
|                                 | (RMB in thousands) |               |                |                |
| Less than 30 days . . . . .     | 62,559             | 61,134        | 92,329         | 104,481        |
| Between 31 to 90 days . . . . . | 33,207             | 25,283        | 20,624         | 23,109         |
| Over 90 days . . . . .          | 800                | 677           | 1,556          | 1,032          |
|                                 | <b>96,566</b>      | <b>87,094</b> | <b>114,509</b> | <b>128,622</b> |

## FINANCIAL INFORMATION

As of December 31, 2008, 2009 and 2010 and for the five months ended May 31, 2011, our bills payable had an average maturity period of within six months.

### RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in Note 35(a) and (c) to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. Except for the key management personnel compensation which will continue after the Listing, other related party transactions (including purchases of finished goods from a jointly controlled entity and rental income from an associated company and a jointly controlled entity) have been terminated before the Listing. The related party transaction set out in Note 35(b) to the Accountant's Report in Appendix I to this prospectus was a one-off transaction and was terminated in February 2009.

### INDEBTEDNESS

#### *Borrowings*

As of September 30, 2011, we had total borrowings of RMB139.0 million. The following table sets forth our bank borrowings as of the dates indicated:

|  | As of December 31,   |                      |                      | As of                 | As of                 |
|--|----------------------|----------------------|----------------------|-----------------------|-----------------------|
|  | 2008                 | 2009                 | 2010                 | May 31,<br>2011       | September 30,<br>2011 |
|  |                      |                      |                      |                       | (unaudited)           |
|  | (RMB in thousands)   |                      |                      |                       |                       |
| Short-term secured bank borrowings . . . . .   | 37,500               | 57,500               | 92,000               | –                     | –                     |
| Short-term unsecured bank borrowings . . . . . | –                    | –                    | –                    | 139,000               | 139,000               |
| <b>Total borrowings . . . . .</b>              | <b><u>37,500</u></b> | <b><u>57,500</u></b> | <b><u>92,000</u></b> | <b><u>139,000</u></b> | <b><u>139,000</u></b> |

As of December 31, 2008, 2009 and 2010, May 31, 2011 and September 30, 2011, our outstanding borrowings were RMB37.5 million, RMB57.5 million, RMB92.0 million, RMB139.0 million and RMB139.0 million, respectively. Our borrowings increased in 2008, 2009, 2010 and the five months ended May 31, 2011, primarily attributable to an increase in bank borrowings to satisfy the working capital requirements of the construction of our Sichuan production facility. Our borrowings for the nine months ended September 30, 2011 were also in part attributable to the purchase of land use rights in connection with a parcel of land in Anhui Province on which we have commenced construction of our Anhui production facility and the deposits for property, plant and equipment.

As of December 31, 2008, 2009 and 2010, May 31, 2011 and September 30, 2011, the weighted average effective interest rates of our short-term bank borrowings were 7.65%, 5.03%, 5.54%, 6.03% and 6.29%, respectively.

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## FINANCIAL INFORMATION

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Certain short-term bank borrowings of our subsidiary, LBXX Fujian, are subject to financial covenants. As of each of December 31, 2008, 2009 and 2010, LBXX Fujian had drawn down on its bank loans in breach of certain financial covenants, under which LBXX Fujian was required to maintain a debt ratio of no more than 50%, a current ratio of no lower than 1.0 and a quick ratio of no lower than 0.8. As of December 31, 2008, 2009 and 2010, LBXX Fujian's debt ratio was 46%, 51% and 56% respectively, current ratio was 0.91, 0.84 and 0.98 respectively, and quick ratio was 0.58, 0.60 and 0.83 respectively, and certain of them were in breach of the covenants stipulated by the loan agreements. The breaches were mainly because of an increase in bank borrowings primarily used to fund the construction of the Sichuan facility from 2008 to 2010. Due to the breaches of these financial covenants, the lending banks were contractually entitled to request early repayment of the outstanding amount of the loans, which amounted to RMB37.5 million, RMB57.5 million and RMB43.0 million as of December 31, 2008, 2009 and 2010, respectively. However, the lending banks did not request early repayment of these outstanding bank borrowings, and these amounts were subsequently repaid on their respective maturity dates. On March 4, 2011, LBXX Fujian obtained a waiver from the lending bank in respect of breach of financial covenant requirements for the outstanding bank borrowing of RMB43 million as of December 31, 2010. During the five months ended May 31, 2011, LBXX Fujian obtained bank borrowings of RMB32 million from the same bank which were also subject to certain financial covenants, and LBXX Fujian was in breach of one of the financial covenant requirement. LBXX Fujian was in compliance of the financial covenant requirement as of May 31, 2011, and on August 17, 2011, LBXX Fujian obtained a waiver from the lending bank in respect of breach of the financial covenant requirement before May 31, 2011 for the outstanding bank borrowings of RMB32 million. As of the Latest Practicable Date, we had not received indications from the lending bank that it intended on requiring early repayment of the outstanding bank borrowings.

In addition, LBXX Fujian had a short-term bank borrowing from another bank amounting to RMB30.0 million as of May 31, 2011. The loan agreement relating to such borrowing contains a cross-default provision, pursuant to which the lending bank was entitled to request early repayment of the outstanding amount as a result of LBXX Fujian's non-compliance of the aforementioned financial covenants. The lending bank did not request early repayment before the loan was subsequently repaid on its maturity date in August 2011.

We believe that we can avoid future breaches of any relevant financial covenants before December 31, 2011 because of (i) the completion of our Sichuan facility construction in 2010, (ii) funds raised through our Pre-IPO Investment, and (iii) projected cash generated from operating activities. To prevent similar breaches in the future, we have assigned an account manager with the duty of monitoring the financial status of the Group to ensure compliance with financial covenants under our loan agreements. The account manager is also responsible for updating the Board on a monthly basis on financial covenants compliance.

As of December 31, 2008 and 2009, our short-term bank borrowings were secured by a corporate guarantee from a third party. As of December 31, 2010, our short-term bank borrowings were secured by a corporate guarantee and personal guarantees granted by a number of our Directors in favor of the lending banks. Such corporate guarantee and personal guarantees granted by our Directors were subsequently released in March 2011.

Our gearing ratio, as calculated by dividing our total borrowings by our total equity, was 7.2%, 9.9%, 14.1% and 16.0% as of December 31, 2008, 2009 and 2010 and May 31, 2011, respectively. Increase in gearing ratio from 2008 to 2010 was primarily attributable to an increase in bank borrowings to satisfy the capital expenditure requirements for the construction of our Sichuan production facility.

## FINANCIAL INFORMATION

As of September 30, 2011, being the latest practicable date for determining indebtedness, we had aggregate banking facilities of RMB266.7 million available, of which RMB128.0 million was utilized and RMB138.7 million remained unutilized. Although we have in place agreed credit limits from our banking facilities, consistent with our experience of Chinese lending practice, the terms of any drawdown thereunder are not set and remain to be agreed prior to any drawdown.

### *Contingent Liabilities*

We did not have any outstanding loan capital, debt securities, debentures, bank overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments as of September 30, 2011, being the latest practicable date for determining our indebtedness. As of the same date, we had not guaranteed the indebtedness of any independent third parties.

## CONTRACTUAL OBLIGATIONS

### *Capital Commitments*

We have entered into production facility construction contracts with respect to our new production facility to be constructed in Chuzhou, Anhui Province.

The table below sets forth the total amount of our capital commitments as of the date indicated:

|   | As of December 31, |               |                | As of May 31,  |
|---|--------------------|---------------|----------------|----------------|
|   | 2008               | 2009          | 2010           | 2011           |
|   | (RMB in thousands) |               |                |                |
| Property, plant and equipment – contracted but not provided for . . . . .                       | 79,975             | 34,093        | 94,436         | 93,301         |
| Property, plant and equipment and land use rights – authorized but not contracted for . . . . . | –                  | –             | 229,500        | 181,394        |
|   | <u>79,975</u>      | <u>34,093</u> | <u>323,936</u> | <u>274,695</u> |

### *Operating Lease Commitments*

We lease a number of properties, which have an average term of one to two years. The table below sets forth our commitment for rental payment as of the dates indicated:

|   | As of December 31, |            |            | As of May 31, |
|---|--------------------|------------|------------|---------------|
|   | 2008               | 2009       | 2010       | 2011          |
|   | (RMB in thousands) |            |            |               |
| Not later than one year . . . . .                           | 313                | 344        | 98         | 95            |
| Later than one year but not later than five years . . . . . | –                  | –          | 98         | 56            |
|   | <u>313</u>         | <u>344</u> | <u>196</u> | <u>151</u>    |



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## FINANCIAL INFORMATION

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### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the contractual obligations set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. We do not have any variable interests in any uncombined entity that provides financing, liquidity or credit support to us, or engages in leasing, hedging or research and development services with us.

### INFLATION AND DEFLATION RISK

According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 5.9% in the year ended December 31, 2008, but China experienced deflation of approximately 0.7% in the year ended December 31, 2009. According to the China Statistical Bureau, in the year ended December 31, 2010, China experienced inflation of approximately 3.3%. For the five months ended May 31, 2011, China experienced inflation of approximately 5.2% compared to the five months ended May 31, 2010. As of the date of this prospectus, we had not been materially affected by any inflation or deflation.

### MARKET RISKS

We are exposed to a variety of market risks in the normal course of business, including foreign exchange risk, credit risk, liquidity risk and interest rate risk, as set out below. We regularly monitor our exposure to these risks and as of the Latest Practicable Date, did not hedge or consider necessary to hedge any of these risks. However, our overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on our financial performance. Our board of Directors is responsible for setting the objectives and underlying principles of financial risk management.

#### *Credit Risk*

We are exposed to credit risk primarily arising from trade receivables and bank deposits. Trade receivables are substantially from wholesale distributors with good collection track records with us. For trade receivables, we adopt the policy of dealing only with customers of appropriate credit history to mitigate credit risks. Concentrations of credit risk with respect to trade receivables are limited due to our large number of customers. No doubtful debts were written off for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011. Our Directors believe that no significant credit risk is inherent in our trade receivables.

Bank deposits are mainly deposits with banks with good credit ratings assigned by international credit-rating agencies. For bank deposits, we adopt the policy of dealing only with high credit quality counterparties.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of the end of the reporting period in relation to each class of recognized financial assets was the carrying amounts of those assets as stated on our balance sheets.

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## FINANCIAL INFORMATION

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### *Liquidity Risk*

Our financial liabilities are all due within the next 12 months from the balance sheet date. We manage the liquidity risk by maintaining sufficient cash and banking facilities to enable us to meet our normal operating and capital commitments.

### *Interest Rate Risk*

Our interest rate risk relates primarily to our bank deposits and bank borrowings. We currently have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings. It is our policy to maintain an appropriate level between our borrowings so as to balance the fair value and cash flow interest rate risk. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We currently do not use any derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates. Please see Note 4 to the Accountant's Report included in Appendix I to this prospectus for further details.

### *Foreign Exchange Risk*

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect our financial results and cash flows. Substantially all of our sales, costs and expenses, assets and liabilities are denominated in Renminbi. As a result, our management does not believe we are currently exposed to significant foreign exchange rate risk. However, as we expand our operations, we may incur a significant amount of assets and liabilities in a currency other than the Renminbi. In this case, we would be exposed to risks related to the exchange rate and the currency in which our assets and liabilities is denominated. A depreciation of the Renminbi would require us to use more Renminbi funds to service the same amount of foreign currency liabilities. In addition, as the proceeds of the Global Offering will be in Hong Kong Dollars, any appreciation of the Renminbi against the Hong Kong Dollar will adversely affect the amount of proceeds we receive in terms of Renminbi. On the other hand, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our Shareholders subsequent to the Global Offering. We currently do not engage in hedging activities designed or intended to manage such exchange rate risk. Because the Renminbi is not freely convertible, our ability to reduce foreign exchange rate risk is limited.

## PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this prospectus. Vigers Appraisal And Consulting Limited, an independent property valuer, has valued our property interests as of August 31, 2011. The full text of their letters, summary of valuation and valuation certificates regarding such property interests are set out in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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A reconciliation of the net book value of the relevant property interests as of May 31, 2011 to their fair value as stated in Appendix IV to this prospectus is as follows:

|  | <u>RMB in thousands</u> |
|--|-------------------------|
| Net book value of properties as of May 31, 2011 (audited):           |                         |
| Land use rights . . . . .  | 156,174                 |
| Buildings . . . . .  | <u>321,838</u>          |
| Total as of May 31, 2011 . . . . .                                   | -----<br>478,012        |
| Movements during the three months ended August 31, 2011 (unaudited): |                         |
| Depreciation/amortization . . . . .                                  | <u>5,033</u>            |
| Net book value as of August 31, 2011 (unaudited) . . . . .           | 472,979                 |
| Valuation surplus as of August 31, 2011 . . . . .                    | <u>19,621</u>           |
| Valuation as of August 31, 2011 . . . . .                            | <u><u>492,600</u></u>   |

### PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

We forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III “— Profit Forecast” to this prospectus, the forecast of the Group’s consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 will not be less than RMB205.0 million (equivalent to HK\$251.2 million).

On a pro forma fully diluted basis, the unaudited forecast earnings per Share for the year ending December 31, 2011 will not be less than RMB0.182 (equivalent to HK\$0.223). This is made on the assumption that the Capitalization Issue and the Global Offering was completed on January 1, 2011 and a total of 1,125,600,000 Shares were in issue during the entire year. This calculation has not taken into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased by our Company pursuant to the general mandate or the Buyback Mandate.

### DIVIDENDS

During the Track Record Period, we declared and paid cash dividends of RMB10.1 million, nil, RMB76.7 million and RMB40.0 million to our Shareholders for the year ended December 31, 2008, 2009 and 2010 and the five months ended May 31, 2011, respectively. Subject to the Companies Act, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be paid out of profits of the Company available for distribution or contributed surplus in accordance with the Companies Act.

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## **FINANCIAL INFORMATION**

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Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. We may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our Shareholders; and
- any other factors which the Board may deem relevant.

After the Listing, our Directors intend to recommend for distribution no less than 20% of our profits available for distribution for each financial year. We will declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to our shareholders' approval.

### **NO MATERIAL ADVERSE CHANGE**

We confirm that there has been no material adverse change in our financial or trading position since May 31, 2011, being the date of the latest audited consolidated financial position of our Group as set out in the Accountant's Report in Appendix I to this prospectus.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

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

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets which has been prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on May 31, 2011. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of May 31, 2011 or at any future date. It is based on the consolidated net assets of the Group as of May 31, 2011 as shown in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below.

|  | Audited<br>consolidated net<br>tangible assets<br>of the Group<br>attributable to<br>equity holders<br>of the Company<br>as of May 31,<br>2011 <sup>(1)</sup> | Estimated net<br>proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited pro<br>forma adjusted<br>net tangible<br>assets<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited pro forma<br>adjusted net tangible<br>assets per Share |                       |
|--|---|---|---|--|-----------------------|
|  | (RMB in thousands)  |   |   | (RMB) <sup>(3)</sup>   | (HK\$) <sup>(6)</sup> |
| Based on an Offer Price of<br>HK\$2.65 per Share . . . . . | 868,410   | 442,190   | 1,310,600   | 1.16   | 1.43                  |

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as of May 31, 2011 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as of May 31, 2011 of RMB868,410,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.65 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,125,600,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering has been completed on May 31, 2011 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, any Share which may be issued upon the exercise of the options granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by our Company pursuant to the general mandate or the Buyback Mandate.
- (4) As of August 31, 2011, the Group's land use rights and buildings interests were revalued by Vigers Appraisal and Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation Report. The revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately RMB19,621,000. Such revaluation surplus has not been included in the Group's consolidated financial information as of May 31, 2011. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, and additional depreciation of RMB1,319,000 per annum would be charged against the consolidated statement of comprehensive income.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to May 31, 2011.
- (6) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2255. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the section headed “Business — Our Business Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The net proceeds of the Global Offering (excluding the net proceeds from the sale of the Sale Shares) we expect to receive (after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$541.9 million, based on the Offer Price of HK\$2.65 per Share. If the Over-allotment Option is exercised in full, we estimate the net proceeds to us from the Global Offering will be HK\$649.5 million.

Assuming the Over-allotment Option is not exercised, the net proceeds of the Global Offering we expect to receive would be approximately HK\$541.9 million which we presently plan to use as follows:

- Approximately 50%, or approximately HK\$270.9 million, will be used for capital expenditure for plant and equipment. We plan to increase our production capacity by constructing new production facilities and replacing the existing production equipment with more advanced models;
- Approximately 20%, or approximately HK\$108.4 million, will be used to further enhance our brand awareness via various advertising and promotional activities such as prime-time television advertisements, on-site displays, advertisements on delivery trucks and festive promotional activities;
- Approximately 10%, or approximately HK\$54.2 million, will be used to support the expansion of our distribution network by paying the initial start-up fees and other subsequent handling fees charged by new retail outlets that we penetrate into, as well as the in-store renovation and display costs in such retail outlets. We also plan to expand the operating scale of our sales and marketing department by employing experienced personnel in order to strengthen our collaboration with an increasing number of wholesale distributors and key account customers;
- Approximately 10%, or approximately HK\$54.2 million, will be used to improve our research and development capabilities, and to develop and promote new products. We plan to continuously launch new products with health and other features including low-sugar or low-calorie jelly products. We also plan to arrange various targeted advertising and marketing activities to promote our new products; and
- Approximately 10%, or approximately HK\$54.2 million, will be used for working capital and general corporate purposes.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. Based on the Offer Price of HK\$2.65 per Share, the Selling Shareholders will receive approximately HK\$135.5 million, after deducting underwriting fees and other expenses relating to the Global Offering payable by the Selling Shareholders.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$107.6 million, and our Directors intend to apply all the additional net proceeds proportionately to the above items.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.



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## UNDERWRITING

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### UNDERWRITERS

#### *Hong Kong Underwriters*

##### **Joint Lead Managers**

Citigroup Global Markets Asia Limited  
BOCI Asia Limited  
Guotai Junan Securities (Hong Kong) Limited

##### **Co Managers**

Head & Shoulders Securities Limited  
KGI Capital Asia Limited  
Yuanta Securities (Hong Kong) Company Limited

#### *International Underwriters*

Citigroup Global Markets Limited  
BOCI Asia Limited  
Guotai Junan Securities (Hong Kong) Limited  
Haitong International Securities Company Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### *Hong Kong Public Offering*

##### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 28,200,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the Listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

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## UNDERWRITING

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### Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development concerning or relating to:
  - (i) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, Canada, the United Kingdom and any member of the European Union, Japan, Singapore, Bermuda or any other jurisdiction relevant to our Company and its subsidiaries (each a “Relevant Jurisdiction”); or
  - (ii) any local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, or any monetary or trading settlement system or matters and/or disaster (including, without limitation, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or an appreciation of the Renminbi against the currency of any of the United States, the European Union, the United Kingdom or Japan) in or affecting any Relevant Jurisdiction); or
  - (iii) any material litigation or claim being threatened or instigated against our Company or any of its subsidiaries; or
  - (iv) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes or lock-outs (whether or not covered by insurance), fire, explosion, flooding, epidemic, outbreak of an infectious disease, civil commotion, acts of war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared), acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency or war, riot, public disorder, accident or interruption or delay in transportation, economic sanctions or acts of God) in or affecting any Relevant Jurisdiction; or
  - (v) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
  - (vi) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Stock Market, the Toronto Stock Exchange, the Singapore Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange or (B) a general moratorium on commercial banking activities in New York,

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## UNDERWRITING

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London, Toronto, Hong Kong, Japan, Singapore, the European Union or the PRC declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or

- (vii) any taxation or exchange controls (or the implementation of any exchange control, currency exchange rates or foreign investment regulations) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (viii) any material change or development involving a material prospective change on the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Group; or
- (ix) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any Director in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or
- (x) any material contravention by any member of our Group of the Companies Ordinance or the Listing Rules; or
- (xi) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Joint Bookrunners, materially adverse to the marketing for or implementation of the Global Offering; or
- (xii) any material adverse change or development involving a reasonably likely material adverse change of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xiii) any demand by creditors for repayment of indebtedness or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group;

and which, in any such case and in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the other Hong Kong Underwriters),

- (A) is or may or will be or is reasonably likely to be materially adverse to, or materially and prejudicially affect, the general affairs or management or the business or financial or trading or other condition or prospects of our Company and its subsidiaries taken as a whole or to any present or prospective shareholders of our Company in its capacity as such; or

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## UNDERWRITING

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- (B) has or may have or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or make it impracticable, inexpedient or inadvisable for any part of the Hong Kong Underwriting Agreement, the International Underwriting Agreement, the Hong Kong Public Offering or the International Offering to be performed or implemented as envisaged or which prevents the processing of applications and/or payments pursuant to the International Offering or pursuant to the underwriting thereof; or
  - (C) makes or will or is reasonably likely to make it impracticable, inexpedient or inadvisable to proceed with or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice or the offering circular in relation to the Global Offering; or
- (b) there has come to the notice of the Joint Bookrunners or any of the Hong Kong Underwriters:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect, or any forecasts, estimates, expression of opinion, intention or expectation expressed in such documents are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
  - (iii) either (i) there has been a material breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by our Company, Alliance Holding, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong (the “Warrantors”); or (ii) any of the representations, warranties and undertakings given by the Warrantors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, inaccurate or misleading in any material respect; or
  - (iv) any event, act or omission which gives or may give rise to any material liability of the Warrantors pursuant to the indemnities given by the Warrantors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or
  - (v) any material breach of any of the obligations of the Warrantors under the Hong Kong Underwriting Agreement; or
  - (vi) any material adverse change or prospective material adverse change in the assets, liabilities, conditions, profits, losses, business, properties, results of operations, business affairs, the financial or trading position or prospects or performance or management of our Company and its subsidiaries taken as a whole; or

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## UNDERWRITING

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- (vii) any of our reporting accountant, our property valuer, our Bermuda legal advisers or our PRC legal advisers has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (viii) approval for the listing of, and permission to deal in the Offer Shares, including any additional Shares sold pursuant to the exercise of the Over-allotment Option, the Shares in issue and any Shares which may be issued upon the exercise of options granted and to be granted pursuant to the Share Option Scheme on the Stock Exchange, is refused or not granted, other than subject to customary conditions on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) our Company withdraws any of this prospectus, the Applications Forms, the preliminary offering circular or the final offering circular or the Global Offering;

then the Joint Bookrunners may, on behalf of the Hong Kong Underwriters, in its sole discretion and upon giving notice to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

### **Undertakings**

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Share Option Scheme.

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters that, except as pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or any share option schemes of any members of our Group, we will not, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) (subject to the requirements set out in the Listing Rules) and unless in compliance with the Listing Rules or otherwise permitted by the Stock Exchange, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date:

- (i) offer, accept subscription for, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of its share capital or other securities or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or other securities or any interests therein whether now owned or hereinafter acquired (the “Held Interests”));
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Held Interests; or

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## UNDERWRITING

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- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above, whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Held Interests, in cash or otherwise.

Each of our Controlling Shareholders has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering and if applicable, stock borrowing arrangements that may be entered into with the Stabilizing Manager or its affiliates, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”) (i) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, whether through a Controlling Shareholder or otherwise conditionally or unconditionally, or repurchase, any share or debt capital of our Company or other securities or any interest therein, including, but not limited to, any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share or debt capital; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share or debt capital of our Company or other securities or any interest therein; or (iii) offer or agree to enter into, any transaction with the same economic effect as any transaction described in limb (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above, whether any of the foregoing transactions described in limb (i), (ii) or (iii) above is to be settled by delivery of share or debt capital of our Company or other securities or any interest therein, in cash or otherwise; and will not enter into any of the foregoing transactions described in (i), (ii) or (iii) above, or agree or contract to or publicly announce into any such transaction whereby a Controlling Shareholder would cease to be a Controlling Shareholder of our Company during the second six month period immediately following the First Dealing Date (the “**Second Six-month Period**”). Each Controlling Shareholder further agrees that, in the event of an issue or disposal of any Shares or any interest therein during the Second Six-month Period, it will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Similar undertakings are expected to be given by us and our Controlling Shareholders to the International Underwriters under the International Underwriting Agreement.

In accordance with Rule 10.07(1)(a) of the Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option, (i) it will not, at any time during the period commencing from the date of this prospectus, and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) it will not, at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options,

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## UNDERWRITING

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rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be the controlling shareholder (as defined under the Listing Rules) of the Company. Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder (as defined under the Listing Rules) from using the shares owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Our Controlling Shareholder has further undertaken to the Stock Exchange that it will, within a period of twelve months from the Listing Date, immediately inform us and the Stock Exchange of:

- (a) any pledges or charges of any Shares or securities of the Company beneficially owned by it in favor of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of the Company so pledged or charged; and
- (b) any indication received by he/it, either verbal or written, from any pledgee or chargee of any Shares or other securities of the Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholder or their shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholder or its shareholders.

### *International Offering*

#### **International Underwriting Agreement**

In connection with the International Offering, the Company expects to enter into the International Underwriting Agreement with our Controlling Shareholders, the Selling Shareholders, the International Underwriters, the Sole Global Coordinator and the Joint Bookrunners. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, the Company will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement as described in “— Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings.”

Under the International Underwriting Agreement, the Company expects to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilizing Manager (after having consulted with, and obtaining the agreement of, the Joint Bookrunners (such agreement not to be unreasonably withheld)), on behalf of the International Underwriters at any time from the Listing Date, up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 42,300,000 Shares, representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price.



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## UNDERWRITING

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It is expected that our Controlling Shareholders will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in the Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement, which is described in “— Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings.”

### *Underwriting Commission and Expenses*

The Hong Kong Underwriters will receive a gross commission of 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters, the SFC transaction levies and Stock Exchange trading fees will be borne by our Company in relation to the Hong Kong Offer Shares and International Offer Shares but not the Sale Shares. In relation to the Sale Shares, the commissions payable to the Underwriters, the SFC transaction levies and Stock Exchange trading fees will be borne by the Selling Shareholders. All the seller and purchaser stamp duties, if any, in respect of the sale of the Sale Shares by the Selling Shareholders will be borne by the Selling Shareholders. The Company and the Selling Shareholders, on a pro-rata basis, may also in the Company’s sole discretion pay the Joint Bookrunners an additional incentive fee of up to 1% of the Offer Price multiplied by the total number of Offer Shares, to be allocated in such manner as the Company may determine. The legal and other professional fees and other expenses in connection with the Global Offering payable by the Company are estimated to be approximately HK\$32.0 million.

### *Hong Kong Underwriters’ Interests in the Company*

Save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

Following completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 28,200,000 New Shares (subject to adjustment) in Hong Kong as described under “Structure of the Global Offering — The Hong Kong Public Offering”; and
- the International Offering of 253,800,000 Shares comprising 197,400,000 New Shares and 56,400,000 Sale Shares (subject to adjustment and the Over-allotment Option), which are to be offered in the United States with QIBs in reliance on Rule 144A or other exemptions and outside the United States in reliance on Regulation S.

Citi is the Sole Global Coordinator and Sole Sponsor, Citi and BOCI are the Joint Bookrunners, and Citi, BOCI and Guotai Junan are the Joint Lead Managers of the Global Offering.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve private placements of the International Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares in jurisdictions outside the United States in offshore transactions in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective professional, institutional and other investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to adjustment as described in the section headed “Structure of the Global Offering — Pricing and Allocation.”

### PRICING AND ALLOCATION

The Offer Price is fixed at HK\$2.65. If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters) with the consent of the Company (for itself and on behalf of the Selling Shareholders) consider the number of Offer Shares being offered under the Global Offering that is stated in this prospectus may be reduced at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on December 2, 2011 cause to be published in The Standard (in English), the Hong Kong Economic Times (in Chinese) and on the Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company website ([www.lbxxgroup.com](http://www.lbxxgroup.com)) notice of the reduction in

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## STRUCTURE OF THE GLOBAL OFFERING

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the number of Offer Shares being offered under the Global Offering. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering is so reduced.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Joint Bookrunners.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on December 8, 2011 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.lbxxgroup.com](http://www.lbxxgroup.com).

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- the Listing Committee of the Stock Exchange granting the Listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be sold pursuant to the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme) (subject only to allotment and dispatch of the share certificates in respect

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## STRUCTURE OF THE GLOBAL OFFERING

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thereof and such other normal conditions acceptable to the Company and the Joint Bookrunners, on behalf of the Underwriters) not later than 8:00 a.m., December 9, 2011 (or such later date as the Company and the Joint Bookrunners on behalf of the Hong Kong Underwriters may agree) and such Listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;

- the execution and delivery of the International Underwriting Agreement; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in The Standard (in English), the Hong Kong Economic Times (in Chinese) and on the Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company website ([www.lbxxgroup.com](http://www.lbxxgroup.com)) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on December 8, 2011 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on December 9, 2011, if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

### THE HONG KONG PUBLIC OFFERING

The Company is initially offering 28,200,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 282,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2.5% of our total issued share capital immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares.

For allocation only, the 28,200,000 Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: Pool A comprising 14,100,000 Hong Kong Offer Shares and Pool B comprising 14,100,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5.0 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5.0 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 28,200,000 Shares initially comprised in the Hong Kong Public Offering (that is 14,100,000 Hong Kong Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 84,600,000, 112,800,000 and 141,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "Mandatory Reallocation." In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Bookrunners deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Bookrunners may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered. References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

The number of International Offer Shares to be initially offered for subscription or sale under the International Offering will be 253,800,000 Shares, comprising 197,400,000 New Shares and 56,400,000 Sale Shares, representing 90% of the Offer Shares under the Global Offering.

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

We are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager (after having consulted with, and obtaining the agreement of, the Joint Bookrunners (such agreement not to be unreasonably withheld)) on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Stabilizing Manager (after having consulted with, and obtaining the agreement of, the Joint Bookrunners (such agreement not to be unreasonably withheld)) will have the right to require the Company to allot and issue up to 42,300,000 additional Shares representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

### STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilizing Manager or any person acting for it may choose to borrow Shares from our Controlling Shareholder, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with our Controlling Shareholder will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from our Controlling Shareholder under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to our Controlling Shareholder or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to our Controlling Shareholder by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.



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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Citi, as Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 42,300,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the Securities and Futures Ordinance includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;



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## STRUCTURE OF THE GLOBAL OFFERING

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- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on December 30, 2011, being the last trading day before the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

The Company will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period. In connection with the Global Offering, the Stabilizing Manager (after having consulted the Joint Bookrunners) may over-allocate up to and not more than an aggregate of 42,300,000 Shares and cover such over-allocation by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 9, 2011, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on December 9, 2011.

### UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement.

We expect that the Company, the Selling Shareholders and the Controlling Shareholder will, on or about December 2, 2011, enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting" in this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares by means of **HK eIPO White Form**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Bookrunners (or its respective agents or nominees) may accept it at its discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Bookrunners, or the designated **HK eIPO White Form** Service Provider (where applicable) or our respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### CHANNELS TO APPLY FOR HONG KONG OFFER SHARES

You may apply for Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the **HK eIPO White Form** Service Provider, referred to herein as the “**HK eIPO White Form**” service; or
- **electronically instructing** HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form** Service or by giving **electronic application instructions** to HKSCC.

### WHICH APPLICATION CHANNEL YOU SHOULD USE

- Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **HK eIPO White Form** by submitting applications online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). Use **HK eIPO White Form** if you want the Hong Kong Offer Shares to be registered in your own name.
- Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.
- Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on November 29, 2011 until 12:00 noon on December 2, 2011, from:

*Any of the Following Addresses of the Hong Kong Underwriters*

Citigroup Global Markets Asia Limited, 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

or BOCI Asia Limited, 26th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong

or Guotai Junan Securities (Hong Kong) Limited, 27th Floor, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong

or Head & Shoulders Securities Limited, Room 1702, 17/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

or KGI Capital Asia Limited, 41st Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

or Yuanta Securities (Hong Kong) Company Limited, 23rd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited.

|                            | <u>Branch Name</u>    | <u>Address</u>  |
|----------------------------|-----------------------|---|
| Hong Kong Island . . . . . | Des Voeux Road Branch | Standard Chartered Bank Building,<br>4-4A, Des Voeux Road Central,<br>Central |
|                            | Causeway Bay Branch   | G/F, Yee Wah Mansion,<br>38-40A Yee Wo Street,<br>Causeway Bay                |
|                            | Aberdeen Branch       | Shop 4A, G/F,<br>Aberdeen Centre Site 5,<br>No.6 Nam Ning Street,<br>Aberdeen |

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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|                           | <u>Branch Name</u>               | <u>Address</u>  |
|---------------------------|----------------------------------|---|
| Kowloon . . . . .         | Kwun Tong Branch                 | 1A Yue Man Square,<br>Kwun Tong   |
|                           | Tsimshatsui Branch               | G/F, 10 Granville Road,<br>Tsimshatsui  |
|                           | Lok Fu Shopping Centre<br>Branch | Shop G101, G/F.,<br>Lok Fu Shopping Centre  |
|                           | Mei Foo Manhattan<br>Branch      | Shop Nos.07 & 09,<br>Ground Floor,<br>Mei Foo Plaza,<br>Mei Foo Sun Chuen                   |
| New Territories . . . . . | Metroplaza Branch                | Shop No. 175-176,<br>Level 1, Metroplaza,<br>223 Hing Fong Road,<br>Kwai Chung              |
|                           | Tuen Mun Town Plaza<br>Branch    | Shop No. G047-G052,<br>Tuen Mun Town Plaza Phase I,<br>Tuen Mun                             |
|                           | Tseung Kwan O Branch             | Shop G37-40, G/F,<br>Hau Tak Shopping Centre East Wing,<br>Hau Tak Estate,<br>Tseung Kwan O |

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch.

|                            | <u>Branch Name</u>     | <u>Address</u>                          |
|----------------------------|------------------------|---|
| Hong Kong Island . . . . . | Hong Kong Branch       | 20 Pedder Street, Central               |
|                            | Quarry Bay Sub-Branch  | G/F., 981 C, King's Road,<br>Quarry Bay |
|                            | Chaiwan Sub-Branch     | G/F., 121-121A Wan Tsui Road            |
|                            | North Point Sub-Branch | 442-444 King's Road                     |

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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|                           | <u>Branch Name</u>              | <u>Address</u>  |
|---------------------------|---------------------------------|---|
| Kowloon . . . . .         | Cheung Sha Wan Plaza Sub-Branch | Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road       |
|                           | Shamshuipo Sub-Branch           | G/F., Shop 1, Golden Centre, 94 Yen Chow Street               |
|                           | Hunghom Sub-Branch              | Flat/Rm A6, G/F., Wing Kwai Building, 1-3 Tak Man Street      |
|                           | Lam Tin Sub-Branch              | G/F., 63-65 Kai Tin Tower, Kai Tin Road, Lam Tin              |
|                           | Ngau Tau Kok Sub-Branch         | Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road |
| New Territories . . . . . | Tiu Keng Leng Sub-branch        | Unit L2-064 & 065, Metro Town Shopping Mall, 8 King Ling Road |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on November 29, 2011 to 12:00 noon on December 2, 2011 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

### WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

#### *WHITE or YELLOW Application Forms*

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on December 2, 2011, or, if the Application Lists are not open on that day, by the time and date stated in the section headed “Effect of bad weather conditions on the Opening of the Application Lists” below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed “Where to collect the Application Forms” at the following times:

**Tuesday, November 29, 2011 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, November 30, 2011 – 9:00 a.m. to 5:00 p.m.**  
**Thursday, December 1, 2011 – 9:00 a.m. to 5:00 p.m.**  
**Friday, December 2, 2011 – 9:00 a.m. to 12:00 noon**

### *Electronic Application Instructions to HKSCC*

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

**Tuesday, November 29, 2011 – 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, November 30, 2011 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Thursday, December 1, 2011 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Friday, December 2, 2011 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

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(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on November 29, 2011 until 12:00 noon on December 2, 2011 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on December 2, 2011 or if the Application Lists are not open on that day, by the time and date stated in the section headed “Effect of bad weather conditions on the Opening of the Application Lists” below.

### *HK eIPO White Form*

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) from 9:00 a.m. on November 29, 2011 until 11:30 a.m. on December 2, 2011 or such later time as described under the section headed “Effect of bad weather conditions on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on December 2, 2011, the last application day, or, if the Application Lists are not open on that day, then by the time and date stated in the section headed “Effect of bad weather conditions on the Opening of the Application Lists” below.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Application Lists*

The Application Lists will be opened from 11:45 a.m. to 12:00 noon on December 2, 2011, except as provided in the section headed “— Effect of bad weather conditions on the Opening of the Application Lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made before December 2, 2011.

### *Effect of Bad Weather Conditions on the Opening of the Application Lists*

The Application Lists will be opened between 11:45 a.m. and 12:00 noon on December 2, 2011, subject only to weather conditions. The Application Lists will not open in relation to the Hong Kong Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on December 2, 2011. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

## HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

### *Obtain a WHITE or YELLOW Application Form*

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheques or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Offer Shares you want to subscribe. Calculate the amount you must pay for the Offer Price of HK\$2.65 per Public Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 14,100,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 1,000 Shares. Application for more than 1,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, the Company and the Joint Bookrunners for the Hong Kong Public Offering (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Each Application Form must be accompanied by either one cheque or one banker's cashier order.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Horsford Nominees Limited – China Lifestyle Public Offer"; and
- be crossed "Account Payee Only."

Your application is liable to be rejected if your cheque does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to "Horsford Nominees Limited – China Lifestyle Public Offer"; and
- be crossed "Account Payee Only."

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements or is dishonored on its first presentation.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above.

Multiple or suspected multiple applications are liable to be rejected. Please refer to the section headed "How many applications you can make" below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You should note that by signing the Application Form, among other things:

- (i) you confirm that you have only relied on the information and representations in this prospectus in making your application and not on any other information or representation concerning us and you agree that neither we, the Selling Shareholders, the Joint Bookrunners, the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- (ii) you agree that the Company, the Selling Shareholders, the Joint Bookrunners, the Underwriters, and any of their respective directors, officers, employers, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares, nor otherwise participate in the International Offering; and
- (iv) you agree to disclose to us, the Hong Kong Share Registrar, the Sole Sponsor, receiving bankers, advisers, agents and the Joint Bookrunners, the Hong Kong Underwriters and their respective agents the personal data and any information which they require about you or the person(s) for whose benefit you have made this application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
  - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- **If you are applying as an individual CCASS Investor Participant:**
  - you must fill in your name and your Hong Kong identity card number; and
  - you must insert your CCASS Participant I.D. in the appropriate box.
- **If you are applying as a joint individual CCASS Investor Participant:**
  - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
  - you must insert your CCASS Participant I.D. in the appropriate box.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- **If you are applying as a corporate CCASS Investor Participant:**
  - you must insert your company name and your company’s Hong Kong business registration number; and
  - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Joint Bookrunners, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Bookrunners, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” an identification number for each beneficial owner.

### *Personal Data*

The section of the Application Form headed “Personal data” applies to any personal data held by the Joint Bookrunners, the Hong Kong Underwriters, the Company, the Hong Kong Share Registrar, receiving bankers, advisers, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Offer Shares only if you are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:
- an account number: or
  - another identification number

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the **WHITE** or **YELLOW** Application Form or by **electronic application instructions** is the only application which will be made for your benefit on a **WHITE** or

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**YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service or

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (b) **All** of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service ([www.hkeipo.hk](http://www.hkeipo.hk));
  - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service ([www.hkeipo.hk](http://www.hkeipo.hk));
  - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service ([www.hkeipo.hk](http://www.hkeipo.hk)) to apply for more than 14,100,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially being offered for subscription by the public); or
  - apply for or take up any Offer Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offer Shares.
- (c) All of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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### APPLY THROUGH HK eIPO WHITE FORM

- (a) If you are an individual and meet the criteria set out in “How to Apply for Hong Kong Offer Shares — Who Can Apply for Hong Kong Offer Shares,” you may apply through **HK eIPO White Form** by submitting an application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you apply through **HK eIPO White Form**, the Hong Kong Offer Shares will be issued in your own name.
- (b) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to the Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

- (d) By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorized the designated **HK eIPO White Form** Service Provider to transfer the details of your application to the Company and our Hong Kong Share Registrar.
- (e) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).
- (f) You should give **electronic application instructions** through **HK eIPO White Form** at the times set out in the section headed “How to Apply for Hong Kong Offer Shares — When to Apply for the Hong Kong Offer Shares — **HK eIPO White Form**.”
- (g) You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on December 2, 2011, or such later time as described under the section headed “When to Apply for the Hong Kong Offer Shares — Effect of bad weather conditions on the Opening of the Application Lists” the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).**

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- (h) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (i) Warning: The application for Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. **Our company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers take no responsibility for such applications, and provide no assurance that applications through the HK eIPO White Form** service will be submitted to the Company or that you will be allotted any Hong Kong Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a White Application Form. See “How to Apply for Hong Kong Offer Shares — How Many Applications You Can Make.”

### *Additional Information*

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form** Service to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).



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### HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
2/F., Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to the Company and the Hong Kong Share Registrar.

#### *Minimum Subscription Amount and Permitted Numbers*

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.

#### *Application for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf*

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does all the things on behalf of each of such persons who:
  - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

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- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by the Company, the Directors, the Sole Global Coordinator, the Hong Kong Underwriters and the Selling Shareholders in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorizes the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither the Company, the Selling Shareholders, Directors, the Sole Global Coordinator, the Underwriters or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agrees that the Company, the Selling Shareholders, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to the Company, Hong Kong Share Registrar, receiving bankers, advisers, agents, the Sole Global Coordinator and the Underwriters and their respective agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;

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- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth day after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) in Hong Kong, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) in Hong Kong except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer published by the Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
- agrees that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

### *Effect of Giving Electronic Application Instructions to HKSCC*

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price

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is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

### *Multiple Applications*

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### *Allocation of Hong Kong Offer Shares*

For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

### **Deposit of Share certificates into CCASS and refund of application monies**

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on December 8, 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) through a variety of channels as stated in the paragraph headed “How to Apply for Hong Kong Offer Shares — Results of Allocations” in this prospectus on December 8, 2011. The basis of allotment of the Hong Kong Public Offering will be published on The Standard (in English), the Hong Kong Economic Times (in Chinese) and on the Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company website ([www.lbxgroup.com](http://www.lbxgroup.com)) on December 8, 2011. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on December 8, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.

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- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on December 8, 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on December 8, 2011. No interest will be paid thereon.

### *Section 40 of the Companies Ordinance*

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

### *Warning*

Application for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sole Global Coordinator, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions**, they should either:

- (a) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or
- (b) go to HKSCC's Customer Service Centre to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on December 2, 2011 or such later time as described in the section headed "— Effect of bad weather conditions on the Opening of the Application Lists" above.

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### RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC and the **HK eIPO White Form** Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk);
- Results of allocations will also be available from our website at [www.lbxgroup.com](http://www.lbxgroup.com) and our results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) on a 24-hour basis from 8:00 a.m. on December 8, 2011 to 12:00 midnight on December 14, 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from December 8, 2011 to December 13, 2011 (excluding Saturdays, Sundays and public holidays in Hong Kong);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from December 8, 2011 to December 12, 2011 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Offer Shares — Where to Collect the Application Forms."

### DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applicants on **WHITE** Application Form or by **HK eIPO White Form** service, (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or



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- (b) for applicants on **WHITE** and **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest.
- (c) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful, e-Auto Refund payment instructions (if any) will be dispatched to the application payment account.
- (d) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful, refund cheque(s) will be sent to the address as specified on the **HK eIPO White Form** application by ordinary post and at the applicant’s own risk.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under the **WHITE** or **YELLOW** Application Forms and Share certificates for successful applicants under the **WHITE** Application Form or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service are expected to be posted on or about December 8, 2011. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s).

*(a) If you apply using a WHITE Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on December 8, 2011. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be dispatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be dispatched to the address on your Application Form on or about December 8, 2011 by ordinary post and at your own risk.



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*(b) If you apply using a **YELLOW** Application Form:*

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on December 8, 2011, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering through a variety of channels as stated in the paragraph headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" on December 8, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on December 8, 2011 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on December 8, 2011, by ordinary post and at your own risk.

*(c) If you apply through **HK eIPO White Form** service:*

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service and your application is wholly or partially successful, you may collect your share certificate(s) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on December 8, 2011, or such other date as notified by the Company in the newspapers as the date of dispatch of e-Auto Refund payment instructions/refund cheque(s)/share certificate(s). If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on or around December 8, 2011 by ordinary post and at your own risk.

If you apply through the **HK eIPO White Form** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful, e-Auto Refund payment instructions (if any) will be dispatched to the application payment account on or around December 8, 2011.

If you apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful, refund cheque(s) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on or around December 8, 2011, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated set out in this section headed “Apply Through **HK eIPO White Form** — Additional Information” of this prospectus.

### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf or through the **HK eIPO White Form** Service), and you should read them carefully. You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

*(a) If your application is revoked:*

By completing and submitting an Application Form or giving an electronic application instruction to HKSCC or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service, you agree that your application or the application made by HKSCC on your behalf is irrevocable until after the fifth day after the time of the opening of the Application Lists. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service or give your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the closing of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after closing of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

***(b) If the allotment of Hong Kong Offer Shares is void:***

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the Application Lists.

***(c) If you make applications under the Hong Kong Public Offering as well as the International Offering:***

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** Service electronically, you agree not to apply for International Offer Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

***(d) If the Company, the Joint Bookrunners, the HK eIPO White Form Service Provider or their respective agents exercise their discretion:***

The Company, the Directors, the Joint Bookrunners, **HK eIPO White Form** Service Provider (where applicable) and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*(e) Your application will be rejected or not be accepted if:*

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Offering;
- we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been completed and/or signed or of any other jurisdiction;
- if you apply for more than 100% of the Shares available for allocation in either Pool A or Pool B Hong Kong Offer Shares; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

### REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any of, but not limited to, the above reasons, the Company will refund your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage, SFC transaction levy and Stock Exchange trading fee) without interest.

All such interest accrued prior to the date of dispatch of refund monies will be retained for the benefit of the Company.

In a contingency situation involving a substantial over-subscription, at the discretion of the Company and the Joint Bookrunners cheques for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on December 8, 2011 in accordance with the various arrangements as described above.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### COMMENCEMENT OF DEALINGS IN THE SHARES

- Dealings in the Shares on the Stock Exchange are expected to commence on December 9, 2011.
- The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 01262.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

- If the Stock Exchange grants the Listing of, and permission to deal in the Shares and the Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

29 November 2011

The Directors  
China Lifestyle Food and Beverages Group Limited

Citigroup Global Markets Asia Limited

Dear Sirs,

We report on the financial information of China Lifestyle Food and Beverages Group Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at 31 December 2008, 2009 and 2010 and 31 May 2011, the balance sheets of the Company as at 31 December 2008, 2009 and 2010 and 31 May 2011 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I and II below for inclusion in Appendix I to the prospectus of the Company dated 29 November 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Bermuda on 4 May 2004 as a company with limited liability under the Companies Act of Bermuda.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries and an associated company as set out in Notes 18 and 19 of Section I below. All of these companies are private companies.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs.

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*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal controls as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement whether due to fraud or error.

### **REPORTING ACCOUNTANT'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### **OPINION**

In our opinion, the financial information gives, for the purposes of this report, a true and fair view of the state of affairs of the Company as at 31 December 2008, 2009 and 2010 and 31 May 2011 and of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and 31 May 2011, and of the Group's results and cash flows for the Relevant Periods then ended.

### **REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION**

We have reviewed the stub period comparative financial information set out in Section I below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2010 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 3 of Section I below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section I below.



## I. FINANCIAL INFORMATION

## (A) Consolidated Statements of Comprehensive Income

|  | Note  | For the year ended 31 December |               |                | For the five months ended 31 May |                |
|--|-------|--------------------------------|---------------|----------------|----------------------------------|----------------|
|  |       | 2008                           | 2009          | 2010           | 2010                             | 2011           |
|  |       | RMB'000                        | RMB'000       | RMB'000        | RMB'000<br>(Unaudited)           | RMB'000        |
| Sales  | 6     | 721,140                        | 771,360       | 931,680        | 414,419                          | 607,444        |
| Cost of sales  | 8     | (438,427)                      | (482,910)     | (589,682)      | (262,255)                        | (360,115)      |
| Gross profit   |       | 282,713                        | 288,450       | 341,998        | 152,164                          | 247,329        |
| Other income   | 7     | 3,488                          | 2,765         | 1,573          | 635                              | 560            |
| Selling and distribution expenses  | 8     | (114,835)                      | (133,138)     | (134,790)      | (62,583)                         | (76,394)       |
| Administrative expenses  | 8     | (53,750)                       | (48,260)      | (44,854)       | (15,686)                         | (23,811)       |
| Other (losses)/gains, net  | 9     | (10,384)                       | 283           | 2,314          | 738                              | (456)          |
| Operating profit   |       | 107,232                        | 110,100       | 166,241        | 75,268                           | 147,228        |
| Finance costs  | 11    | (2,040)                        | (3,014)       | (3,518)        | (1,386)                          | (3,316)        |
| Share of loss of an associated company   | 19    | (2,593)                        | (4,145)       | -              | -                                | -              |
| Provision for impairment of investment in an associated company                  | 19    | -                              | (5,128)       | -              | -                                | -              |
| Provision for impairment of loans to an associated company                       | 19    | -                              | (1,999)       | (1,778)        | (1,778)                          | -              |
| Share of loss of a jointly controlled entity                                     | 20    | (1,731)                        | (1,632)       | (432)          | (432)                            | -              |
| Provision for impairment of investment in a jointly controlled entity            | 20(a) | (5,000)                        | -             | -              | -                                | -              |
| Gain on disposal of investment in a jointly controlled entity                    | 20(b) | -                              | -             | 344            | -                                | -              |
| Profit before income tax   |       | 95,868                         | 94,182        | 160,857        | 71,672                           | 143,912        |
| Income tax expense   | 12    | (27,237)                       | (40,694)      | (13,019)       | (13,076)                         | (28,334)       |
| Profit and total comprehensive income for the year/period                        |       | <u>68,631</u>                  | <u>53,488</u> | <u>147,838</u> | <u>58,596</u>                    | <u>115,578</u> |
| Earnings per share attributable to equity holders of the Company (RMB per share) | 13    |                                |               |                |                                  |                |
| - Basic  |       | <u>0.14</u>                    | <u>0.11</u>   | <u>0.29</u>    | <u>0.12</u>                      | <u>0.22</u>    |
| - Diluted  |       | <u>0.14</u>                    | <u>0.11</u>   | <u>0.29</u>    | <u>0.12</u>                      | <u>0.22</u>    |

Note: The earnings per share as presented above has not taken into account the proposed capitalization issue pursuant to the shareholders' resolution dated 25 November 2011 (Note 36) because the proposed capitalization issue has not become effective as of the date of this report.

*(B) Consolidated Balance Sheets*

|   | Note | As at 31 December     |                       |                       | As at                   |
|---|------|-----------------------|-----------------------|-----------------------|-------------------------|
|   |      | 2008                  | 2009                  | 2010                  | 31 May                  |
|   |      | RMB'000               | RMB'000               | RMB'000               | 2011                    |
|   |      |                       |                       | RMB'000               |                         |
| <b>ASSETS</b>   |      |                       |                       |                       |                         |
| <b>Non-current assets</b>   |      |                       |                       |                       |                         |
| Land use rights   | 15   | 113,700               | 112,980               | 110,600               | 156,174                 |
| Property, plant and equipment   | 16   | 399,677               | 478,285               | 551,675               | 552,597                 |
| Deposits for property, plant and equipment                                | 17   | 18,525                | 33,223                | 26,095                | 66,674                  |
| Investment in an associated company                                       | 19   | 9,273                 | –                     | –                     | –                       |
| Loans to an associated company  | 19   | –                     | 1,778                 | –                     | –                       |
| Investment in a jointly controlled entity                                 | 20   | 4,255                 | 2,623                 | –                     | –                       |
| Deferred income tax assets  | 21   | 2,515                 | 3,329                 | 2,784                 | 3,328                   |
|   |      | <u>547,945</u>        | <u>632,218</u>        | <u>691,154</u>        | <u>778,773</u>          |
| <b>Current assets</b>   |      |                       |                       |                       |                         |
| Inventories   | 22   | 77,506                | 61,497                | 76,860                | 78,560                  |
| Trade receivables   | 23   | 58,828                | 106,572               | 147,615               | 210,881                 |
| Prepayments and other receivables   | 24   | 13,276                | 10,700                | 31,968                | 39,071                  |
| Pledged bank deposits   | 25   | 10,485                | 16,653                | 27,904                | 29,073                  |
| Cash and cash equivalents   | 26   | 34,311                | 10,879                | 18,236                | 146,005                 |
|   |      | <u>194,406</u>        | <u>206,301</u>        | <u>302,583</u>        | <u>503,590</u>          |
| <b>Total assets</b>   |      | <u><u>742,351</u></u> | <u><u>838,519</u></u> | <u><u>993,737</u></u> | <u><u>1,282,363</u></u> |
| <b>EQUITY</b>   |      |                       |                       |                       |                         |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                       |                       |                       |                         |
| Share capital   | 29   | 205,644               | 205,644               | 205,644               | 220,056                 |
| Share premium   | 29   | 151,230               | 151,230               | 151,230               | 275,948                 |
| Other reserves  | 31   | (25,387)              | (33,638)              | (26,435)              | (26,435)                |
| Retained earnings   |      | 192,682               | 259,278               | 323,263               | 398,841                 |
| <b>Total equity</b>   |      | <u>524,169</u>        | <u>582,514</u>        | <u>653,702</u>        | <u>868,410</u>          |
| <b>LIABILITIES</b>  |      |                       |                       |                       |                         |
| <b>Non-current liability</b>  |      |                       |                       |                       |                         |
| Deferred income tax liabilities   | 21   | 3,104                 | 2,052                 | 7,011                 | 6,070                   |
| <b>Current liabilities</b>  |      |                       |                       |                       |                         |
| Trade and other payables  | 27   | 171,525               | 162,920               | 229,684               | 257,761                 |
| Dividend payable  |      | 180                   | 180                   | –                     | –                       |
| Borrowings  | 28   | 37,500                | 57,500                | 92,000                | 139,000                 |
| Current income tax liabilities  |      | 5,873                 | 33,353                | 11,340                | 11,122                  |
|   |      | <u>215,078</u>        | <u>253,953</u>        | <u>333,024</u>        | <u>407,883</u>          |
| <b>Total liabilities</b>  |      | <u>218,182</u>        | <u>256,005</u>        | <u>340,035</u>        | <u>413,953</u>          |
| <b>Total equity and liabilities</b>                                       |      | <u><u>742,351</u></u> | <u><u>838,519</u></u> | <u><u>993,737</u></u> | <u><u>1,282,363</u></u> |
| <b>Net current (liabilities)/assets</b>                                   |      | <u>(20,672)</u>       | <u>(47,652)</u>       | <u>(30,441)</u>       | <u>95,707</u>           |
| <b>Total assets less current liabilities</b>                              |      | <u><u>527,273</u></u> | <u><u>584,566</u></u> | <u><u>660,713</u></u> | <u><u>874,480</u></u>   |

*(C) Balance Sheets*

|   | Note | As at 31 December     |                       |                       | As at                 |
|---|------|-----------------------|-----------------------|-----------------------|-----------------------|
|   |      | 2008                  | 2009                  | 2010                  | 31 May                |
|   |      | RMB'000               | RMB'000               | RMB'000               | 2011                  |
|   |      |                       |                       | RMB'000               |                       |
| <b>ASSETS</b>   |      |                       |                       |                       |                       |
| <b>Non-current assets</b>   |      |                       |                       |                       |                       |
| Investments in subsidiaries   | 18   | 134,206               | 134,206               | 134,206               | 134,206               |
| Loans to subsidiaries   | 18   | 246,549               | 244,432               | 251,956               | 352,701               |
|   |      | <u>380,755</u>        | <u>378,638</u>        | <u>386,162</u>        | <u>486,907</u>        |
| <b>Current assets</b>   |      |                       |                       |                       |                       |
| Amount due from a subsidiary  | 18   | 10,000                | 20,000                | –                     | –                     |
| Prepayments   | 24   | 75                    | 75                    | 75                    | 5,262                 |
| Cash and cash equivalents   | 26   | 80                    | 61                    | 924                   | 29,872                |
|   |      | <u>10,155</u>         | <u>20,136</u>         | <u>999</u>            | <u>35,134</u>         |
| <b>Total assets</b>   |      | <u><u>390,910</u></u> | <u><u>398,774</u></u> | <u><u>387,161</u></u> | <u><u>522,041</u></u> |
| <b>EQUITY</b>   |      |                       |                       |                       |                       |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                       |                       |                       |                       |
| Share capital   | 29   | 205,644               | 205,644               | 205,644               | 220,056               |
| Share premium   | 29   | 151,230               | 151,230               | 151,230               | 275,948               |
| Share option reserve  |      | 15,418                | –                     | –                     | –                     |
| Retained earnings   | 32   | 9,180                 | 30,177                | 24,205                | 16,411                |
| <b>Total equity</b>   |      | <u>381,472</u>        | <u>387,051</u>        | <u>381,079</u>        | <u>512,415</u>        |
| <b>LIABILITIES</b>  |      |                       |                       |                       |                       |
| <b>Current liabilities</b>  |      |                       |                       |                       |                       |
| Other payables  | 27   | 9,258                 | 11,543                | 6,082                 | 9,626                 |
| Dividend payable  |      | 180                   | 180                   | –                     | –                     |
| <b>Total liabilities</b>  |      | <u>9,438</u>          | <u>11,723</u>         | <u>6,082</u>          | <u>9,626</u>          |
| <b>Total equity and liabilities</b>                                       |      | <u><u>390,910</u></u> | <u><u>398,774</u></u> | <u><u>387,161</u></u> | <u><u>522,041</u></u> |
| <b>Net current assets/(liabilities)</b>                                   |      | <u>717</u>            | <u>8,413</u>          | <u>(5,083)</u>        | <u>25,508</u>         |
| <b>Total assets less current liabilities</b>                              |      | <u><u>381,472</u></u> | <u><u>387,051</u></u> | <u><u>381,079</u></u> | <u><u>512,415</u></u> |

*(D) Consolidated Statements of Changes in Equity*

|   | Note  | Share capital<br>RMB'000 | Share premium<br>RMB'000 | Merger reserve<br>RMB'000 | Statutory reserves<br>RMB'000 | Share option reserve<br>RMB'000 | Currency translation reserve<br>RMB'000 | Retained earnings<br>RMB'000 | Total<br>RMB'000 |
|---|-------|--------------------------|--------------------------|---------------------------|-------------------------------|---------------------------------|---|------------------------------|------------------|
| Balance at 1 January 2008                                 |       | 205,644                  | 151,230                  | (87,600)                  | 40,702                        | 8,405                           | (41)                                    | 140,249                      | 458,589          |
| Profit and total comprehensive income for the year        |       | -                        | -                        | -                         | -                             | -                               | -                                       | 68,631                       | 68,631           |
| Employee share option scheme – value of employee services |       | -                        | -                        | -                         | -                             | 7,013                           | -                                       | -                            | 7,013            |
| Transfer to statutory reserves                            | 31(b) | -                        | -                        | -                         | 6,134                         | -                               | -                                       | (6,134)                      | -                |
| Dividends   | 14    | -                        | -                        | -                         | -                             | -                               | -                                       | (10,064)                     | (10,064)         |
| Balance at 31 December 2008                               |       | <u>205,644</u>           | <u>151,230</u>           | <u>(87,600)</u>           | <u>46,836</u>                 | <u>15,418</u>                   | <u>(41)</u>                             | <u>192,682</u>               | <u>524,169</u>   |
| Balance at 1 January 2009                                 |       | 205,644                  | 151,230                  | (87,600)                  | 46,836                        | 15,418                          | (41)                                    | 192,682                      | 524,169          |
| Profit and total comprehensive income for the year        |       | -                        | -                        | -                         | -                             | -                               | -                                       | 53,488                       | 53,488           |
| Employee share option scheme – cancellation               | 30    | -                        | -                        | -                         | -                             | 4,857                           | -                                       | -                            | 4,857            |
| – transfer to retained earnings                           | 30    | -                        | -                        | -                         | -                             | (20,275)                        | -                                       | 20,275                       | -                |
| Transfer to statutory reserves                            | 31(b) | -                        | -                        | -                         | 7,167                         | -                               | -                                       | (7,167)                      | -                |
| Balance at 31 December 2009                               |       | <u>205,644</u>           | <u>151,230</u>           | <u>(87,600)</u>           | <u>54,003</u>                 | <u>-</u>                        | <u>(41)</u>                             | <u>259,278</u>               | <u>582,514</u>   |
| Balance at 1 January 2010                                 |       | 205,644                  | 151,230                  | (87,600)                  | 54,003                        | -                               | (41)                                    | 259,278                      | 582,514          |
| Profit and total comprehensive income for the year        |       | -                        | -                        | -                         | -                             | -                               | -                                       | 147,838                      | 147,838          |
| Transfer to statutory reserves                            | 31(b) | -                        | -                        | -                         | 7,203                         | -                               | -                                       | (7,203)                      | -                |
| Dividends   | 14    | -                        | -                        | -                         | -                             | -                               | -                                       | (76,650)                     | (76,650)         |
| Balance at 31 December 2010                               |       | <u>205,644</u>           | <u>151,230</u>           | <u>(87,600)</u>           | <u>61,206</u>                 | <u>-</u>                        | <u>(41)</u>                             | <u>323,263</u>               | <u>653,702</u>   |
| Balance at 1 January 2011                                 |       | 205,644                  | 151,230                  | (87,600)                  | 61,206                        | -                               | (41)                                    | 323,263                      | 653,702          |
| Profit and total comprehensive income for the period      |       | -                        | -                        | -                         | -                             | -                               | -                                       | 115,578                      | 115,578          |
| Issue of shares   |       | 14,412                   | 124,718                  | -                         | -                             | -                               | -                                       | -                            | 139,130          |
| Dividends   | 14    | -                        | -                        | -                         | -                             | -                               | -                                       | (40,000)                     | (40,000)         |
| Balance at 31 May 2011                                    |       | <u>220,056</u>           | <u>275,948</u>           | <u>(87,600)</u>           | <u>61,206</u>                 | <u>-</u>                        | <u>(41)</u>                             | <u>398,841</u>               | <u>868,410</u>   |
| Unaudited Balance at 1 January 2010                       |       | 205,644                  | 151,230                  | (87,600)                  | 54,003                        | -                               | (41)                                    | 259,278                      | 582,514          |
| Profit and total comprehensive income for the period      |       | -                        | -                        | -                         | -                             | -                               | -                                       | 58,596                       | 58,596           |
| Balance at 31 May 2010                                    |       | <u>205,644</u>           | <u>151,230</u>           | <u>(87,600)</u>           | <u>54,003</u>                 | <u>-</u>                        | <u>(41)</u>                             | <u>317,874</u>               | <u>641,110</u>   |

*(E) Consolidated Statements of Cash Flows*

|   | Note | For the year ended 31 December |                      |                      | For the five months ended 31 May |                       |
|---|------|--------------------------------|----------------------|----------------------|----------------------------------|-----------------------|
|   |      | 2008                           | 2009                 | 2010                 | 2010                             | 2011                  |
|   |      | RMB'000                        | RMB'000              | RMB'000              | RMB'000<br>(Unaudited)           | RMB'000               |
| <b>Cash flows from operating activities</b>                         |      |                                |                      |                      |                                  |                       |
| Cash generated from operations                                      | 33   | 126,642                        | 111,539              | 195,023              | 133,655                          | 122,973               |
| Income tax paid   |      | (23,231)                       | (15,080)             | (29,528)             | (9,636)                          | (30,037)              |
| <b>Net cash generated from operating activities</b>                 |      | <u>103,411</u>                 | <u>96,459</u>        | <u>165,495</u>       | <u>124,019</u>                   | <u>92,936</u>         |
| <b>Cash flows from investing activities</b>                         |      |                                |                      |                      |                                  |                       |
| Purchase of land use rights   |      | (54,000)                       | (1,647)              | –                    | –                                | (46,800)              |
| Purchase of property, plant and equipment                           |      | (53,317)                       | (113,501)            | (78,229)             | (1,938)                          | (17,353)              |
| Deposits paid for property, plant and equipment                     |      | (18,525)                       | (14,698)             | (26,095)             | (1,060)                          | (42,854)              |
| Proceeds from disposal of property, plant and equipment             |      | 3,403                          | 2,437                | 40                   | –                                | –                     |
| Loans to an associated company                                      |      | –                              | (3,777)              | –                    | –                                | –                     |
| Investment in a jointly controlled entity                           |      | (3,337)                        | –                    | –                    | –                                | –                     |
| Proceeds from disposal of investment in a jointly controlled entity |      | –                              | –                    | 2,535                | –                                | –                     |
| Interest received   |      | 1,117                          | 477                  | 530                  | 131                              | 195                   |
| <b>Net cash used in investing activities</b>                        |      | <u>(124,659)</u>               | <u>(130,709)</u>     | <u>(101,219)</u>     | <u>(2,867)</u>                   | <u>(106,812)</u>      |
| <b>Cash flows from financing activities</b>                         |      |                                |                      |                      |                                  |                       |
| Proceeds from borrowings  |      | 37,500                         | 102,500              | 92,000               | 13,000                           | 90,000                |
| Repayments of borrowings  |      | (20,000)                       | (82,500)             | (57,500)             | (20,000)                         | (43,000)              |
| Decrease/(increase) in pledged deposits                             |      | 2,055                          | (6,168)              | (11,251)             | 2,711                            | (1,169)               |
| Proceeds from issuance of shares, net                               |      | –                              | –                    | –                    | –                                | 139,130               |
| Dividends paid  |      | (10,044)                       | –                    | (76,650)             | –                                | (40,000)              |
| Interest paid   |      | (2,040)                        | (3,014)              | (3,518)              | (1,386)                          | (3,316)               |
| <b>Net cash generated from/(used in) financing activities</b>       |      | <u>7,471</u>                   | <u>10,818</u>        | <u>(56,919)</u>      | <u>(5,675)</u>                   | <u>141,645</u>        |
| <b>Net (decrease)/increase in cash and cash equivalents</b>         |      | <u>(13,777)</u>                | <u>(23,432)</u>      | <u>7,357</u>         | <u>115,477</u>                   | <u>127,769</u>        |
| Cash and cash equivalents at the beginning of the year/period       |      | <u>48,088</u>                  | <u>34,311</u>        | <u>10,879</u>        | <u>10,879</u>                    | <u>18,236</u>         |
| <b>Cash and cash equivalents at the end of the year/period</b>      |      | <u><u>34,311</u></u>           | <u><u>10,879</u></u> | <u><u>18,236</u></u> | <u><u>126,356</u></u>            | <u><u>146,005</u></u> |

## NOTES TO THE FINANCIAL INFORMATION

## 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

China Lifestyle Food and Beverages Group Limited (the "Company") was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company's immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands ("BVI"). The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Wuli Industrial Area, Jinjiang, Fujian, the People's Republic of China ("PRC") (中國福建省晉江市五里工業園區).

The Company was listed on the main board of the Singapore Exchange Securities Trading Limited ("SGX") since 26 August 2005. Pursuant to a special general meeting held on 7 April 2010, the Company was delisted from SGX with effect from 6 May 2010.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are described in Note 18.

This financial information is presented in Renminbi ("RMB"), unless otherwise stated.

## 2 BASIS OF PREPARATION

The financial information has been prepared in accordance with IFRSs. All IFRSs in issue which are effective for accounting period beginning on 1 January 2011 and are relevant to the Group have been applied for the Relevant Periods presented. This financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 5.

*New accounting standards and amendment to standards*

The following new standards and amendment to standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 and which the Group has not early adopted. The Group anticipates that the adoption of these new standards and amendment to standards will not result in substantial changes to the Group's accounting policies.

|                     |  |
|---------------------|--|
| IAS 1 (Amendment)   | Presentation of financial statements <sup>(2)</sup>          |
| IAS 12 (Amendment)  | Deferred tax – recovery of underlying assets <sup>(1)</sup>  |
| IAS 19 (Amendment)  | Employee benefits <sup>(2)</sup>                             |
| IAS 27 (2011)       | Separate financial statements <sup>(2)</sup>                 |
| IAS 28 (2011)       | Investments in associates and joint ventures <sup>(2)</sup>  |
| IFRS 7 (Amendment)  | Disclosures – transfers of financial assets <sup>(1)</sup>   |
| IFRS 9              | Financial instruments <sup>(2)</sup>                         |
| Additions to IFRS 9 | Financial instruments – financial liabilities <sup>(2)</sup> |
| IFRS 10             | Consolidated financial statements <sup>(2)</sup>             |
| IFRS 11             | Joint arrangements <sup>(2)</sup>                            |
| IFRS 12             | Disclosures of interests in other entities <sup>(2)</sup>    |
| IFRS 13             | Fair value measurement <sup>(2)</sup>                        |

<sup>(1)</sup> Effective for the Group for annual period beginning on or after 1 January 2012

<sup>(2)</sup> Effective for the Group for annual period beginning on or after 1 January 2013

*Going concern basis*

As at 31 December 2010, the Group's current liabilities exceeded its current assets by RMB30,441,000. In addition, a subsidiary of the Group had breached certain bank covenants as at 31 December 2008, 2009 and 2010. Subsequent to 31 December 2010, the subsidiary had obtained a waiver from the bank in respect of the covenant requirements for the bank borrowings as at 31 December 2010 (Note 28). As at 31 May 2011, the Group is in a net current assets position of RMB95,707,000. However, the subsidiary had breached certain bank covenant clauses during January to May 2011. Subsequent to 31 May 2011, the subsidiary had obtained a waiver from the bank in respect of the aforementioned covenant requirements.

The directors have prepared cash flow projections for the twelve months ending 31 May 2012 and are of the opinion that, having taken into consideration of the Group's history of its ability to obtain external financing from banks and new investors, its anticipated cash inflows from operations in the coming year, and its expected future working capital requirements, there are sufficient financial resources available to the Group at least in the coming twelve months to meet its liabilities as and when they fall due. On the above basis, the directors believe that the Group will continue as a going concern and consequently have prepared the financial information on a going concern basis.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

#### 3.1 Consolidation

##### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

All business combinations, if any, are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

In preparing the consolidated financial statements, inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (b) An associated company and a jointly controlled entity

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A jointly controlled entity is an entity over which the Group has contractual arrangements to jointly share the control over the economic activity of the entity with one or more parties.

The Group's interests in an associated company and a jointly controlled entity are accounted for using the equity method of accounting and are initially recognized at cost and subsequently net of any accumulated impairment losses (Note 3.6).

The Group's share of its associated company or jointly controlled entity's post-acquisition profits or losses is recognized in the statement of comprehensive income and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company or a jointly controlled entity equals or exceeds its interests in the associated company or the jointly controlled entity, including any other unsecured receivables, the Group does not recognize further losses, unless it has obligations or has made payments on behalf of the associated company or the jointly controlled entity.

Unrealized gains on transactions between the Group and its associated company and jointly controlled entity are eliminated to the extent of the Group's interests in the associated company and the jointly controlled entity. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associated company and a jointly controlled entity have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising in investments in an associated company or a jointly controlled entity are recognized in the statement of comprehensive income.

#### 3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.



### 3.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in RMB, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Foreign exchange gains and losses are presented in the statement of comprehensive income within "other (losses)/gains, net".

#### (c) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 3.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

|                        | <u>Useful lives</u> |
|------------------------|---------------------|
| Buildings              | 20 years            |
| Leasehold improvements | 5 years             |
| Plant and equipment    | 5-10 years          |
| Motor vehicles         | 5 years             |

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction.

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

### **3.5 Land use rights**

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of leases.

### **3.6 Impairment of investments in subsidiaries, an associated company, a jointly controlled entity and non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **3.7 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **3.8 Financial assets**

#### **3.8.1 Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

#### *(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables include trade and other receivables, bank deposits, and loans to an associated company in the consolidated balance sheet.

#### *(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

During the Relevant Periods, the Group did not hold any significant financial assets at fair value through profit or loss and available-for-sale financial assets.

### 3.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category, if any, are presented in the statement of comprehensive income within “other (losses)/gains, net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as “gains and losses from investment securities”.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of other income when the Group’s right to receive payments is established.

### 3.8.3 Impairment of financial assets

#### *(a) Assets carried at amortized cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (i) Significant financial difficulty of the issuer or obligor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) The disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio;
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

*(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the separate statement of comprehensive income. Impairment losses recognized in the separate statement of comprehensive income on equity instruments are not reversed through the separate statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate statement of comprehensive income.

Impairment testing of the investments in subsidiaries, an associated company or a jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associated company or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**3.9 Trade receivables**

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

**3.10 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, less bank overdrafts and pledged deposits. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

**3.11 Share capital**

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**3.12 Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**3.13 Borrowings and borrowing costs**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

**3.14 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated company and jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and jointly controlled entity except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **3.15 Employee benefits**

#### **(a) Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as social security plans in the PRC, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. The Group's contributions to defined contribution plans are recognized in the financial year to which they relate.

#### **(b) Share-based payments**

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- (i) including any market performance conditions (for example, an entity's share price);
- (ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- (iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

If the grant of option is cancelled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company shall account for the cancellation as an acceleration of vesting, and shall therefore recognize immediately the amount that otherwise would have been recognized for service received over the remainder of the vesting period.

### **3.16 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### **3.17 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and sales returns and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

#### **(a) Sale of goods**

Revenue from sale of goods is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

It is the Group's policy to sell its products to the customers with a right to return due to quality issues caused by the Group. Accumulated experience is used to estimate and provide for such returns at the time of sale.

#### **(b) Interest income**

Interest income is recognized on a time proportion basis using the effective interest method.

#### **(c) Rental income**

Rental income under operating leases (net of any incentives given to the lessees) is recognized on a straight-line basis over the lease periods.

### **3.18 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **3.19 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## 4 FINANCIAL RISK MANAGEMENT

## 4.1 Financial risk factors

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Group's financial performance. The board of directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

## (a) Market risk

## (i) Currency risk

The Group's dominant operations are in the PRC and most of the transactions are denominated in RMB. Entities in the Group sometimes transact in currencies other than RMB. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar ("HKD"), United States Dollar ("USD") and Singapore Dollar ("SGD").

Currency risk arises when transactions are denominated in foreign currencies. The Group's currency exposure as at 31 December 2008, 2009 and 2010 and 31 May 2011 is as follows:

|   | RMB             | HKD            | USD          | SGD            | Total           |
|---|-----------------|----------------|--------------|----------------|-----------------|
|   | RMB'000         | RMB'000        | RMB'000      | RMB'000        | RMB'000         |
| <b>At 31 December 2008</b>                |                 |                |              |                |                 |
| <b>Financial assets</b>                   |                 |                |              |                |                 |
| Cash and cash equivalents                 | 32,899          | 1,412          | –            | –              | 34,311          |
| Pledged bank deposits                     | 10,485          | –              | –            | –              | 10,485          |
| Trade and other receivables               | 61,022          | 124            | 3,128        | –              | 64,274          |
| <b>Financial liabilities</b>              |                 |                |              |                |                 |
| Trade and other payables                  | (153,591)       | (1,313)        | –            | (1,532)        | (156,436)       |
| Dividend payable                          | –               | –              | –            | (180)          | (180)           |
| Borrowings                                | (37,500)        | –              | –            | –              | (37,500)        |
| <b>Net financial (liabilities)/assets</b> | <b>(86,685)</b> | <b>223</b>     | <b>3,128</b> | <b>(1,712)</b> | <b>(85,046)</b> |
| <b>Currency exposure</b>                  |                 | <b>223</b>     | <b>3,128</b> | <b>(1,712)</b> | <b>1,639</b>    |
| <b>At 31 December 2009</b>                |                 |                |              |                |                 |
| <b>Financial assets</b>                   |                 |                |              |                |                 |
| Cash and cash equivalents                 | 10,434          | 445            | –            | –              | 10,879          |
| Pledged bank deposits                     | 16,653          | –              | –            | –              | 16,653          |
| Trade and other receivables               | 105,111         | 102            | 5,035        | –              | 110,248         |
| Loans to an associated company            | 1,778           | –              | –            | –              | 1,778           |
| <b>Financial liabilities</b>              |                 |                |              |                |                 |
| Trade and other payables                  | (141,965)       | (1,601)        | –            | (2,858)        | (146,424)       |
| Dividend payable                          | –               | –              | –            | (180)          | (180)           |
| Borrowings                                | (57,500)        | –              | –            | –              | (57,500)        |
| <b>Net financial (liabilities)/assets</b> | <b>(65,489)</b> | <b>(1,054)</b> | <b>5,035</b> | <b>(3,038)</b> | <b>(64,546)</b> |
| <b>Currency exposure</b>                  |                 | <b>(1,054)</b> | <b>5,035</b> | <b>(3,038)</b> | <b>943</b>      |



|   | RMB              | HKD            | USD      | SGD      | Total            |
|---|------------------|----------------|----------|----------|------------------|
|   | RMB'000          | RMB'000        | RMB'000  | RMB'000  | RMB'000          |
| <b>At 31 December 2010</b>                |                  |                |          |          |                  |
| <b>Financial assets</b>                   |                  |                |          |          |                  |
| Cash and cash equivalents                 | 17,130           | 1,106          | –        | –        | 18,236           |
| Pledged bank deposits                     | 27,904           | –              | –        | –        | 27,904           |
| Trade and other receivables               | 149,420          | 102            | –        | –        | 149,522          |
| <b>Financial liabilities</b>              |                  |                |          |          |                  |
| Trade and other payables                  | (209,585)        | (2,423)        | –        | –        | (212,008)        |
| Borrowings                                | (92,000)         | –              | –        | –        | (92,000)         |
| <b>Net financial liabilities</b>          | <b>(107,131)</b> | <b>(1,215)</b> | <b>–</b> | <b>–</b> | <b>(108,346)</b> |
| <b>Currency exposure</b>                  |                  | <b>(1,215)</b> | <b>–</b> | <b>–</b> | <b>(1,215)</b>   |
| <b>At 31 May 2011</b>                     |                  |                |          |          |                  |
| <b>Financial assets</b>                   |                  |                |          |          |                  |
| Cash and cash equivalents                 | 115,958          | 30,047         | –        | –        | 146,005          |
| Pledged bank deposits                     | 29,073           | –              | –        | –        | 29,073           |
| Trade and other receivables               | 212,713          | 27             | –        | –        | 212,740          |
| <b>Financial liabilities</b>              |                  |                |          |          |                  |
| Trade and other payables                  | (231,898)        | (4,751)        | –        | –        | (236,649)        |
| Borrowings                                | (139,000)        | –              | –        | –        | (139,000)        |
| <b>Net financial (liabilities)/assets</b> | <b>(13,154)</b>  | <b>25,323</b>  | <b>–</b> | <b>–</b> | <b>12,169</b>    |
| <b>Currency exposure</b>                  |                  | <b>25,323</b>  | <b>–</b> | <b>–</b> | <b>25,323</b>    |

The Company's currency exposure as at 31 December 2008, 2009 and 2010 and 31 May 2011 is as follows:

|   | RMB           | HKD            | SGD            | Total          |
|---|---------------|----------------|----------------|----------------|
|   | RMB'000       | RMB'000        | RMB'000        | RMB'000        |
| <b>At 31 December 2008</b>                |               |                |                |                |
| <b>Financial assets</b>                   |               |                |                |                |
| Cash and cash equivalents                 | –             | 80             | –              | 80             |
| Amount due from a subsidiary              | 10,000        | –              | –              | 10,000         |
| <b>Financial liabilities</b>              |               |                |                |                |
| Other payables                            | (6,726)       | (1,000)        | (1,532)        | (9,258)        |
| Dividend payable                          | –             | –              | (180)          | (180)          |
| <b>Net financial assets/(liabilities)</b> | <b>3,274</b>  | <b>(920)</b>   | <b>(1,712)</b> | <b>642</b>     |
| <b>Currency exposure</b>                  |               | <b>(920)</b>   | <b>(1,712)</b> | <b>(2,632)</b> |
| <b>At 31 December 2009</b>                |               |                |                |                |
| <b>Financial assets</b>                   |               |                |                |                |
| Cash and cash equivalents                 | –             | 61             | –              | 61             |
| Amount due from a subsidiary              | 20,000        | –              | –              | 20,000         |
| <b>Financial liabilities</b>              |               |                |                |                |
| Other payables                            | (7,275)       | (1,410)        | (2,858)        | (11,543)       |
| Dividend payable                          | –             | –              | (180)          | (180)          |
| <b>Net financial assets/(liabilities)</b> | <b>12,725</b> | <b>(1,349)</b> | <b>(3,038)</b> | <b>8,338</b>   |
| <b>Currency exposure</b>                  |               | <b>(1,349)</b> | <b>(3,038)</b> | <b>(4,387)</b> |

|   | RMB            | HKD           | SGD      | Total          |
|---|----------------|---------------|----------|----------------|
|   | RMB'000        | RMB'000       | RMB'000  | RMB'000        |
| <b>At 31 December 2010</b>                |                |               |          |                |
| <b>Financial assets</b>                   |                |               |          |                |
| Cash and cash equivalents                 | –              | 924           | –        | 924            |
| <b>Financial liabilities</b>              |                |               |          |                |
| Other payables                            | (4,282)        | (1,800)       | –        | (6,082)        |
| <b>Net financial liabilities</b>          | <b>(4,282)</b> | <b>(876)</b>  | <b>–</b> | <b>(5,158)</b> |
| <b>Currency exposure</b>                  |                | <b>(876)</b>  | <b>–</b> | <b>(876)</b>   |
| <b>At 31 May 2011</b>                     |                |               |          |                |
| <b>Financial assets</b>                   |                |               |          |                |
| Cash and cash equivalents                 | –              | 29,872        | –        | 29,872         |
| <b>Financial liabilities</b>              |                |               |          |                |
| Other payables                            | (4,904)        | (4,722)       | –        | (9,626)        |
| <b>Net financial (liabilities)/assets</b> | <b>(4,904)</b> | <b>25,150</b> | <b>–</b> | <b>20,246</b>  |
| <b>Currency exposure</b>                  |                | <b>25,150</b> | <b>–</b> | <b>25,150</b>  |

If HKD, USD and SGD change against the RMB by 5% with all other variables including tax rate being held constant, the effects arising from the net financial assets/liabilities position will be as follows:

|                 | For the year ended 31 December |                  |                  | For the five months ended 31 May |                  |
|-----------------|--------------------------------|------------------|------------------|----------------------------------|------------------|
|                 | 2008                           | 2009             | 2010             | 2010                             | 2011             |
|                 | Increase/(decrease)            |                  |                  |                                  |                  |
|                 | Profit after tax               | Profit after tax | Profit after tax | Profit after tax                 | Profit after tax |
|                 | RMB'000                        | RMB'000          | RMB'000          | RMB'000 (Unaudited)              | RMB'000          |
| <b>Group</b>    |                                |                  |                  |                                  |                  |
| HKD against RMB |                                |                  |                  |                                  |                  |
| – strengthened  | 11                             | (53)             | (61)             | (182)                            | 1,266            |
| – weakened      | (11)                           | 53               | 61               | 182                              | (1,266)          |
| USD against RMB |                                |                  |                  |                                  |                  |
| – strengthened  | 156                            | 252              | –                | –                                | –                |
| – weakened      | (156)                          | (252)            | –                | –                                | –                |
| SGD against RMB |                                |                  |                  |                                  |                  |
| – strengthened  | (86)                           | (152)            | –                | –                                | –                |
| – weakened      | 86                             | 152              | –                | –                                | –                |
| <b>Company</b>  |                                |                  |                  |                                  |                  |
| HKD against RMB |                                |                  |                  |                                  |                  |
| – strengthened  | (46)                           | (67)             | (44)             | (196)                            | 1,258            |
| – weakened      | 46                             | 67               | 44               | 196                              | (1,258)          |
| SGD against RMB |                                |                  |                  |                                  |                  |
| – strengthened  | (86)                           | (152)            | –                | –                                | –                |
| – weakened      | 86                             | 152              | –                | –                                | –                |

(ii) *Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Apart from the bank balances, the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's borrowings are in fixed rate, the interest rate of which is highly regulated by People's Bank of China in the PRC. Other financial liabilities are non-interest bearing. As the Group has no variable-rate borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

**(b) Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial assets presented on the balance sheet. The Group's and Company's major classes of financial assets are bank deposits, trade and other receivables, loans to an associated company and inter-company accounts with subsidiaries.

Trade receivables are substantially from distributors and key account agents with good collection track records with the Group. Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. Management believes that no significant credit risk is inherent in the Group's trade receivables (see also Note 23). Bank deposits are mainly deposits with banks with good credit-ratings assigned by international credit-rating agencies.

**(c) Liquidity risk**

The Group's and the Company's financial liabilities are all due within the next 12 months from the balance sheet date. The Group and the Company manage the liquidity risk by maintaining sufficient cash and banking facilities to enable them to meet their normal operating and capital commitments.

As at 31 December 2008, a wholly owned subsidiary of the Group had given a guarantee to a financial institution for a loan of RMB20 million to a company owned by certain directors of the Company. The maximum amount the Group could be required to pay under this guarantee was RMB20 million. This guarantee had been subsequently discharged in February 2009.

As disclosed in Note 28 to the financial information, a subsidiary of the Group has breached certain bank covenants as at 31 December 2008, 2009 and 2010 and during the five months ended 31 May 2011.

In March 2011, the Company has issued 43,754,922 new shares to a new shareholder for a cash consideration of approximately RMB139,130,000. Based on the Group's history of its ability to obtain external financing, its anticipated cash inflows from operations in the coming year and its expected future working capital requirements, the directors are of the opinion that there are sufficient financial resources available to the Group at least in the coming twelve months to meet its liabilities as and when they fall due.

**4.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares or obtain new borrowings. There is no specific requirement for the Group and the Company to maintain gearing ratio at certain level.

**4.3 Fair value estimation**

As at 31 December 2008, 2009 and 2010 and 31 May 2011, the Group and the Company did not have any financial assets or financial liabilities in the balance sheet which is measured at fair value. The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, loans to an associated company and amounts due from subsidiaries and the Group's financial liabilities, including trade and other payables, dividend payable and borrowings, approximate their fair values due to their short maturities. The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Impairment of interests in associated company and jointly controlled entity**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 3.6. The provision for impairment of interests in associated company and jointly controlled entity is determined using fair value less cost to sell on individual CGU. The fair value less cost to sell method requires the entity to estimate the fair value of the CGU, which has been prepared on the basis of management's assumptions and estimates, by referencing to sales contracts of arm's length transactions etc. If there is a significant adverse change in the estimated fair value of the CGU, it may be necessary to take an impairment charge to the statement of comprehensive income.

**(b) Current and deferred income taxes**

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

**6 SEGMENT INFORMATION**

The Group is principally engaged in the manufacturing and sale of jelly products, confectionary products and other food and beverages products.

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Company. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM considers the business by products and assesses the performance of the following operating segments:

- i. Jelly products
- ii. Confectionary products
- iii. Other products

CODM assesses the performance of the operating segments based on measure of segment results. Finance costs, share of results of associated company and jointly controlled entity, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial information.

Sales to external customers are after elimination of inter-segment sales. Sales between segments are carried out at mutually agreed terms. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income.

During the Relevant Periods, none of the individual customer account for 10% or more of the Group's external revenue. As at 31 December 2008, 2009, 2010 and 31 May 2011, substantially all of the Group's assets, liabilities and capital expenditure are located or utilized in the PRC.

## For the year ended 31 December 2008

|                                       | Jelly products | Confectionary products | Other products | Reportable segments Total |
|---------------------------------------|----------------|------------------------|----------------|---------------------------|
|                                       | RMB'000        | RMB'000                | RMB'000        | RMB'000                   |
| <b>Revenue</b>                        |                |                        |                |                           |
| Sales to external customers           | 595,627        | 107,005                | 18,508         | 721,140                   |
| Cost of sales                         | (345,279)      | (79,462)               | (13,686)       | (438,427)                 |
| Gross profit                          | <u>250,348</u> | <u>27,543</u>          | <u>4,822</u>   | <u>282,713</u>            |
| <b>Results of reportable segments</b> | <u>153,193</u> | <u>12,444</u>          | <u>2,241</u>   | <u>167,878</u>            |

A reconciliation of results of reportable segments to profit for the year is as follows:

|  |               |                 |
|--|---------------|-----------------|
| <b>Results of reportable segments</b>                                    |               | 167,878         |
| Corporate income   |               | 4,241           |
| Corporate expenses   |               | <u>(64,887)</u> |
| <b>Operating profit</b>  |               | 107,232         |
| Finance costs  |               | (2,040)         |
| Share of loss of an associated company                                   |               | (2,593)         |
| Share of loss of a jointly controlled entity                             |               | (1,731)         |
| Provision for impairment of investment<br>in a jointly controlled entity |               | <u>(5,000)</u>  |
| <b>Profit before income tax</b>  |               | 95,868          |
| Income tax expense   |               | <u>(27,237)</u> |
| <b>Profit for the year</b>   |               | <u>68,631</u>   |
| Amortization of land use rights  | <u>1,628</u>  | <u>–</u>        |
| Depreciation of property, plant and equipment                            | <u>28,683</u> | <u>29</u>       |
| Inventories written-off  | <u>–</u>      | <u>–</u>        |

For the year ended 31 December 2009

|                                       | Jelly products | Confectionary products | Other products | Reportable segments Total |
|---------------------------------------|----------------|------------------------|----------------|---------------------------|
|                                       | RMB'000        | RMB'000                | RMB'000        | RMB'000                   |
| <b>Revenue</b>                        |                |                        |                |                           |
| Sales to external customers           | 669,609        | 73,563                 | 28,188         | 771,360                   |
| Cost of sales                         | (416,288)      | (46,526)               | (20,096)       | (482,910)                 |
| Gross profit                          | <u>253,321</u> | <u>27,037</u>          | <u>8,092</u>   | <u>288,450</u>            |
| <b>Results of reportable segments</b> | <u>135,391</u> | <u>15,912</u>          | <u>4,009</u>   | <u>155,312</u>            |

A reconciliation of results of reportable segments to profit for the year is as follows:

|  |        |               |
|--|--------|---------------|
| <b>Results of reportable segments</b>                              |        | 155,312       |
| Corporate income   |        | 6,620         |
| Corporate expenses   |        | (51,832)      |
| <b>Operating profit</b>  |        | 110,100       |
| Finance costs  |        | (3,014)       |
| Share of loss of an associated company                             |        | (4,145)       |
| Provision for impairment of investment<br>in an associated company |        | (5,128)       |
| Provision for impairment of loans<br>to an associated company      |        | (1,999)       |
| Share of loss of a jointly controlled entity                       |        | (1,632)       |
| <b>Profit before income tax</b>                                    |        | 94,182        |
| Income tax expense   |        | (40,694)      |
| <b>Profit for the year</b>   |        | <u>53,488</u> |
| Amortization of land use rights                                    | 2,367  | –             |
| Depreciation of property, plant and equipment                      | 30,648 | 330           |
| Inventories written-off  | 19,348 | –             |

For the year ended 31 December 2010

|                                       | Jelly products | Confectionary products | Other products | Reportable segments Total |
|---------------------------------------|----------------|------------------------|----------------|---------------------------|
|                                       | RMB'000        | RMB'000                | RMB'000        | RMB'000                   |
| <b>Revenue</b>                        |                |                        |                |                           |
| Sales to external customers           | 775,815        | 106,115                | 49,750         | 931,680                   |
| Cost of sales                         | (477,199)      | (73,636)               | (38,847)       | (589,682)                 |
| Gross profit                          | <u>298,616</u> | <u>32,479</u>          | <u>10,903</u>  | <u>341,998</u>            |
| <b>Results of reportable segments</b> | <u>183,192</u> | <u>20,580</u>          | <u>3,436</u>   | <u>207,208</u>            |

A reconciliation of results of reportable segments to profit for the year is as follows:

|  |        |                |
|--|--------|----------------|
| <b>Results of reportable segments</b>                            |        | 207,208        |
| Corporate income   |        | 4,493          |
| Corporate expenses   |        | (45,460)       |
| <b>Operating profit</b>  |        | 166,241        |
| Finance costs  |        | (3,518)        |
| Provision for impairment of loans<br>to an associated company    |        | (1,778)        |
| Share of loss of a jointly controlled entity                     |        | (432)          |
| Gain on disposal of investment<br>in a jointly controlled entity |        | 344            |
| <b>Profit before income tax</b>                                  |        | 160,857        |
| Income tax expense   |        | (13,019)       |
| <b>Profit for the year</b>                                       |        | <u>147,838</u> |
| Amortization of land use rights                                  | 2,380  | 2,380          |
| Depreciation of property, plant and equipment                    | 36,367 | 37,647         |
| Inventories written-off  | -      | -              |



For the five months ended 31 May 2010  
(Unaudited)

|                                       | Jelly products | Confectionary products | Other products | Reportable segments Total |
|---------------------------------------|----------------|------------------------|----------------|---------------------------|
|                                       | RMB'000        | RMB'000                | RMB'000        | RMB'000                   |
| <b>Revenue</b>                        |                |                        |                |                           |
| Sales to external customers           | 356,756        | 40,100                 | 17,563         | 414,419                   |
| Cost of sales                         | (221,044)      | (27,479)               | (13,732)       | (262,255)                 |
| Gross profit                          | <u>135,712</u> | <u>12,621</u>          | <u>3,831</u>   | <u>152,164</u>            |
| <b>Results of reportable segments</b> | <u>80,409</u>  | <u>7,479</u>           | <u>1,693</u>   | <u>89,581</u>             |

A reconciliation of results of reportable segments to profit for the period is as follows:

|   |        |               |
|---|--------|---------------|
| <b>Results of reportable segments</b>                         |        | 89,581        |
| Corporate income  |        | 1,665         |
| Corporate expenses  |        | (15,978)      |
| <b>Operating profit</b>                                       |        | 75,268        |
| Finance costs   |        | (1,386)       |
| Provision for impairment of loans<br>to an associated company |        | (1,778)       |
| Share of loss of a jointly controlled entity                  |        | (432)         |
| <b>Profit before income tax</b>                               |        | 71,672        |
| Income tax expense  |        | (13,076)      |
| <b>Profit for the period</b>                                  |        | <u>58,596</u> |
| Amortization of land use rights                               | 992    | 992           |
| Depreciation of property, plant and equipment                 | 12,884 | 13,233        |
| Inventories written-off                                       | -      | -             |

## For the five months ended 31 May 2011

|                                       | Jelly products | Confectionary products | Other products | Reportable segments Total |
|---------------------------------------|----------------|------------------------|----------------|---------------------------|
|                                       | RMB'000        | RMB'000                | RMB'000        | RMB'000                   |
| <b>Revenue</b>                        |                |                        |                |                           |
| Sales to external customers           | 503,327        | 62,127                 | 41,990         | 607,444                   |
| Cost of sales                         | (294,103)      | (36,523)               | (29,489)       | (360,115)                 |
| Gross profit                          | 209,224        | 25,604                 | 12,501         | 247,329                   |
| <b>Results of reportable segments</b> | 143,790        | 19,063                 | 8,082          | 170,935                   |

A reconciliation of results of reportable segments to profit for the period is as follows:

|   |        |   |     |          |
|---|--------|---|-----|----------|
| <b>Results of reportable segments</b>         |        |   |     | 170,935  |
| Corporate income                              |        |   |     | 1,177    |
| Corporate expenses                            |        |   |     | (24,884) |
| <b>Operating profit</b>                       |        |   |     | 147,228  |
| Finance costs                                 |        |   |     | (3,316)  |
| <b>Profit before income tax</b>               |        |   |     | 143,912  |
| Income tax expense                            |        |   |     | (28,334) |
| <b>Profit for the period</b>                  |        |   |     | 115,578  |
| Amortization of land use rights               | 1,226  | – | –   | 1,226    |
| Depreciation of property, plant and equipment | 17,944 | – | 714 | 18,658   |
| Inventories written-off                       | –      | – | –   | –        |

## 7 OTHER INCOME

|                                  | For the year ended 31 December |         |         | For the five months ended 31 May |         |
|----------------------------------|--------------------------------|---------|---------|----------------------------------|---------|
|                                  | 2008                           | 2009    | 2010    | 2010                             | 2011    |
|                                  | RMB'000                        | RMB'000 | RMB'000 | RMB'000<br>(Unaudited)           | RMB'000 |
| Rental income                    | 2,371                          | 2,288   | 1,043   | 504                              | 365     |
| Interest income on bank deposits | 1,117                          | 477     | 530     | 131                              | 195     |
|                                  | 3,488                          | 2,765   | 1,573   | 635                              | 560     |

## 8 EXPENSES BY NATURE

|  | For the year ended 31 December |                |                | For the five months ended<br>31 May |                |
|--|--------------------------------|----------------|----------------|-------------------------------------|----------------|
|  | 2008                           | 2009           | 2010           | 2010                                | 2011           |
|  | RMB'000                        | RMB'000        | RMB'000        | RMB'000<br>(Unaudited)              | RMB'000        |
| Purchases of raw materials, finished goods and consumables                     | 420,306                        | 405,448        | 534,142        | 198,032                             | 325,919        |
| Changes in inventories of raw materials and finished goods                     | (25,230)                       | (3,339)        | (15,363)       | 34,620                              | (1,700)        |
| Inventories written-off ( <i>note</i> )  | –                              | 19,348         | –              | –                                   | –              |
| Advertising and promotion expenses   | 71,119                         | 81,572         | 77,675         | 36,818                              | 44,227         |
| Employee benefit expenses (including directors' emoluments) ( <i>Note 10</i> ) | 56,849                         | 63,684         | 73,043         | 28,610                              | 35,724         |
| Freight and transportation expenses  | 23,870                         | 32,311         | 35,681         | 17,104                              | 20,632         |
| Depreciation of property, plant and equipment ( <i>Note 16</i> )               | 28,712                         | 30,978         | 37,647         | 13,233                              | 18,658         |
| Amortization of land use rights ( <i>Note 15</i> )                             | 1,628                          | 2,367          | 2,380          | 992                                 | 1,226          |
| Operating leases rentals   | 1,373                          | 346            | 345            | 147                                 | 32             |
| Auditors' remuneration   | 1,583                          | 1,828          | 1,800          | 750                                 | 750            |
| Other expenses   | 26,802                         | 29,765         | 21,976         | 10,218                              | 14,852         |
| Total cost of sales, selling and distribution and administrative expenses      | <u>607,012</u>                 | <u>664,308</u> | <u>769,326</u> | <u>340,524</u>                      | <u>460,320</u> |

Note: During the year ended 31 December 2009, the Group has written off inventories of RMB19,348,000 as a result of the new Food Safety Law implemented by the PRC Government in 2009.

## 9 OTHER (LOSSES)/GAINS, NET

|  | For the year ended 31 December |            |              | For the five months ended<br>31 May |              |
|--|--------------------------------|------------|--------------|-------------------------------------|--------------|
|  | 2008                           | 2009       | 2010         | 2010                                | 2011         |
|  | RMB'000                        | RMB'000    | RMB'000      | RMB'000<br>(Unaudited)              | RMB'000      |
| Gain on sales of raw materials and scrap materials | 753                            | 3,855      | 2,920        | 1,030                               | 617          |
| Loss on disposal of property, plant and equipment  | (10,223)                       | (1,478)    | (375)        | (131)                               | (48)         |
| Exchange losses, net                               | (914)                          | (2,094)    | (231)        | (161)                               | (1,025)      |
|  | <u>(10,384)</u>                | <u>283</u> | <u>2,314</u> | <u>738</u>                          | <u>(456)</u> |

## 10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

|  | For the year ended 31 December |               |               | For the five months ended<br>31 May |               |
|--|--------------------------------|---------------|---------------|-------------------------------------|---------------|
|  | 2008                           | 2009          | 2010          | 2010                                | 2011          |
|  | RMB'000                        | RMB'000       | RMB'000       | RMB'000<br>(Unaudited)              | RMB'000       |
| Salaries and bonuses                                     | 44,615                         | 54,190        | 67,387        | 26,387                              | 32,616        |
| Employer's contribution to defined<br>contribution plans | 5,221                          | 4,637         | 5,656         | 2,223                               | 3,108         |
| Share option expense                                     | 7,013                          | –             | –             | –                                   | –             |
| Cancellation of share options                            | –                              | 4,857         | –             | –                                   | –             |
|  | <u>56,849</u>                  | <u>63,684</u> | <u>73,043</u> | <u>28,610</u>                       | <u>35,724</u> |

*(a) Directors' emoluments*

The aggregate amounts of emoluments paid and payable to each of the director of the Company by the Group during the Relevant Periods are set out below:

Year ended 31 December 2008:

| Name of directors                          | Fee          | Salaries     | Other<br>benefits | Discretionary<br>bonuses | Total        |
|--|--------------|--------------|-------------------|--------------------------|--------------|
|  | RMB'000      | RMB'000      | RMB'000           | RMB'000                  | RMB'000      |
| <b>Executive directors</b>                 |              |              |                   |                          |              |
| Mr. Zheng Yu Long                          | –            | 800          | –                 | 1,642                    | 2,442        |
| Mr. Zheng Yu Shuang                        | –            | 800          | –                 | 1,642                    | 2,442        |
| Mr. Zheng Yu Huan                          | –            | 800          | –                 | 1,642                    | 2,442        |
| <b>Non-executive director</b>              |              |              |                   |                          |              |
| Mr. Li Hung Kong                           | 600          | –            | –                 | –                        | 600          |
| <b>Independent non-executive directors</b> |              |              |                   |                          |              |
| Dr. Wang Kai Yuen                          | 200          | –            | 161               | –                        | 361          |
| Mr. Tan Soo Kiat                           | 200          | –            | 161               | –                        | 361          |
| Mr. Lam Ming Yung                          | 200          | –            | 161               | –                        | 361          |
|  | <u>1,200</u> | <u>2,400</u> | <u>483</u>        | <u>4,926</u>             | <u>9,009</u> |

Year ended 31 December 2009:

| Name of directors                          | Fee          | Salaries     | Other<br>benefits | Discretionary<br>bonuses | Total        |
|--|--------------|--------------|-------------------|--------------------------|--------------|
|  | RMB'000      | RMB'000      | RMB'000           | RMB'000                  | RMB'000      |
| <b>Executive directors</b>                 |              |              |                   |                          |              |
| Mr. Zheng Yu Long                          | –            | 800          | –                 | 1,479                    | 2,279        |
| Mr. Zheng Yu Shuang                        | –            | 800          | –                 | 1,479                    | 2,279        |
| Mr. Zheng Yu Huan                          | –            | 800          | –                 | 1,479                    | 2,279        |
| <b>Non-executive director</b>              |              |              |                   |                          |              |
| Mr. Li Hung Kong                           | 600          | –            | –                 | –                        | 600          |
| <b>Independent non-executive directors</b> |              |              |                   |                          |              |
| Dr. Wang Kai Yuen                          | 200          | –            | 116               | –                        | 316          |
| Mr. Tan Soo Kiat                           | 200          | –            | 116               | –                        | 316          |
| Mr. Lam Ming Yung                          | 200          | –            | 116               | –                        | 316          |
|  | <u>1,200</u> | <u>2,400</u> | <u>348</u>        | <u>4,437</u>             | <u>8,385</u> |

Year ended 31 December 2010:

| Name of directors                          | Fee     | Salaries | Other benefits | Discretionary bonuses <sup>(4)</sup> | Total   |
|--|---------|----------|----------------|--------------------------------------|---------|
|  | RMB'000 | RMB'000  | RMB'000        | RMB'000                              | RMB'000 |
| <b>Executive directors</b>                 |         |          |                |                                      |         |
| Mr. Zheng Yu Long                          | –       | 800      | –              | –                                    | 800     |
| Mr. Zheng Yu Shuang                        | –       | 800      | –              | –                                    | 800     |
| Mr. Zheng Yu Huan                          | –       | 800      | –              | –                                    | 800     |
| <b>Non-executive director</b>              |         |          |                |                                      |         |
| Mr. Li Hung Kong                           | –       | –        | –              | –                                    | –       |
| <b>Independent non-executive directors</b> |         |          |                |                                      |         |
| Dr. Wang Kai Yuen <sup>(1)</sup>           | 117     | –        | –              | –                                    | 117     |
| Mr. Tan Soo Kiat <sup>(2)</sup>            | 97      | –        | –              | –                                    | 97      |
| Mr. Lam Ming Yung <sup>(3)</sup>           | –       | –        | –              | –                                    | –       |
|  | 214     | 2,400    | –              | –                                    | 2,614   |

<sup>(1)</sup> Resigned on 18 October 2010

<sup>(2)</sup> Resigned on 31 May 2010

<sup>(3)</sup> Resigned on 17 November 2010

<sup>(4)</sup> During the year ended 31 December 2010, the executive directors have waived their entitlement to discretionary bonuses.

Five months ended 31 May 2010 (unaudited):

| Name of directors                          | Fee     | Salaries | Other benefits | Discretionary bonuses <sup>(4)</sup> | Total   |
|--|---------|----------|----------------|--------------------------------------|---------|
|  | RMB'000 | RMB'000  | RMB'000        | RMB'000                              | RMB'000 |
| <b>Executive directors</b>                 |         |          |                |                                      |         |
| Mr. Zheng Yu Long                          | –       | 333      | –              | –                                    | 333     |
| Mr. Zheng Yu Shuang                        | –       | 333      | –              | –                                    | 333     |
| Mr. Zheng Yu Huan                          | –       | 333      | –              | –                                    | 333     |
| <b>Non-executive director</b>              |         |          |                |                                      |         |
| Mr. Li Hung Kong                           | –       | –        | –              | –                                    | –       |
| <b>Independent non-executive directors</b> |         |          |                |                                      |         |
| Dr. Wang Kai Yuen <sup>(1)</sup>           | –       | –        | –              | –                                    | –       |
| Mr. Tan Soo Kiat <sup>(2)</sup>            | 97      | –        | –              | –                                    | 97      |
| Mr. Lam Ming Yung <sup>(3)</sup>           | –       | –        | –              | –                                    | –       |
|  | 97      | 999      | –              | –                                    | 1,096   |

<sup>(1)</sup> Resigned on 18 October 2010

<sup>(2)</sup> Resigned on 31 May 2010

<sup>(3)</sup> Resigned on 17 November 2010

<sup>(4)</sup> During the five months ended 31 May 2010, the executive directors have waived their entitlement to discretionary bonuses.

Five months ended 31 May 2011:

| Name of directors                          | Fee     | Salaries | Other benefits | Discretionary bonuses <sup>(3)</sup> | Total   |
|--|---------|----------|----------------|--------------------------------------|---------|
|  | RMB'000 | RMB'000  | RMB'000        | RMB'000                              | RMB'000 |
| <b>Executive directors</b>                 |         |          |                |                                      |         |
| Mr. Zheng Yu Long                          | -       | 333      | -              | -                                    | 333     |
| Mr. Zheng Yu Shuang                        | -       | 333      | -              | -                                    | 333     |
| Mr. Zheng Yu Huan                          | -       | 333      | -              | -                                    | 333     |
| <b>Non-executive directors</b>             |         |          |                |                                      |         |
| Mr. Li Hung Kong                           | -       | -        | -              | -                                    | -       |
| Mr. Li Gang <sup>(1)</sup>                 | -       | -        | -              | -                                    | -       |
| <b>Independent non-executive directors</b> |         |          |                |                                      |         |
| Mr. Li Zhi Hai <sup>(2)</sup>              | -       | -        | -              | -                                    | -       |
| Ms. Sun Kam Ching <sup>(2)</sup>           | -       | -        | -              | -                                    | -       |
| Mr. Chung Yau Tong <sup>(2)</sup>          | -       | -        | -              | -                                    | -       |
|  | -       | 999      | -              | -                                    | 999     |

(1) Appointed on 24 October 2011

(2) Appointed on 23 September 2011

(3) During the five months ended 31 May 2011, the executive directors have waived their entitlement to discretionary bonuses.

**(b) Five highest paid individuals**

The five highest paid individuals include 4, 4, 3, 3 and 3 directors for each of the year ended 31 December 2008, 2009 and 2010, and for the five months ended 31 May 2010 and 2011, respectively, whose emoluments are included in the above disclosures. The emoluments of the remaining 1, 1, 2, 2 and 2 individuals for the years ended 31 December 2008, 2009 and 2010, and for the five months ended 31 May 2010 and 2011, respectively, are as follows:

|   | For the year ended 31 December |         |         | For the five months ended 31 May |         |
|---|--------------------------------|---------|---------|----------------------------------|---------|
|   | 2008                           | 2009    | 2010    | 2010                             | 2011    |
|   | RMB'000                        | RMB'000 | RMB'000 | RMB'000<br>(Unaudited)           | RMB'000 |
| Salaries and bonuses                                  | 602                            | 704     | 944     | 393                              | 401     |
| Employer's contribution to defined contribution plans | 10                             | 10      | 13      | 5                                | 6       |
| Share option expenses                                 | 343                            | 160     | -       | -                                | -       |
|   | 955                            | 874     | 957     | 398                              | 407     |

The emoluments fell within the following bands:

|   | Number of individuals          |      |      |                                  |      |
|---|--------------------------------|------|------|----------------------------------|------|
|   | For the year ended 31 December |      |      | For the five months ended 31 May |      |
|   | 2008                           | 2009 | 2010 | 2010<br>(Unaudited)              | 2011 |
| Nil-HK\$1,000,000<br>(equivalent to Nil-RMB830,000)                 | -                              | -    | 2    | 2                                | 2    |
| HK\$1,000,001-HK\$1,500,000 (equivalent to RMB830,001-RMB1,245,000) | 1                              | 1    | -    | -                                | -    |

(c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11 FINANCE COSTS

|                                      | For the year ended 31 December |         |         | For the five months ended<br>31 May |         |
|--------------------------------------|--------------------------------|---------|---------|-------------------------------------|---------|
|                                      | 2008                           | 2009    | 2010    | 2010                                | 2011    |
|                                      | RMB'000                        | RMB'000 | RMB'000 | RMB'000<br>(Unaudited)              | RMB'000 |
| Interest expenses on bank borrowings | 2,040                          | 3,014   | 3,518   | 1,386                               | 3,316   |

## 12 INCOME TAX EXPENSE

|  | For the year ended 31 December |         |          | For the five months ended<br>31 May |         |
|--|--------------------------------|---------|----------|-------------------------------------|---------|
|  | 2008                           | 2009    | 2010     | 2010                                | 2011    |
|  | RMB'000                        | RMB'000 | RMB'000  | RMB'000<br>(Unaudited)              | RMB'000 |
| Current income tax – PRC               | 23,291                         | 42,560  | 32,007   | 10,667                              | 29,819  |
| Overprovision in prior year            | –                              | –       | (24,492) | (3,039)                             | –       |
| Deferred income tax ( <i>Note 21</i> ) | 3,946                          | (1,866) | 5,504    | 5,448                               | (1,485) |
|  | 27,237                         | 40,694  | 13,019   | 13,076                              | 28,334  |

During the Relevant Periods, the Group did not have any assessable income in Bermuda, BVI and Hong Kong.

The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the Relevant Periods. Certain of the subsidiaries were granted full exemption from the PRC income tax for two years from their first profit-making year of operation, and followed by a 50% reduction in income tax rate for the next three years.

A subsidiary in Fujian province, PRC, was designated an New and Hi-Tech Enterprises (“*高新技術企業*”) in October 2009 and has thus enjoyed a preferential income tax rate of 15% since 2010 and subject to review and renewal every three years.

In addition, pursuant to Article 9 of Circular Caishui [2009] No.59 issued on 30 April 2009, which became effective retrospectively on 1 January 2008, a subsidiary under the full-exemption tax holiday period in 2008 and 2009 was subject to an income tax rate of 25% in 2008 and 2009. Consequently, a provision for income tax liability amounting to RMB21,400,000 was made in the year ended 31 December 2009. In 2010, the directors have sought clarification from the relevant PRC tax authorities on the tax position of the subsidiary and determined that the subsidiary can continue to enjoy the tax holiday till its expiry in 2012. As such, the subsidiary has written back the tax provision in 2010.



The income tax expense on profit differs from the amount that would arise using the PRC applicable income tax rate is as explained below:

|  | For the year ended 31 December |         |          | For the five months ended<br>31 May |          |
|--|--------------------------------|---------|----------|-------------------------------------|----------|
|  | 2008                           | 2009    | 2010     | 2010                                | 2011     |
|  | RMB'000                        | RMB'000 | RMB'000  | RMB'000<br>(Unaudited)              | RMB'000  |
| Profit before income tax                         | 95,868                         | 94,182  | 160,857  | 71,672                              | 143,912  |
| Tax calculated at PRC applicable income tax rate | 23,967                         | 23,546  | 40,214   | 17,918                              | 35,978   |
| Effects of:                                      |                                |         |          |                                     |          |
| – Tax concession                                 | (9,875)                        | (424)   | (21,606) | (8,254)                             | (12,840) |
| – Different tax rates                            | 2,187                          | 2,834   | 669      | 469                                 | 605      |
| – Income not subject to tax                      | (212)                          | –       | (41)     | –                                   | (364)    |
| – Expenses not deductible for tax purposes       | 7,995                          | 11,724  | 1,850    | 1,346                               | 1,451    |
| – Withholding tax on unremitted profits (note)   | 3,104                          | 3,359   | 17,193   | 3,840                               | 3,504    |
| – Overprovision in prior year                    | –                              | –       | (24,492) | (3,039)                             | –        |
| – Others   | 71                             | (345)   | (768)    | 796                                 | –        |
| Tax charge                                       | 27,237                         | 40,694  | 13,019   | 13,076                              | 28,334   |

Note: According to the relevant PRC tax rules and regulations, dividend distribution out of profit earned by foreign-invested enterprises in the PRC after 1 January 2008 is subject to PRC corporate withholding income tax at tax rate of 5% to 10%. During the Relevant Periods, withholding income tax was provided for the dividend distributed and the portion of the retained profits which will be distributed in the foreseeable future for the Group's PRC subsidiaries at a tax rate of 10%.

### 13 EARNINGS PER SHARE

|  | For the year ended 31 December |         |         | For the five months ended<br>31 May |         |
|--|--------------------------------|---------|---------|-------------------------------------|---------|
|  | 2008                           | 2009    | 2010    | 2010                                | 2011    |
|  |                                |         |         | (Unaudited)                         |         |
| Net profit attributable to the equity holders of Company (RMB'000)                           | 68,631                         | 53,488  | 147,838 | 58,596                              | 115,578 |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000)   | 503,182                        | 503,182 | 503,182 | 503,182                             | 523,176 |
| Adjustment for share options ('000)  | –                              | –       | –       | –                                   | –       |
| Weighted average number of ordinary shares outstanding for diluted earnings per share ('000) | 503,182                        | 503,182 | 503,182 | 503,182                             | 523,176 |
| Basic earnings per share (RMB per share)   | 0.14                           | 0.11    | 0.29    | 0.12                                | 0.22    |
| Diluted earnings per share (RMB per share)   | 0.14                           | 0.11    | 0.29    | 0.12                                | 0.22    |

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the net profit attributable to the Company's equity holders by the weighted average number of ordinary shares outstanding during the year/period.

*(b) Diluted earnings per share*

For the purpose of calculating diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for the effects of all dilutive potential ordinary shares. In 2008 and 2009, the Company had one category of dilutive potential ordinary shares: share options that were anti-dilutive. On 27 August 2009, all unexercised outstanding share options were cancelled. Consequently, the Company has no potential dilutive ordinary shares as at 31 December 2009 and 2010 and 31 May 2010 and 2011.

The basic earnings per share and diluted earnings per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed capitalization issue as described in Note 36.

**14 DIVIDENDS**

|  | For the year ended 31 December |         |         | For the five months ended<br>31 May |         |
|--|--------------------------------|---------|---------|-------------------------------------|---------|
|  | 2008                           | 2009    | 2010    | 2010                                | 2011    |
|  | RMB'000                        | RMB'000 | RMB'000 | RMB'000<br>(Unaudited)              | RMB'000 |
| Final dividend, paid, of<br>(2008: RMB0.020; 2009: Nil; 2010: Nil;<br>2011: Nil) per share         | 10,064                         | –       | –       | –                                   | –       |
| Interim dividends, paid, of<br>(2008: Nil; 2009: Nil; 2010: RMB0.152;<br>2011: RMB0.079) per share | –                              | –       | 76,650  | –                                   | 40,000  |

**15 LAND USE RIGHTS**

|                                 | The Group         |         |         |              |
|---------------------------------|-------------------|---------|---------|--------------|
|                                 | As at 31 December |         |         | As at 31 May |
|                                 | 2008              | 2009    | 2010    | 2011         |
|                                 | RMB'000           | RMB'000 | RMB'000 | RMB'000      |
| <b>Cost</b>                     |                   |         |         |              |
| At 1 January                    | 63,373            | 117,373 | 119,020 | 119,020      |
| Additions                       | 54,000            | 1,647   | –       | 46,800       |
| At 31 December/31 May           | 117,373           | 119,020 | 119,020 | 165,820      |
| <b>Accumulated amortization</b> |                   |         |         |              |
| At 1 January                    | 2,045             | 3,673   | 6,040   | 8,420        |
| Amortization                    | 1,628             | 2,367   | 2,380   | 1,226        |
| At 31 December/31 May           | 3,673             | 6,040   | 8,420   | 9,646        |
| <b>Net book amount</b>          |                   |         |         |              |
| At 31 December/31 May           | 113,700           | 112,980 | 110,600 | 156,174      |

The land use rights of the Group are outside Hong Kong and held on leases with remaining periods of between 40 to 50 years.

As at 31 December 2008 and 2009, the legal title of certain land use rights in the PRC with net book amounts of approximately RMB13,591,000 and RMB13,314,000, respectively, had not been transferred to the Group because certain administrative procedures with the local government authorities have not been completed. The directors are of the opinion that as payment for the land use rights has been made and the Group is enjoying the use of the land, the risks and rewards of the land use rights have been transferred to the Group. As at 31 December 2010 and 31 May 2011, the legal title of the above-mentioned land use rights were transferred to the Group.

## 16 PROPERTY, PLANT AND EQUIPMENT

*The Group*

|                                    | Buildings      | Leasehold<br>improvements | Plant and<br>equipment | Motor vehicles | Construction-<br>in-progress | Total          |
|------------------------------------|----------------|---------------------------|------------------------|----------------|------------------------------|----------------|
|                                    | RMB'000        | RMB'000                   | RMB'000                | RMB'000        | RMB'000                      | RMB'000        |
| <b>Year ended 31 December 2008</b> |                |                           |                        |                |                              |                |
| <b>Cost</b>                        |                |                           |                        |                |                              |                |
| At 1 January 2008                  | 226,568        | 2,225                     | 147,981                | 9,837          | 12,594                       | 399,205        |
| Additions                          | –              | –                         | 76,577                 | 232            | 14,117                       | 90,926         |
| Disposals                          | –              | (2,225)                   | (27,338)               | (680)          | –                            | (30,243)       |
| Transfer to/(from)                 | 18,235         | –                         | –                      | –              | (18,235)                     | –              |
| At 31 December 2008                | <u>244,803</u> | <u>–</u>                  | <u>197,220</u>         | <u>9,389</u>   | <u>8,476</u>                 | <u>459,888</u> |
| <b>Accumulated depreciation</b>    |                |                           |                        |                |                              |                |
| At 1 January 2008                  | 6,950          | 1,239                     | 36,228                 | 3,699          | –                            | 48,116         |
| Depreciation charge                | 10,990         | 986                       | 15,025                 | 1,711          | –                            | 28,712         |
| Disposals                          | –              | (2,225)                   | (13,862)               | (530)          | –                            | (16,617)       |
| At 31 December 2008                | <u>17,940</u>  | <u>–</u>                  | <u>37,391</u>          | <u>4,880</u>   | <u>–</u>                     | <u>60,211</u>  |
| <b>Net book value</b>              |                |                           |                        |                |                              |                |
| At 31 December 2008                | <u>226,863</u> | <u>–</u>                  | <u>159,829</u>         | <u>4,509</u>   | <u>8,476</u>                 | <u>399,677</u> |
| <b>Year ended 31 December 2009</b> |                |                           |                        |                |                              |                |
| <b>Cost</b>                        |                |                           |                        |                |                              |                |
| At 1 January 2009                  | 244,803        | –                         | 197,220                | 9,389          | 8,476                        | 459,888        |
| Additions                          | –              | –                         | 24,111                 | 382            | 89,008                       | 113,501        |
| Disposals                          | –              | –                         | (5,391)                | –              | –                            | (5,391)        |
| At 31 December 2009                | <u>244,803</u> | <u>–</u>                  | <u>215,940</u>         | <u>9,771</u>   | <u>97,484</u>                | <u>567,998</u> |
| <b>Accumulated depreciation</b>    |                |                           |                        |                |                              |                |
| At 1 January 2009                  | 17,940         | –                         | 37,391                 | 4,880          | –                            | 60,211         |
| Depreciation charge                | 10,548         | –                         | 19,143                 | 1,287          | –                            | 30,978         |
| Disposals                          | –              | –                         | (1,476)                | –              | –                            | (1,476)        |
| At 31 December 2009                | <u>28,488</u>  | <u>–</u>                  | <u>55,058</u>          | <u>6,167</u>   | <u>–</u>                     | <u>89,713</u>  |
| <b>Net book value</b>              |                |                           |                        |                |                              |                |
| At 31 December 2009                | <u>216,315</u> | <u>–</u>                  | <u>160,882</u>         | <u>3,604</u>   | <u>97,484</u>                | <u>478,285</u> |
| <b>Year ended 31 December 2010</b> |                |                           |                        |                |                              |                |
| <b>Cost</b>                        |                |                           |                        |                |                              |                |
| At 1 January 2010                  | 244,803        | –                         | 215,940                | 9,771          | 97,484                       | 567,998        |
| Additions                          | 1,323          | –                         | 82,371                 | 235            | 27,523                       | 111,452        |
| Disposals                          | –              | –                         | (850)                  | –              | –                            | (850)          |
| Transfer to/(from)                 | 125,007        | –                         | –                      | –              | (125,007)                    | –              |
| At 31 December 2010                | <u>371,133</u> | <u>–</u>                  | <u>297,461</u>         | <u>10,006</u>  | <u>–</u>                     | <u>678,600</u> |
| <b>Accumulated depreciation</b>    |                |                           |                        |                |                              |                |
| At 1 January 2010                  | 28,488         | –                         | 55,058                 | 6,167          | –                            | 89,713         |
| Depreciation charge                | 13,829         | –                         | 22,586                 | 1,232          | –                            | 37,647         |
| Disposals                          | –              | –                         | (435)                  | –              | –                            | (435)          |
| At 31 December 2010                | <u>42,317</u>  | <u>–</u>                  | <u>77,209</u>          | <u>7,399</u>   | <u>–</u>                     | <u>126,925</u> |
| <b>Net book value</b>              |                |                           |                        |                |                              |                |
| At 31 December 2010                | <u>328,816</u> | <u>–</u>                  | <u>220,252</u>         | <u>2,607</u>   | <u>–</u>                     | <u>551,675</u> |

|                                      | Buildings | Leasehold<br>improvements | Plant and<br>equipment | Motor vehicles | Construction-<br>in-progress | Total   |
|--------------------------------------|-----------|---------------------------|------------------------|----------------|------------------------------|---------|
|                                      | RMB'000   | RMB'000                   | RMB'000                | RMB'000        | RMB'000                      | RMB'000 |
| <b>Five months ended 31 May 2011</b> |           |                           |                        |                |                              |         |
| <b>Cost</b>                          |           |                           |                        |                |                              |         |
| At 1 January 2011                    | 371,133   | –                         | 297,461                | 10,006         | –                            | 678,600 |
| Additions                            | –         | –                         | 8,964                  | 180            | 10,484                       | 19,628  |
| Disposals                            | –         | –                         | (481)                  | –              | –                            | (481)   |
| At 31 May 2011                       | 371,133   | –                         | 305,944                | 10,186         | 10,484                       | 697,747 |
| <b>Accumulated depreciation</b>      |           |                           |                        |                |                              |         |
| At 1 January 2011                    | 42,317    | –                         | 77,209                 | 7,399          | –                            | 126,925 |
| Depreciation charge                  | 6,978     | –                         | 11,233                 | 447            | –                            | 18,658  |
| Disposals                            | –         | –                         | (433)                  | –              | –                            | (433)   |
| At 31 May 2011                       | 49,295    | –                         | 88,009                 | 7,846          | –                            | 145,150 |
| <b>Net book value</b>                |           |                           |                        |                |                              |         |
| At 31 May 2011                       | 321,838   | –                         | 217,935                | 2,340          | 10,484                       | 552,597 |

## 17 DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

The balance represents deposits paid for acquisition of machineries and equipment, and construction of production facilities of PRC subsidiaries.

## 18 INTERESTS IN SUBSIDIARIES

### (a) Investments in subsidiaries

|                                      | The Company       |         |         |              |
|--------------------------------------|-------------------|---------|---------|--------------|
|                                      | As at 31 December |         |         | As at 31 May |
|                                      | 2008              | 2009    | 2010    | 2011         |
|                                      | RMB'000           | RMB'000 | RMB'000 | RMB'000      |
| Unlisted equity investments, at cost | 134,206           | 134,206 | 134,206 | 134,206      |

| Name of companies  | Country of<br>business/<br>incorporation | Principal activities | Equity holding    |      |      |        |
|--|--|----------------------|-------------------|------|------|--------|
|  |  |                      | As at 31 December |      |      | As at  |
|  |  |                      | 2008              | 2009 | 2010 | 31 May |
| <b>Directly held</b>   |  |                      |                   |      |      |        |
| Timeluck International Limited<br>("Timeluck") <sup>(i)</sup>                | BVI                                      | Investment holding   | 100%              | 100% | 100% | 100%   |
| Labixiaoxin International<br>Company Limited<br>("LBXX Intl") <sup>(i)</sup> | BVI                                      | Investment holding   | 100%              | 100% | 100% | 100%   |
| Labixiaoxin Holdings Company<br>Limited ("LBXX Hldgs") <sup>(ii)</sup>       | Hong Kong                                | Investment holding   | 100%              | 100% | 100% | 100%   |
| Labixiaoxin Investments Company<br>Limited ("LBXX Inv") <sup>(iii)</sup>     | Hong Kong                                | Investment holding   | 100%              | 100% | 100% | 100%   |

| Name of companies  | Country of business/<br>incorporation | Principal activities                                | Equity holding    |      |      |              |
|--|---------------------------------------|---|-------------------|------|------|--------------|
|  |                                       |   | As at 31 December |      |      | As at 31 May |
|  |                                       |   | 2008              | 2009 | 2010 | 2011         |
| <b>Indirectly held</b>   |                                       |   |                   |      |      |              |
| 蠟筆小新(福建)食品工業有限公司<br>(Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd)<br>("LBXX Fujian") <sup>(iv)</sup> | PRC <sup>#</sup>                      | Manufacture and sale of food and beverages products | 100%              | 100% | 100% | 100%         |
| Wax Crayon Xiao Xin (Tianjin) Food Stuff Industry Co., Ltd.<br>("LBXX Xiqing") <sup>(v)</sup>              | PRC <sup>#</sup>                      | Manufacture and sale of food and beverages products | 100%              | –    | –    | –            |
| 蠟筆小新(安徽)有限公司<br>(Labixiaoxin (Anhui) Co. Ltd.) <sup>(iii)</sup>  | PRC <sup>#</sup>                      | Manufacture and sale of food and beverages products | –                 | –    | 100% | 100%         |
| 蠟筆小新(天津)有限公司<br>(Labixiaoxin (Tianjin) Co. Ltd.)<br>("LBXX Tianjin") <sup>(vi)</sup>                       | PRC <sup>#</sup>                      | Manufacture and sale of food and beverages products | 100%              | 100% | 100% | 100%         |
| 蠟筆小新(四川)有限公司<br>(Labixiaoxin (Sichuan) Co. Ltd.) ("LBXX Sichuan") <sup>(vii)</sup>                         | PRC <sup>#</sup>                      | Manufacture and sale of food and beverages products | 100%              | 100% | 100% | 100%         |

- (i) No audited financial statements were issued for these companies as there were no requirements, statutory or otherwise, to issue audited financial statements.
- (ii) CC Alliance CPA & Co. were the statutory auditors for the year ended 31 December 2008. No audited financial statements were issued for the company for years ended 31 December 2009 and 2010.
- (iii) No statutory audit since incorporation.
- (iv) 廈門泓正會計師事務所有限公司 (Xiamen Hongzheng Certified Public Accountants) were the statutory auditors for the year ended 31 December 2008 and 泉州名城有限責任會計師事務所 (Quanzhou Mingcheng Certified Public Accountants Co. Ltd) were the statutory auditors for the years ended 31 December 2009 and 2010.
- (v) Pursuant to the directors resolutions effective on 2008, LBXX Xiqing merged with LBXX Tianjin. The company was de-registered during the year ended 31 December 2009. No audited financial statements were issued for the company for year ended 31 December 2008.
- (vi) 天津廣信有限責任會計師事務所 (Tianjin Guangxin Certified Public Accountants Co., Ltd) were the statutory auditors for the years ended 31 December 2008, 2009 and 2010.
- (vii) 四川昌明會計師事務所有限責任公司 (Sichuan Changming Certified Public Accountants Co. Ltd) were the statutory auditors for the years ended 31 December 2009 and 2010. No audited financial statements were issued for the company for year ended 31 December 2008.

# The companies are established as wholly foreign-owned enterprises in the PRC.

## (b) Loans to/amount due from subsidiaries

|                              | The Company       |                |                |                |
|------------------------------|-------------------|----------------|----------------|----------------|
|                              | As at 31 December |                |                | As at 31 May   |
|                              | 2008              | 2009           | 2010           | 2011           |
|                              | RMB'000           | RMB'000        | RMB'000        | RMB'000        |
| <b>Current</b>               |                   |                |                |                |
| Amount due from a subsidiary |                   |                |                |                |
| – dividend receivable        | 10,000            | 20,000         | –              | –              |
| <b>Non-current</b>           |                   |                |                |                |
| Loans to subsidiaries        | 246,549           | 246,857        | 256,792        | 357,537        |
| Provision for impairment     | –                 | (2,425)        | (4,836)        | (4,836)        |
|                              | <u>246,549</u>    | <u>244,432</u> | <u>251,956</u> | <u>352,701</u> |

The amount due from a subsidiary approximates its fair value.

Loans to subsidiaries are non-trade in nature and are stated at cost. These loans are unsecured, interest-free and have no fixed terms of repayment. These loans are regarded as equity contributions to the subsidiaries.

## 19 INTERESTS IN AN ASSOCIATED COMPANY

|  | The Group                      |              |          |                                  |
|--|--------------------------------|--------------|----------|----------------------------------|
|  | For the year ended 31 December |              |          | For the five months ended 31 May |
|  | 2008                           | 2009         | 2010     | 2011                             |
|  | RMB'000                        | RMB'000      | RMB'000  | RMB'000                          |
| <b>Investment in an associated company</b>                                       |                                |              |          |                                  |
| Beginning of the year/period   | 11,866                         | 9,273        | –        | –                                |
| Share of losses  | (2,593)                        | (4,145)      | –        | –                                |
| Provision for impairment (note)  | –                              | (5,128)      | –        | –                                |
| End of the year/period   | <u>9,273</u>                   | <u>–</u>     | <u>–</u> | <u>–</u>                         |
| <b>Loans to an associated company</b>  |                                |              |          |                                  |
| Beginning of the year/period   | –                              | –            | 1,778    | –                                |
| Loans to the associated company  | –                              | 3,777        | –        | –                                |
| Provision for impairment (note)  | –                              | (1,999)      | (1,778)  | –                                |
| End of the year/period   | <u>–</u>                       | <u>1,778</u> | <u>–</u> | <u>–</u>                         |
| The summarized Group's share of financial information of the associated company: |                                |              |          |                                  |
| – Assets   | 11,609                         | 11,548       | 10,791   | 10,791                           |
| – Liabilities  | 2,336                          | 6,420        | 6,153    | 6,153                            |
| – Revenue  | 724                            | 1,601        | –        | –                                |
| – Net loss   | <u>2,593</u>                   | <u>4,145</u> | <u>–</u> | <u>–</u>                         |

| Name  | Place of incorporation | Particulars of issued share capital | % of attributable interest held indirectly |      |      |              | Principal activities                                     |
|---|------------------------|-------------------------------------|--|------|------|--------------|--|
|   |                        |                                     | As at 31 December                          |      |      | As at 31 May |  |
|   |                        |                                     | 2008                                       | 2009 | 2010 | 2011         |  |
| Tianjin Super Lifestyle Food Development Company Ltd. | PRC                    | US\$4,999,990                       | 32%  | 32%  | 32%  | 32%          | Manufacturing and distribution of snack foods in the PRC |

Note: As at 31 December 2009, the Group's total investments in the associated company amounted to RMB5,128,000 before impairment allowance. The directors were of the view that the associated company had been incurring losses and its profitability was not expected to significantly improve in the foreseeable future, management assessed the recoverable amount of the Group's investment in the associated company at its estimated fair value less cost to sell by referencing to price in sales contracts of arm's length transactions. Impairment allowance of RMB5,128,000 was made on the investment in the associated company in 2009. As at 31 December 2009 and 2010, management further assessed the recoverability of the Group's loans to the associated company and determined that RMB1,999,000 and RMB1,778,000, respectively, were impaired.

Loans to the associated company were unsecured, interest free and had no fixed terms of repayment.

## 20 INTERESTS IN A JOINTLY CONTROLLED ENTITY

|   | The Group                      |         |         |                                  |
|---|--------------------------------|---------|---------|----------------------------------|
|   | For the year ended 31 December |         |         | For the five months ended 31 May |
|   | 2008                           | 2009    | 2010    | 2011                             |
|   | RMB'000                        | RMB'000 | RMB'000 | RMB'000                          |
| Beginning of the year/period  | 7,649                          | 4,255   | 2,623   | –                                |
| Capital injection   | 3,337                          | –       | –       | –                                |
| Share of losses   | (1,731)                        | (1,632) | (432)   | –                                |
| Provision for impairment (note (a))   | (5,000)                        | –       | –       | –                                |
| Disposal (note (b))   | –                              | –       | (2,191) | –                                |
| End of the year/period  | 4,255                          | 2,623   | –       | –                                |
| The summarized Group's share of financial information of the jointly controlled entity: |                                |         |         |                                  |
| – Assets  | 13,070                         | 11,015  | –       | –                                |
| – Liabilities   | 3,861                          | 3,438   | –       | –                                |
| – Revenue   | 4,504                          | 1,995   | –       | –                                |
| – Net loss  | 1,731                          | 1,632   | –       | –                                |



| Name                             | Place of incorporation | Particulars of issued share capital | % of attributable interest held indirectly |      |      |              | Principal activities                                    |
|----------------------------------|------------------------|-------------------------------------|--|------|------|--------------|---|
|                                  |                        |                                     | As at 31 December                          |      |      | As at 31 May |   |
|                                  |                        |                                     | 2008                                       | 2009 | 2010 | 2011         |   |
| Coco (Fujian) Foods Company Ltd. | PRC                    | US\$2,999,842                       | 50%  | 50%  | –    | –            | Manufacturing and distribution of snack food in the PRC |

Note:

- (a) As at 31 December 2008, the Group's investment in the jointly controlled entity amounted to RMB9,255,000 before impairment allowance. With the view that the jointly controlled entity had been incurring losses and its profitability was not expected to significantly improve in foreseeable future, management assessed the recoverable amount of the investment in the jointly controlled entity at its estimated fair value less cost to sell by referencing to price in sales contracts of arm's length transactions. An impairment allowance of RMB5 million was recognized on the investment in a jointly controlled entity in 2008.
- (b) In 2010, the jointly controlled entity was disposed to a third party for a consideration of RMB2,535,000 and a gain of RMB344,000 was recognized in the consolidated statement of comprehensive income.

## 21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement in deferred income tax account is as follows:

|   | The Group                      |              |              |                                  |              |
|---|--------------------------------|--------------|--------------|----------------------------------|--------------|
|   | For the year ended 31 December |              |              | For the five months ended 31 May |              |
|   | 2008                           | 2009         | 2010         | 2010                             | 2011         |
|   | RMB'000                        | RMB'000      | RMB'000      | RMB'000<br>(Unaudited)           | RMB'000      |
| <b>Deferred income tax assets</b>                                     |                                |              |              |                                  |              |
| Beginning of the year/period  | 3,357                          | 2,515        | 3,329        | 3,329                            | 2,784        |
| (Charged)/credited to the statement of comprehensive income (Note 12) | (842)                          | 814          | (545)        | (1,706)                          | 544          |
| End of the year/period  | <u>2,515</u>                   | <u>3,329</u> | <u>2,784</u> | <u>1,623</u>                     | <u>3,328</u> |
| <b>Deferred income tax liabilities</b>                                |                                |              |              |                                  |              |
| Beginning of the year/period  | –                              | 3,104        | 2,052        | 2,052                            | 7,011        |
| Charged/(credited) to the statement of comprehensive income (Note 12) | 3,104                          | (1,052)      | 4,959        | 3,742                            | (941)        |
| End of the year/period  | <u>3,104</u>                   | <u>2,052</u> | <u>7,011</u> | <u>5,794</u>                     | <u>6,070</u> |

At 31 December 2008, 2009 and 2010 and 31 May 2011, deferred income tax assets are recognized for accrued sales rebates, to the extent that realization of the related tax benefits through future taxable profits is probable which are calculated in full on temporary differences under the liability method using principal tax rates ranging from 12.5% to 25%.

Deferred income tax liabilities represented deferred tax effect on the withholding tax payable on the undistributed profits of certain PRC subsidiaries. The amounts are shown on the consolidated balance sheet as follows:

|  | <b>The Group</b>         |                |                |                     |
|--|--------------------------|----------------|----------------|---------------------|
|  | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|  | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|  | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| <b>Deferred income tax assets</b>      |                          |                |                |                     |
| – to be recovered within one year      | 2,515                    | 3,329          | 2,784          | 3,328               |
| <b>Deferred income tax liabilities</b> |                          |                |                |                     |
| – to be settled within one year        | 3,104                    | 2,052          | 4,444          | 6,070               |
| – to be settled after one year         | –                        | –              | 2,567          | –                   |
|  | <u>3,104</u>             | <u>2,052</u>   | <u>7,011</u>   | <u>6,070</u>        |

As at 31 December 2008, 2009 and 2010 and 31 May 2011, there are temporary differences relating to the undistributed profits of certain Group's PRC subsidiaries amounted to RMB109,611,000, RMB161,364,000, RMB178,753,000 and RMB263,649,000, respectively. Deferred tax liabilities of RMB7,673,000, RMB11,295,000, RMB10,865,000 and RMB18,875,000, respectively, have not been recognized in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

## 22 INVENTORIES

|                | <b>The Group</b>         |                |                |                     |
|----------------|--------------------------|----------------|----------------|---------------------|
|                | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|                | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|                | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| Raw materials  | 38,003                   | 36,302         | 51,348         | 64,818              |
| Finished goods | 39,503                   | 25,195         | 25,512         | 13,742              |
|                | <u>77,506</u>            | <u>61,497</u>  | <u>76,860</u>  | <u>78,560</u>       |

The cost of inventories recognized as expense and included in "cost of sales" amounted to RMB395,076,000, RMB421,457,000, RMB518,779,000, RMB232,652,000 and RMB324,219,000 for the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2010 and 2011, respectively.

## 23 TRADE RECEIVABLES

The Group's sales are generally on credit term ranging from 30 to 90 days. As at the balance sheet dates, the aging analysis of trade receivables, based on invoice date, is as follows:

|                   | <b>The Group</b>         |                |                |                     |
|-------------------|--------------------------|----------------|----------------|---------------------|
|                   | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|                   | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|                   | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| Less than 30 days | 53,926                   | 83,715         | 133,161        | 123,129             |
| 31 days – 90 days | 4,902                    | 22,857         | 14,454         | 87,752              |
|                   | <u>58,828</u>            | <u>106,572</u> | <u>147,615</u> | <u>210,881</u>      |

For the trade receivables that are not past due nor impaired, the directors were of the opinion that no impairment provision was required as those customers did not have recent default history.

As at 31 December 2008, 2009 and 2010 and 31 May 2011, trade receivables of RMB538,000, RMB Nil, RMB Nil and RMB Nil, respectively, were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

|   | <b>The Group</b>         |                |                |                     |
|---|--------------------------|----------------|----------------|---------------------|
|   | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|   | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|   | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| Past due by less than 3 months but not impaired | 538                      | –              | –              | –                   |

During the Relevant Periods, no trade receivables were impaired. As at 31 December 2008, 2009 and 2010 and 31 May 2011, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

#### 24 PREPAYMENTS AND OTHER RECEIVABLES

|   | <b>The Group</b>         |                |                |                | <b>The Company</b>       |                |                |                |
|---|--------------------------|----------------|----------------|----------------|--------------------------|----------------|----------------|----------------|
|   | <b>As at 31 December</b> |                |                | <b>As at</b>   | <b>As at 31 December</b> |                |                | <b>As at</b>   |
|   | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>31 May</b>  | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>    |
|   | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b> |
| Prepayment for purchase of raw materials                | 6,654                    | –              | 12,695         | 24,578         | –                        | –              | –              | –              |
| Prepayment for advertising expenses                     | –                        | 6,278          | 7,200          | 2,804          | –                        | –              | –              | –              |
| Other prepayments                                       | 1,176                    | 746            | 75             | 5,262          | 75                       | 75             | 75             | 5,262          |
| Value-added tax recoverable                             | –                        | –              | 10,091         | 4,568          | –                        | –              | –              | –              |
| Amount due from a jointly controlled entity (non-trade) | 949                      | 1,829          | –              | –              | –                        | –              | –              | –              |
| Amount due from an associated company (non-trade)       | 1,355                    | 346            | –              | –              | –                        | –              | –              | –              |
| Sundry assets   | 3,142                    | 1,501          | 1,907          | 1,859          | –                        | –              | –              | –              |
|   | <b>13,276</b>            | <b>10,700</b>  | <b>31,968</b>  | <b>39,071</b>  | <b>75</b>                | <b>75</b>      | <b>75</b>      | <b>5,262</b>   |

The carrying amounts of prepayments and other receivables approximate their fair values.

The non-trade amounts due from a jointly controlled entity and an associated company are unsecured, interest free and have no fixed terms of repayment.

#### 25 PLEDGED BANK DEPOSITS

As at 31 December 2008, 2009 and 2010 and 31 May 2011, short-term bank deposits of the Group were with initial terms of over three months and pledged to banks as security for bills payable (Note 27).

As at 31 December 2008, 2009 and 2010 and 31 May 2011, weighted average effective interest rates of short-term bank deposits are 0.36%, 0.46%, 0.36% and 0.50% respectively.

The carrying amounts of pledged bank deposits approximate their fair values.

## 26 CASH AND CASH EQUIVALENTS

|                          | The Group         |         |         |                 | The Company       |         |         |                 |
|--------------------------|-------------------|---------|---------|-----------------|-------------------|---------|---------|-----------------|
|                          | As at 31 December |         |         | As at<br>31 May | As at 31 December |         |         | As at<br>31 May |
|                          | 2008              | 2009    | 2010    | 2011            | 2008              | 2009    | 2010    | 2011            |
|                          | RMB'000           | RMB'000 | RMB'000 | RMB'000         | RMB'000           | RMB'000 | RMB'000 | RMB'000         |
| Cash at bank and on hand | 34,311            | 10,879  | 18,236  | 146,005         | 80                | 61      | 924     | 29,872          |

The carrying amounts of cash and cash equivalents approximate their fair values.

## 27 TRADE AND OTHER PAYABLES

|   | The Group         |         |         |                 | The Company       |         |         |                 |
|---|-------------------|---------|---------|-----------------|-------------------|---------|---------|-----------------|
|   | As at 31 December |         |         | As at<br>31 May | As at 31 December |         |         | As at<br>31 May |
|   | 2008              | 2009    | 2010    | 2011            | 2008              | 2009    | 2010    | 2011            |
|   | RMB'000           | RMB'000 | RMB'000 | RMB'000         | RMB'000           | RMB'000 | RMB'000 | RMB'000         |
| Trade payables                                  |                   |         |         |                 |                   |         |         |                 |
| – third parties                                 | 92,547            | 87,094  | 114,509 | 128,622         | –                 | –       | –       | –               |
| – a jointly controlled entity                   | 4,019             | –       | –       | –               | –                 | –       | –       | –               |
|   | 96,566            | 87,094  | 114,509 | 128,622         | –                 | –       | –       | –               |
| Bills payable                                   | 34,950            | 31,710  | 67,548  | 83,563          | –                 | –       | –       | –               |
| Trade and bills payables                        | 131,516           | 118,804 | 182,057 | 212,185         | –                 | –       | –       | –               |
| Amount due to an associated company (non-trade) | –                 | 272     | –       | –               | –                 | –       | –       | –               |
| Accrued sales rebates                           | 15,089            | 16,496  | 17,676  | 21,112          | –                 | –       | –       | –               |
| Other accrued expenses                          | 13,172            | 14,109  | 17,749  | 15,640          | 1,931             | 3,668   | 1,800   | 4,722           |
| Directors' fees and emoluments payable          | 7,327             | 7,875   | 4,282   | 4,904           | 7,327             | 7,875   | 4,282   | 4,904           |
| Sundry creditors                                | 4,421             | 5,364   | 7,920   | 3,920           | –                 | –       | –       | –               |
|   | 171,525           | 162,920 | 229,684 | 257,761         | 9,258             | 11,543  | 6,082   | 9,626           |

The credit periods granted by suppliers generally range from 30 to 60 days. As at the respective balance sheet dates, the aging analysis of trade payables is as follows:

|                   | The Group         |         |         |              |
|-------------------|-------------------|---------|---------|--------------|
|                   | As at 31 December |         |         | As at 31 May |
|                   | 2008              | 2009    | 2010    | 2011         |
|                   | RMB'000           | RMB'000 | RMB'000 | RMB'000      |
| Less than 30 days | 62,559            | 61,134  | 92,329  | 104,481      |
| 31 days – 90 days | 33,207            | 25,283  | 20,624  | 23,109       |
| Over 90 days      | 800               | 677     | 1,556   | 1,032        |
|                   | 96,566            | 87,094  | 114,509 | 128,622      |

Bills payable of the Group amounting to RMB34,950,000, RMB31,710,000, RMB67,548,000 and RMB83,563,000 as at 31 December 2008, 2009 and 2010 and 31 May 2011, respectively, were secured by short-term bank deposits of RMB10,485,000, RMB16,653,000, RMB27,904,000 and RMB29,073,000, respectively (Note 25).

As at 31 December 2008, 2009 and 2010 and 31 May 2011, the bills payable were with average maturity period of within six months.

The carrying amounts of trade and other payables approximate their fair values.

## 28 BORROWINGS

|                            | The Group         |         |         |              |
|----------------------------|-------------------|---------|---------|--------------|
|                            | As at 31 December |         |         | As at 31 May |
|                            | 2008              | 2009    | 2010    | 2011         |
|                            | RMB'000           | RMB'000 | RMB'000 | RMB'000      |
| Short-term bank borrowings | 37,500            | 57,500  | 92,000  | 139,000      |

At 31 December 2008 and 2009, the short-term bank borrowings were secured by corporate guarantee from a third party. At 31 December 2010, the short-term bank borrowings were secured by corporate guarantee from a third party and guaranteed by certain directors and a subsidiary of the Group. The corporate guarantee from the third party and personal guarantees of the directors were released in March 2011.

At 31 December 2008, 2009 and 2010 and 31 May 2011, the weighted average effective interest rates of the short-term bank borrowings were 7.65%, 5.03%, 5.54% and 6.03% per annum respectively.

Certain short-term borrowing contracts of a subsidiary from a bank contain covenant clauses which require the subsidiary to meet certain financial ratios. As at 31 December 2008, 2009 and 2010, the subsidiary did not meet certain of the stipulated financial ratios. Accordingly, the bank was contractually entitled to request early repayment of the outstanding amounts of RMB37,500,000, RMB57,500,000 and RMB43,000,000 respectively. However, the bank did not request for early repayment for the bank borrowings of RMB37,500,000, RMB57,500,000 and RMB43,000,000 as at 31 December 2008, 2009 and 2010, respectively, and these amounts were repaid on their respective maturity dates. Subsequent to 31 December 2010, the subsidiary had obtained a waiver in respect of the aforementioned covenant requirements for the bank borrowings of RMB43,000,000 as at 31 December 2010.

During the five months ended 31 May 2011, the subsidiary has obtained new short-term bank borrowings of RMB32,000,000 from the same bank which also requires the subsidiary to meet certain financial covenants. The subsidiary did not meet one of the stipulated financial ratios during January to May 2011. However, the bank did not request for early repayment for these bank borrowings. Subsequent to 31 May 2011, the subsidiary had obtained waiver in respect of the aforementioned covenant requirements for the bank borrowings of RMB32,000,000 as at 31 May 2011.

In addition, this subsidiary has a short-term bank borrowing from another bank amounting to RMB30,000,000 as at 31 December 2010 and 31 May 2011. The borrowing contract for this short-term borrowing contains certain cross-default clauses. Due to the breach of the aforementioned bank covenants, this bank was also entitled to request early repayment of the outstanding amount of this loan before its maturity. As of the date of this financial information, the loan has been repaid on its maturity date.

The carrying amounts of the short-term bank borrowings approximate their fair values.

## 29 SHARE CAPITAL AND SHARE PREMIUM

*Authorized share capital*

The total authorized number of ordinary shares is 1,000,000,000 shares with a par value of US\$0.05 per share.

*Issued share capital*

|  | Number of<br>shares     | Amount        |                  | Total share<br>capital and<br>share<br>premium |
|--|-------------------------|---------------|------------------|--|
|  | Issued share<br>capital | Share capital | Share<br>premium |  |
|  |                         | RMB'000       | RMB'000          |  |
| <b>The Company</b>                                       |                         |               |                  |  |
| As at 1 January 2008, 31 December 2008,<br>2009 and 2010 | 503,181,600             | 205,644       | 151,230          | 356,874  |
| Issue of new shares                                      | 43,754,922              | 14,412        | 124,718          | 139,130  |
| As at 31 May 2011  | 546,936,522             | 220,056       | 275,948          | 496,004  |

Pursuant to the directors resolutions passed on 21 March 2011, the Company issued 43,754,922 new shares at par value of US\$0.05 each to COFCO Agriculture and Food Investment Limited for an aggregate cash consideration of RMB139,130,000. The amount is credited to share capital and share premium accounts. These shares rank pari passu in all respects with the existing shares.

All issued ordinary shares are fully paid.

## 30 SHARE OPTIONS

The Scheme for key management personnel and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 28 April 2006. The Scheme was subsequently modified and was approved at a Special General Meeting on 20 April 2007. The Scheme provides an opportunity for employees of the Group, except for the Company's controlling shareholders and their associates, to participate in the equity of the Company so as to motivate them to extend greater dedication, loyalty and higher standards of performance. The Company's directors, except for independent directors, are not eligible to participate in the Scheme. The Scheme became operative on 15 June 2006.

On 15 June 2006 and 17 August 2007, the Company granted 31,600,000 and 29,800,000 share options to the employees pursuant to the Scheme respectively. On 27 August 2009, all unexercised outstanding share options were cancelled at the recommendation of members of the Company's Employees' Share Option Scheme Committee ("ESOS") and RMB4,857,000, representing the amount that otherwise would have been recognized for services received over the remainder of the vesting period, was charged to the statement of comprehensive income in 2009. Consequently, the Company has no outstanding share options as at 31 December 2009 and 2010, and 31 May 2011.

Movements in the number of unissued ordinary shares under the Scheme for the Relevant Periods and the exercise price of the options were as follows:

|   | Number of unissued ordinary shares under the Scheme |                                 |  |                                 |                                       |
|---|---|---------------------------------|--|---------------------------------|---------------------------------------|
|   | At<br>1 January<br>2008                             | Forfeited<br>during the<br>year | At<br>31 December<br>2008 and<br>1 January<br>2009 | Cancelled<br>during the<br>year | At<br>31 December<br>2009 and<br>2010 |
| <b>Company</b>                                      |   |                                 |  |                                 |                                       |
| Options granted on 15 June 2006 <sup>(1)</sup>      | 24,100,000  | (3,000,000)                     | 21,100,000   | (21,100,000)                    | –                                     |
| Options granted on 17 August<br>2007 <sup>(2)</sup> | 29,800,000  | –                               | 29,800,000   | (29,800,000)                    | –                                     |
|   | <u>53,900,000</u>                                   | <u>(3,000,000)</u>              | <u>50,900,000</u>                                  | <u>(50,900,000)</u>             | <u>–</u>                              |

<sup>(1)</sup> Exercise price of the options was S\$0.302. Exercise period was from 15 June 2007 to 14 June 2011.

<sup>(2)</sup> Exercise price of the options was S\$0.403. Exercise period was from 17 August 2008 to 16 August 2012.

The fair value of options granted on 15 June 2006, determined using the Trinomial valuation model, was approximately S\$2,537,000 (approximately RMB12,685,000). The significant inputs into the model were share price of S\$0.305, at the grant date, exercise price shown above, the option life shown above, risk-free interest rate of 2.96% – 3.25%, expected volatility of 50% and expected forfeiture rate of 10%.

The fair value of options granted on 17 August 2007, determined using the Trinomial valuation model, was approximately S\$2,059,000 (approximately RMB10,294,000). The significant inputs into the model were share price of S\$0.385, at the grant date, exercise price shown above, the option life shown above, risk-free interest rate of 2.30% – 2.56%, expected volatility of 45% and expected forfeiture rate of 10%.

## 31 RESERVES

*(a) Merger reserve*

The Group was formed on 28 March 2005 pursuant to a group restructuring exercise. The subsidiaries acquired pursuant to the group restructuring exercise under common control have been consolidated using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group's structure immediately after the group restructuring exercise has been in exercise since the earliest financial year presented and the assets and liabilities are brought into the consolidated financial statements at their carrying amounts. The merger reserve of the Group represents the difference between the nominal amount of share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the group restructuring exercise.

*(b) Statutory reserves*

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the subsidiaries are required to transfer 0-10% of the profit after taxation determined in accordance with PRC Accounting Standards to the statutory reserves until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

## 32 RETAINED EARNINGS

Movements in retained earnings of the Company are as follows:

|                                    | For the year ended 31 December |         |          | For the five months ended<br>31 May |          |
|------------------------------------|--------------------------------|---------|----------|-------------------------------------|----------|
|                                    | 2008                           | 2009    | 2010     | 2010                                | 2011     |
|                                    | RMB'000                        | RMB'000 | RMB'000  | RMB'000<br>(Unaudited)              | RMB'000  |
| Beginning of the year/period       | 21,177                         | 9,180   | 30,177   | 30,177                              | 24,205   |
| Net (loss)/profit                  | (1,933)                        | 722     | 70,678   | (3,173)                             | 32,206   |
| Transfer from share option reserve | –                              | 20,275  | –        | –                                   | –        |
| Dividends ( <i>Note 14</i> )       | (10,064)                       | –       | (76,650) | –                                   | (40,000) |
| End of the year/period             | 9,180                          | 30,177  | 24,205   | 27,004                              | 16,411   |

The (loss)/profit attributable to shareholders for the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2010 and 2011 is dealt with in the financial statements of the Company to the extent of RMB(1,933,000), RMB722,000, RMB70,678,000, RMB(3,173,000) and RMB32,206,000 respectively.

Movements in retained earnings of the Group are shown in the consolidated statements of changes in equity.

## 33 CASH GENERATED FROM OPERATIONS

|   | For the year ended 31 December |          |          | For the five months ended<br>31 May |          |
|---|--------------------------------|----------|----------|-------------------------------------|----------|
|   | 2008                           | 2009     | 2010     | 2010                                | 2011     |
|   | RMB'000                        | RMB'000  | RMB'000  | RMB'000<br>(Unaudited)              | RMB'000  |
| Profit for the year/period  | 68,631                         | 53,488   | 147,838  | 58,596                              | 115,578  |
| Adjustments for:  |                                |          |          |                                     |          |
| – Income tax expense  | 27,237                         | 40,694   | 13,019   | 13,076                              | 28,334   |
| – Amortization and depreciation   | 30,340                         | 33,345   | 40,027   | 14,225                              | 19,884   |
| – Inventories written-off   | –                              | 19,348   | –        | –                                   | –        |
| – Employee share option expense   | 7,013                          | 4,857    | –        | –                                   | –        |
| – Share of loss of an associated company  | 2,593                          | 4,145    | –        | –                                   | –        |
| – Share of loss of a jointly controlled entity  | 1,731                          | 1,632    | 432      | 432                                 | –        |
| – Provision for impairment of investments in a jointly controlled entity/an associated company and loans to an associated company | 5,000                          | 7,127    | 1,778    | 1,778                               | –        |
| – Gain on disposal of investment in a jointly controlled entity   | –                              | –        | (344)    | –                                   | –        |
| – Loss on disposal of property, plant and equipment   | 10,223                         | 1,478    | 375      | 131                                 | 48       |
| – Interest income   | (1,117)                        | (477)    | (530)    | (131)                               | (195)    |
| – Interest expense  | 2,040                          | 3,014    | 3,518    | 1,386                               | 3,316    |
| Operating cash flow before working capital changes  | 153,691                        | 168,651  | 206,113  | 89,493                              | 166,965  |
| Change in working capital   |                                |          |          |                                     |          |
| – Receivables and prepayments   | (642)                          | (45,168) | (62,311) | 23,299                              | (70,369) |
| – Inventories   | (25,230)                       | (3,339)  | (15,363) | 34,620                              | (1,700)  |
| – Trade and other payables  | (1,177)                        | (8,605)  | 66,584   | (13,757)                            | 28,077   |
| Cash generated from operations  | 126,642                        | 111,539  | 195,023  | 133,655                             | 122,973  |



## 34 COMMITMENTS

*(a) Capital commitments*

The Group had the following capital commitments not provided for in respect of land use rights and property, plant and equipment at the respective balance sheet dates:

|                                   | <b>The Group</b>         |                |                |                     |
|-----------------------------------|--------------------------|----------------|----------------|---------------------|
|                                   | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|                                   | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|                                   | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| Authorized but not contracted for |                          |                |                |                     |
| – Property, plant and equipment   | –                        | –              | 184,500        | 181,394             |
| – Land use rights                 | –                        | –              | 45,000         | –                   |
| Contracted but not provided for   |                          |                |                |                     |
| – Property, plant and equipment   | 79,975                   | 34,093         | 94,436         | 93,301              |
|                                   | <u>79,975</u>            | <u>34,093</u>  | <u>323,936</u> | <u>274,695</u>      |

*(b) Operating lease commitments*

The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases at the respective balance sheet dates were as follows:

|   | <b>The Group</b>         |                |                |                     |
|---|--------------------------|----------------|----------------|---------------------|
|   | <b>As at 31 December</b> |                |                | <b>As at 31 May</b> |
|   | <b>2008</b>              | <b>2009</b>    | <b>2010</b>    | <b>2011</b>         |
|   | <b>RMB'000</b>           | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b>      |
| Not later than one year                           | 313                      | 344            | 98             | 95                  |
| Later than one year but not later than five years | –                        | –              | 98             | 56                  |
|   | <u>313</u>               | <u>344</u>     | <u>196</u>     | <u>151</u>          |

*(c) Other commitment*

Pursuant to a joint venture agreement dated 21 May 2007 and the supplementary agreement dated 11 December 2008, LBXX Inv and Cocoland Industry Sdn. Bhd (a company incorporated in Malaysia) agreed to set up a jointly controlled entity in Fujian, PRC, known as Coco (Fujian) Foods Company Limited (the “jointly controlled entity”). The registered capital of the jointly controlled entity was US\$5 million (approximately RMB38 million).

As of 31 December 2008, the Group had injected US\$1.5 million (equivalent to RMB10,986,000) in cash into the jointly controlled entity. At 31 December 2008 and 2009, the Group’s remaining commitment in respect of the jointly controlled entity amounted to US\$1.0 million (approximately RMB7.0 million). In 2010, the jointly controlled entity was disposed to a third party with a gain of RMB344,000.

## 35 RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial information, the following transactions took place between the Group and related parties at terms agreed between the parties:

- (a) Sale and purchase of goods and services:

|   | The Group                      |                   |                   |                                     |                   |
|---|--------------------------------|-------------------|-------------------|-------------------------------------|-------------------|
|   | For the year ended 31 December |                   |                   | For the five months ended<br>31 May |                   |
|   | 2008                           | 2009              | 2010              | 2010                                | 2011              |
|   | RMB'000                        | RMB'000           | RMB'000           | RMB'000<br>(Unaudited)              | RMB'000           |
| Purchase of finished goods from a jointly controlled entity ( <i>note (i)</i> ) | 8,948                          | 3,506             | 1,533             | 1,533                               | –                 |
| Rental income from  |                                |                   |                   |                                     |                   |
| – an associated company ( <i>note (ii)</i> )                                    | 1,080                          | 1,080             | –                 | –                                   | –                 |
| – a jointly controlled entity ( <i>note (ii)</i> )                              | 949                            | 879               | 366               | 366                                 | –                 |
|   | <u>          </u>              | <u>          </u> | <u>          </u> | <u>          </u>                   | <u>          </u> |

Note:

- (i) Purchase of goods was made at mutually agreed prices. The transactions were discontinued in the year ended 31 December 2010.
- (ii) Rental income was calculated based on the relevant agreements. The transactions were discontinued in the year ended 31 December 2010.
- (b) As at 31 December 2008, a wholly owned subsidiary of the Group had given a guarantee to a financial institution for a loan of RMB20 million to a company owned by certain directors of the Company. This guarantee had been subsequently discharged in February 2009.
- (c) Key management personnel compensation:

|                                      | The Group                      |                   |                   |                                     |                   |
|--------------------------------------|--------------------------------|-------------------|-------------------|-------------------------------------|-------------------|
|                                      | For the year ended 31 December |                   |                   | For the five months ended<br>31 May |                   |
|                                      | 2008                           | 2009              | 2010              | 2010                                | 2011              |
|                                      | RMB'000                        | RMB'000           | RMB'000           | RMB'000<br>(Unaudited)              | RMB'000           |
| Directors' fee                       | 1,200                          | 1,200             | 214               | 97                                  | –                 |
| Salaries and other employee benefits | 8,520                          | 8,066             | 3,462             | 1,428                               | 1,660             |
| Share options expenses               | 990                            | 517               | –                 | –                                   | –                 |
|                                      | <u>          </u>              | <u>          </u> | <u>          </u> | <u>          </u>                   | <u>          </u> |
|                                      | 10,710                         | 9,783             | 3,676             | 1,525                               | 1,660             |

## 36 EVENTS AFTER BALANCE SHEET DATE

The following event took place subsequent to 31 May 2011:

Pursuant to a shareholders' resolution dated 25 November 2011, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the proposed global offering described in the Prospectus, the Company will capitalize an amount of US\$17,653,000 (equivalent to RMB112,182,000), standing to the credit of its share premium account of the Company by applying such sum to pay up in full at par a total of 353,063,478 shares for allotment and issue to the shareholders as at 25 November 2011 on a pro rata basis.

**II. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31 May 2011 and up to the date of this report. Save as disclosed in this report, no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 May 2011.

Yours faithfully,

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

The information set out below does not form part of the Accountant's Report prepared by the independent reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included in this prospectus for information purposes only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" and the Accountant's Report set out in Appendix I.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of May 31, 2011 as if the Global Offering had taken place on May 31, 2011.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at May 31, 2011 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at May 31, 2011 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

|  | Audited<br>consolidated net<br>tangible assets<br>of the Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>May 31, 2011 <sup>(1)</sup> | Estimated net<br>proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited pro<br>forma adjusted<br>net tangible<br>assets<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited pro forma<br>adjusted net tangible<br>assets per Share |                     |
|--|---|---|---|--|---------------------|
|  | RMB'000   | RMB'000   | RMB'000   | RMB <sup>(3)</sup>   | HK\$ <sup>(6)</sup> |
| Based on an Offer Price of<br>HK\$2.65 per share . . . . . | 868,410   | 442,190   | 1,310,600   | 1.16   | 1.43                |

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Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at May 31, 2011 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at May 31, 2011 of RMB868,410,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.65 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,125,600,000 Shares were in issue assuming that the Capitalization Issue and Global Offering has been completed on May 31, 2011 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate or the Buyback Mandate.
- (4) As of August 31, 2011, the Group's land use rights and buildings interests were revalued by Vigers Appraisal and Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation Report. The revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately RMB19,621,000. Such revaluation surplus has not been included in the Group's consolidated financial information as at May 31, 2011. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, and additional depreciation of RMB1,319,000 per annum would be charged against the consolidated statement of comprehensive income.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to May 31, 2011.
- (6) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2255. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

**B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE**

The following unaudited pro forma forecast earnings per share for the year ending December 31, 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2011. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ending December 31, 2011 or any future period.

Forecast consolidated profit attributable to equity holders of  
the Company for the year ending December 31, 2011<sup>(1)</sup> . . . . . Not less than RMB205.0 million  
(equivalent to HK\$251.2 million)<sup>(3)</sup>

Unaudited pro forma forecast earnings per Share based on  
forecast consolidated profit attributable to equity holders of  
the Company for the year ending December 31, 2011<sup>(2)</sup> . . . . . Not less than RMB0.182  
(equivalent to HK\$0.223)<sup>(3)</sup>

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**Notes:**

- (1) The forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011 is extracted from the section headed “Financial Information — Profit Forecast” in this prospectus. The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011 based on our audited consolidated results of the Group for the five months ended May 31, 2011, unaudited consolidated results based on unaudited management accounts for the four months ended September 30, 2011 and a forecast of our consolidated results of the Group for the remaining three months ending December 31, 2011. The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in Note 3 of Section I of the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.
- (2) The unaudited pro forma forecast earnings per Share for the year ending December 31, 2011 is calculated by dividing the forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011 by 1,125,600,000 Shares on the basis that these Shares were in issue during the entire period and assuming that the Capitalization Issue and the Global Offering had been completed on January 1, 2011. The calculation takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by our Company pursuant to the general mandate or the Buyback Mandate.
- (3) For the purpose of forecast consolidated profit attributable to equity holders of the Company and unaudited pro forma forecast earnings per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2255. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

**C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA LIFESTYLE FOOD AND BEVERAGES GROUP LIMITED**

We report on the unaudited pro forma financial information of China Lifestyle Food and Beverages Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-3 under the headings of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 29 November 2011 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 of the Prospectus.

***Respective Responsibilities of Directors of the Company and the Reporting Accountant***

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

***Basis of Opinion***

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 May 2011 with the Accountant's Report as set out in Appendix I of the Prospectus, and

.....  
*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong  
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comparing the unaudited forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2011 with the profit forecast as set out in the section headed “Financial Information” in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the adjusted net tangible assets of the Group as at 31 May 2011 or any future date, or
- the earnings per share of the Group for the year ending 31 December 2011 or any future periods.

### ***Opinion***

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 29 November 2011

**A. OVERVIEW**

Our forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 is set out in the section headed “Financial Information — Profit Forecast for the Year Ending December 31, 2011” of this prospectus.

**B. BASIS OF PREPARATION**

Our forecast of the consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 (the “Profit Forecast”) has been prepared based on our audited consolidated results for the five months ended May 31, 2011, our unaudited consolidated results based on management accounts for the four months ended September 30, 2011, and a forecast of our consolidated results for the remaining three months ending December 31, 2011.

The principal accounting policies adopted in the preparation of the Profit Forecast are consistent in all material respects with those adopted by the Group as set out in the accountant’s report of the Company included in Appendix I of this prospectus and are in conformity with IFRS.

**C. GENERAL ASSUMPTIONS**

- There will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC, Hong Kong or any other countries or territories in which the Group currently operates or which are otherwise material to our business;
- There will be no changes in legislation, regulations or rules in the PRC, Hong Kong or any other countries or territories in which the Group operates or with which the Group has arrangements or agreements, which may materially and adversely affect the Group’s business or operations;
- There will be no material changes in the taxation system and relevant tax bases or tax rates or duties applied to the Group in the PRC, Hong Kong or any of the countries or territories in which the Group operates;
- There will be no material changes in inflation and interest rates from those currently prevailing in the countries where our customers and suppliers operate during the period covered by the Profit Forecast;
- There will be no material changes in the bases or applicable rates of surcharges or other government levies in the countries or territories in which the Group operates during the period covered by the Profit Forecast;
- There will be no material changes in the landscape of the industries in which the Group operates in and the conditions of the markets in which the Group sells its products;
- There will be no material delays to the production schedules, operation plans and production expansion plans of the Group as set out in the Prospectus;
- Operating activities of the Group will not be adversely affected by any critical shortage in raw materials used by the Group in its production processes, occurrences such as labor shortages and disputes, or any other factors outside the control of its management such as government acts;

- There will be no material increases in the cost of raw materials or labor in connection with the food and beverages industry in the PRC;
- The operations of the Group will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors;
- The Profit Forecast has been prepared taking into account the Directors' and key senior management's continual involvement in the operations of the Group. In addition, it is assumed that the Group will be able to retain its key management and personnel during the period covered by the Profit Forecast;
- The Group will be able to recruit sufficient qualified personnel to achieve its planned expansion and that the staffing level will be sufficient for the operation requirements of the Group during the period covered by the Profit Forecast; and
- The net proceeds from the IPO will be received in December 2011.

## LETTER FROM THE REPORTING ACCOUNTANT

*The text of letter received by our Directors from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

29 November 2011

The Directors  
China Lifestyle Food and Beverages Group Limited

Citigroup Global Markets Asia Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of China Lifestyle Food and Beverages Group Limited (the “Company”) for the year ending 31 December 2011 (the “Profit Forecast”) as set out in the subsection headed “Profit Forecast For the Year Ending December 31, 2011” in the section headed “Financial Information” in the prospectus of the Company dated 29 November 2011 (the “Prospectus”).

We conducted our work in accordance with Auditing Guideline 3.341 on “Accountants’ report on profit forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as “the Group”) for the five months ended 31 May 2011, the unaudited consolidated results of the Group based on management accounts for the four months ended 30 September 2011 and a forecast of the consolidated results of the Group for the remaining three months ending 31 December 2011.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on pages III-1 to III-2 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 3 of section I of the Financial Information section in Appendix I of the Prospectus.

Yours faithfully,

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

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*PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong*  
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

**LETTER FROM THE SOLE SPONSOR**

*The following is the text of a letter, prepared for inclusion in this prospectus, which we have received from Citigroup Global Markets Asia Limited, the Sole Sponsor, in connection with the profit forecast of the consolidated net profit of China Lifestyle Food and Beverages Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) attributable to equity holders of the Company for the year ending December 31, 2011.*



**Citigroup Global Markets Asia Limited**  
50th Floor, Citibank Tower, Citibank Plaza  
3 Garden Road, Central  
Hong Kong

29 November 2011

The Directors  
**China Lifestyle Food and Beverages Group Limited**

Dear Sirs,

We refer to the forecast consolidated net profit attributable to equity holders of China Lifestyle Food and Beverages Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December 2011 (the “Profit Forecast”) as set out in the prospectus issued by the Company dated 29 November 2011 (the “Prospectus”). We understand that the Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited results of the Group for the five months ended 31 May 2011, the consolidated results shown in the unaudited financial information of the Group for the four months ended 30 September 2011 and a forecast of the consolidated results of the Group for the remaining three months ending 31 December 2011. We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus, to the extent applicable, upon which the Profit Forecast has been made. We have also considered the letter dated 29 November 2011 addressed to yourselves and ourselves from PricewaterhouseCoopers (the “Reporting Accountant”) regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by the reporting accountant, we are of the opinion that the Profit Forecast, for which you as the directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of

**Citigroup Global Markets Asia Limited**  
**Rodney Tsang**  
*Managing Director*  
*Co-Head of China Global Banking*

*The following is the text of a report from Vigers Appraisal and Consulting Limited, an independent valuer, in respect of the property valuation report of the Group as set out in this appendix and prepared for the sole purpose of inclusion in this prospectus.*



Vigers Appraisal and Consulting Limited  
10th Floor  
The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong  
Tel: (852) 2810 1100 Fax: (852) 3101 9041  
www.Vigers.com

29th November 2011

The Board of Directors  
China Lifestyle Food and Beverages Group Limited  
Room 1104, 11th Floor, Asia-Pac Commercial Centre,  
No. 10 North Point Road, North Point,  
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the property interests of various properties held by “China Lifestyle Food and Beverages Group Limited” (referred to as “the Company”) and its subsidiaries (hereinafter together referred to as “the Group”), we confirm that we have inspected the properties, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of values of the property interests of the properties as at 31st August 2011 (the “Valuation Date”).

#### **BASIS OF VALUATION**

Our valuations are our opinion of market values of the property interests of the properties in concern which is defined as intended to mean “*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*”. Our valuations have been prepared in accordance with “The HKIS Valuation Standards on Properties (First Edition 2005)” published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

**PROPERTY CATEGORISATION**

In the course of our valuations, we have categorized the property interests of the properties in concern into the following three groups.

**Group I**

The property interests of the properties in concern are held by the Group in the People's Republic of China ("PRC") for owner-occupation purpose. Due to lack of suitable market comparables, the property interests of the properties held by the Group have been valued on the basis of depreciated replacement cost ("DRC") whereby "DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization". Value of the property interests of the properties derived from the basis of DRC is subject to adequate potential profitability of the business in concern.

**Group II**

The property interest of the property in concern is held by the Group in the PRC for future development purpose. In the course of our valuation, we have employed the direct comparison method of valuation whereby comparisons based on actual sales transactions of comparable properties have been made. Comparable properties with similar use, location, size and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property in order to arrive at a fair comparison of value.

**Group III**

In respect of the property interest of the property in Group III which is a property leased by the Group in Hong Kong, we are of the opinion that the property interest of the property in concern has no commercial value due to the prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent and/or the short term nature of the property interest thereof.

**TITLE INVESTIGATION**

In respect of the properties located in the PRC, we have been given extracted copies of relevant title documents for the property in concern but we have not checked title to the property interests of the properties nor scrutinized the original title documents. We have relied on the advice given by the Group and its legal advisers on the laws of the PRC, "Jingtian & Gongcheng" (hereinafter referred to as the "PRC Legal Advisers") regarding title to the property interests of the properties located in the PRC. For the purpose of our valuations, we have taken the legal opinion of the PRC Legal Advisers into account. While we have exercised our professional judgement in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

With respect to the property located in Hong Kong, we have conducted land searches at the Land Registry but we have not searched the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference purposes and all dimensions, measurements and areas are therefore approximations.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the property interests of the properties can be sold in the prevailing market in existing state without the effect of any deferred term contract, lease back, joint venture, management agreement or any other similar arrangement which may serve to affect the values of the property interests of the properties. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios. In valuing the property interests of the properties, we have assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to the payment of usual land-use fees or Government Rent.

No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development(s) erected or to be erected on the properties in concern. Our valuations have been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the values of the property interests of the properties in concern.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the properties in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct. Other special assumptions for each of the property interest of the property have been stated in the footnotes of the valuation certificate for the respective property, if any.

**VALUATION CONSIDERATION**

We have inspected the properties but we have not carried out any structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible to us. We are therefore unable to report whether such part of the properties is free from any structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals, statutory notices, easements, tenure, land-use rights, site areas, floor areas, occupancy status and in the identification of the properties in concern.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.



**REMARKS**

We declare hereby that we are independent to the Group and we are not interested directly or indirectly in any shares in any member of the Group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

Unless otherwise stated, all valuation amounts stated herein are in the currency of Renminbi (“RMB”), the lawful currency of the PRC.

We enclose herewith our Summary of Values and Valuation Certificates.

Yours faithfully,  
For and on behalf of  
**VIGERS APPRAISAL AND CONSULTING LIMITED**  
**David W. I. Cheung**  
MRICS MHKIS RPS(GP) CREA MCI Arb  
*Executive Director*

*Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 28 years' valuation experience on properties in various regions including Hong Kong and the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.*

## SUMMARY OF VALUES

| No. Property  | Capital value<br>in existing<br>state as at<br>31st August<br>2011 | Interest<br>attributable to<br>the Group | Capital value<br>attributable to<br>the Group as at<br>31st August<br>2011 |
|---|--|--|--|
| <b>Group I – Property Interests Held by the Group in the PRC for Owner-occupation Purpose</b>   |  |  |  |
| 1. Various parcels of land with workshops, main office block, management block and staff quarter erected thereon, Wuli Industrial Area, Jinjiang City, Fujian Province, the PRC                                   | RMB69,600,000  | 100%                                     | RMB69,600,000  |
| 2. A parcel of land with various workshop blocks erected thereon, Jinjiang Economic Development Area, Jinjiang City, Fujian Province, the PRC   | RMB71,300,000  | 100%                                     | RMB71,300,000  |
| 3. Various parcels of land with workshops, staff quarters, staff hall and canteen, and office erected thereon, No. 38 Kaiyuan Road and No. 8 Quanfeng Road, Wuqing Industrial Zone, Tianjin Municipality, the PRC | RMB129,800,000   | 100%                                     | RMB129,800,000   |
| 4. Various parcels of land with workshops and staff quarter erected thereon, Heshan Town Industrial Area, Pujiang, Chengdu, Sichuan Province, the PRC   | RMB176,900,000   | 100%                                     | RMB176,900,000   |

| <b>No. Property</b>   | <b>Capital value<br/>in existing<br/>state as at<br/>31st August<br/>2011</b> | <b>Interest<br/>attributable to<br/>the Group</b> | <b>Capital value<br/>attributable to<br/>the Group as at<br/>31st August<br/>2011</b> |
|---|---|---|---|
| <b>Group II – Property Interest Held by the Group in the PRC for Future Development Purpose</b>   |   |   |   |
| 5. A parcel of land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC | RMB45,000,000   | 100%  | RMB45,000,000   |
| <b>Group III – Property Interest Leased by the Group in Hong Kong</b>   |   |   |   |
| 6. Room 1104, 11th Floor, Asia-Pac Commercial Centre, No. 10 North Point Road, North Point, Hong Kong                                       | No Commercial<br>Value  |   | No Commercial<br>Value  |
| <b>GRAND TOTAL</b>  | <b>RMB492,600,000</b>   |   | <b>RMB492,600,000</b>   |

## VALUATION CERTIFICATE

## Group I – Property Interests Held by the Group in the PRC for Owner-occupation Purpose

| No.                               | Property   | Description and Tenure   | Occupancy Status | Capital Value in Existing State as at 31st August 2011 |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
|-----------------------------------|--|--|------------------|--|------------|-----------|----------------|-----------|-------------------|----------|--------------------|----------|-----------------------------------|-----------|---------------|------------------|--|--|
| 1.                                | Various parcels of land with workshops, main office block, management block and staff quarter erected thereon, Wuli Industrial Area, Jinjiang City, Fujian Province, the PRC | <p>The property comprises three parcels of land together with a 7-storey management block, a 7-storey office building, a 7-storey staff quarter and various 2-3 storey factory blocks located in Wuli Industrial Area completed in or about 2000 and 2007.</p> <p>Pursuant to the Certificates of State-owned Land Use, the property has a total site area of approximately 25,780.00 square metres.</p> <p>According to the Certificates of Building Ownership and as advised by the Company, the property has a total gross floor area of approximately 44,019.21 square metres with breakdown as follows:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>Portion</u></th> <th style="text-align: right;"><u>Gross Floor Area</u><br/>(square metres)</th> </tr> </thead> <tbody> <tr> <td>Workshops:</td> <td style="text-align: right;">15,087.78</td> </tr> <tr> <td>Staff quarter:</td> <td style="text-align: right;">11,582.97</td> </tr> <tr> <td>Management block:</td> <td style="text-align: right;">2,909.95</td> </tr> <tr> <td>Main office block:</td> <td style="text-align: right;">3,174.12</td> </tr> <tr> <td>Workshop blocks F, G, H, I and J:</td> <td style="text-align: right;">11,264.39</td> </tr> <tr> <td><b>Total:</b></td> <td style="text-align: right;"><b>44,019.21</b></td> </tr> </tbody> </table> | <u>Portion</u>   | <u>Gross Floor Area</u><br>(square metres)             | Workshops: | 15,087.78 | Staff quarter: | 11,582.97 | Management block: | 2,909.95 | Main office block: | 3,174.12 | Workshop blocks F, G, H, I and J: | 11,264.39 | <b>Total:</b> | <b>44,019.21</b> | <p>A total of 7 shops in factory block J with gross floor area of approximately 889.1 square metres was let for a monthly rental of RMB6,400 for a term of commencing on 1st November 2010 and expiring on 1st November 2011; whilst the remainder of the property is occupied and used by the owner as manufacturing facilities, office and staff quarters.</p> | <p style="text-align: right;">RMB69,600,000</p> <p style="text-align: right;">(100% interest attributable to the Group:<br/>RMB69,600,000)</p> |
| <u>Portion</u>                    | <u>Gross Floor Area</u><br>(square metres)   |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| Workshops:                        | 15,087.78  |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| Staff quarter:                    | 11,582.97  |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| Management block:                 | 2,909.95   |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| Main office block:                | 3,174.12   |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| Workshop blocks F, G, H, I and J: | 11,264.39  |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
| <b>Total:</b>                     | <b>44,019.21</b>   |  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |
|                                   |  | <p>Moreover, as informed by the Company, a boiler room with a total gross floor area of approximately 410.00 square metres have not yet been granted with Certificate of Building Ownership.</p> <p>The property is held under land use rights for a term expiring on 26th November 2052.</p>  |                  |  |            |           |                |           |                   |          |                    |          |                                   |           |               |                  |  |  |

Notes (Property 1):

- Pursuant to Certificates of State-owned Land Use (Document Nos.: Jin Guo Yong Nos. 00285, 00286 and 00287) all dated 11th March 2003, the land use rights of three parcels of land located at Wuli Industrial Area, Jinjiang City, Fujian Province, the PRC with total site area of approximately 25,780.00 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) with land use rights’ term to be expired on 26th November 2052 for industrial use.

2. Pursuant to Certificate of Building Ownership (Document No.: Jin Fang Quan Zheng Yuan Qu Bian Zi No. 18-200011) dated 16th October 2003, the building ownership of an industrial building located at Wuli Industrial Area, Jinjiang City, Fujian Province, the PRC with total gross floor area of approximately 11,264.39 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) with land use rights’ term to be expired on 26th November 2052 for industrial use.
3. Pursuant to Certificate of Building Ownership (Document No.: Jin Fang Quan Zheng Ling Yuan Zi No. 18-200139) dated 23rd March 2009, the building ownership of an industrial building located at Wuli Industrial Area, Jinjiang City, Fujian Province, the PRC with total gross floor area of approximately 32,754.82 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) with land use rights’ term to be expired on 26th November 2052 for industrial use.
4. In the course of our valuation, we have ascribed no commercial value to the boiler room having a gross floor area of approximately 410.00 square metres since Certificate(s) of Building Ownership has/have not yet been granted for this portion of the property. Upon obtaining the corresponding Certificate(s) of Building Ownership for this portion of the property, our opinion to the capital value of this portion of the property would be in the sum of RMB450,000.
5. “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) carrying limited liability is an indirect wholly owned subsidiary of the Company established in accordance with the laws of the PRC.
6. A summary of major certificates as at the Valuation Date is shown as follows:
  - i. Certificate of State-owned Land Use: Yes
  - ii. Certificate of Building Ownership: Part
7. The PRC Legal Advisers have stated in their legal opinion, including but not limited to the following:
  - i. The property, except for the boiler room, is legally vested in “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) which has the right to occupy, use, transfer, lease out, mortgage or by other means dispose of the property.
  - ii. No Permission Certificate of Construction Works Planning, Permission Certificate for Construction Works Commencement nor Construction Quality and Completion Acceptance Procedure has been obtained for the boiler room of the property. Upon obtaining a valid Certificate of Building Ownership, such portion of the property can be occupied, used, transferred, leased out, mortgaged or by other means disposed of.
  - iii. The property is not subject to mortgage or other material encumbrances.

| No. | Property   | Description and Tenure   | Occupancy Status   | Capital Value in Existing State as at 31st August 2011                               |
|-----|--|--|--|--|
| 2.  | A parcel of land with various workshop blocks erected thereon, Jinjiang Economic Development Area, Jinjiang City, Fujian Province, the PRC | <p>The property comprises a parcel of land with two 5-storey factory buildings located in Wuli Technology Industrial Area completed in or about 2007.</p> <p>Pursuant to the Certificate of State-owned Land Use, the property has a total site area of approximately 13,300 square metres (inclusive of 1,101 square metres for construction of public road).</p> <p>According to the Certificates of Building Ownership, the buildings erected above the land has a total gross floor area of approximately 38,291.91 square metres.</p> <p>The property is held under land use rights for a term expiring on 8th December 2055.</p> | <p>Portion of the property on 1st, 2nd, 4th and 5th floor is let to “四川都江堰天旺食品工業有限公司” at an annual rental of RMB546,552 for a term of commencing on 1st January 2011 and expiring on 31st December 2011; another portion of the property on 3rd floor is let to “可可(福建)食品有限公司” at an annual rental of RMB305,571 for a term commencing on 1st January 2011 and expiry on 31st December 2011; whilst the remainder of the property is occupied and used by the owner as manufacturing facilities and storage.</p> | <p>RMB71,300,000</p> <p>(100% interest attributable to the Group: RMB71,300,000)</p> |

*Notes (Property 2):*

- Pursuant to Certificate of State-owned Land Use (Document No.: Jin Guo Yong (2010) No. 00860) dated 21st September 2010, the land use rights of a parcel of land located at Jinjiang Economic Development Area with total site area of approximately 11,515 square metres (inclusive of land for public facilities of 1,101 square metres) is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) with land use rights’ term to be expired on 8th December 2055 for industrial uses.
- Pursuant to Certificate of Building Ownership (Document No.: Jin Fang Quan Zheng Jin Jiang Zi No. 003031) dated 3rd November 2010, the building ownership of a 5-storey industrial building located at No. 1 Zongren Road, Jinjiang Economic Development Area, Jinjiang City, Fujian Province, the PRC with total gross floor area of approximately 29,139.17 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.).
- Pursuant to Certificate of State-owned Land Use (Document No.: Jin Guo Yong (2011) No. 00407) dated 11th April 2011, the land use rights of a parcel of land located at Jinjiang Economic Development Area with total site area of approximately 1,785 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) with land use rights’ term to be expired on 8th December 2055 for industrial uses.
- Pursuant to Certificate of Building Ownership (Document No.: Jin Fang Quan Zheng Jin Jiang Zi No. 004300) dated 14th April 2011, the building ownership of a 5-storey industrial building located at No. 1 Zongren Road, Jinjiang Economic Development Area, Jinjiang City, Fujian Province, the PRC with total gross floor area of approximately 9,152.74 square metres is vested in the name of “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.).
- “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) carrying limited liability is an indirectly wholly owned subsidiary of the Company established in accordance with the laws of the PRC.

6. A summary of major certificates as at the Valuation Date is shown as follows:
- i. Certificate of State-owned Land Use: Yes
  - ii. Certificate of Building Ownership: Yes
7. The PRC Legal Advisers have stated in their legal opinion, including but not limited to the following:
- i. The property is legally vested in “蠟筆小新(福建)食品工業有限公司” (Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.) which has the right to occupy, use, transfer, lease out, mortgage or by other means dispose of the property.
  - ii. The property is not subject to mortgage or other material encumbrances.

| No.  | Property   | Description and Tenure  | Occupancy Status | Capital Value in Existing State as at 31st August 2011 |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
|--|--|---|------------------|--|-------------------------|----------|----------------|----------|----------------|----------|-----------------|----------|-----------------|----------|-------------------|----------|---------------------|----------|----------------------|----------|--|----------|---------------|--------------------------------|---|--|
| 3.   | Various parcels of land with workshops, staff quarters, staff hall and canteen, and office erected thereon, No. 38 Kaiyuan Road and No. 8 Quanfeng Road, Wuqing Industrial Zone, Tianjin Municipality, the PRC | <p>The property comprises four parcels of land and two 4-storey staff quarters, a 2-storey staff hall and canteen and seven single storey workshop buildings located on the northern side of No. 38 Kaiyuan Road and No. 8 Quanfeng Road, Wuqing Industrial Zone completed in or about 2007 and 2008.</p> <p>Pursuant to the Certificates of State-owned Land Use, the property has a total site area of approximately 145,756.60 square metres</p> <p>According to the Certificate of Building Ownership and Permission Certificates for Construction Works Commencement provided by the Company, portion of the property is currently occupied by various buildings with a total gross floor area of approximately 49,402.80 square metres with breakdown as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Portion</u></th> <th style="text-align: right;"><u>Gross Floor Area</u><br/>(square metres)</th> </tr> </thead> <tbody> <tr> <td>Staff hall and canteen:</td> <td style="text-align: right;">4,322.27</td> </tr> <tr> <td>Staff quarter:</td> <td style="text-align: right;">4,147.35</td> </tr> <tr> <td>Staff quarter:</td> <td style="text-align: right;">5,138.94</td> </tr> <tr> <td>Fruit workshop:</td> <td style="text-align: right;">4,590.25</td> </tr> <tr> <td>Jelly workshop:</td> <td style="text-align: right;">6,095.55</td> </tr> <tr> <td>Leisure workshop:</td> <td style="text-align: right;">6,095.55</td> </tr> <tr> <td>Finishing workshop:</td> <td style="text-align: right;">2,937.15</td> </tr> <tr> <td>Integrated workshop:</td> <td style="text-align: right;">8,548.44</td> </tr> <tr> <td>Leisure workshop (Phase II) and Fruit workshop (Phase II):</td> <td style="text-align: right;">7,527.30</td> </tr> <tr> <td><b>Total:</b></td> <td style="text-align: right;"><b><u><u>49,402.80</u></u></b></td> </tr> </tbody> </table> | <u>Portion</u>   | <u>Gross Floor Area</u><br>(square metres)             | Staff hall and canteen: | 4,322.27 | Staff quarter: | 4,147.35 | Staff quarter: | 5,138.94 | Fruit workshop: | 4,590.25 | Jelly workshop: | 6,095.55 | Leisure workshop: | 6,095.55 | Finishing workshop: | 2,937.15 | Integrated workshop: | 8,548.44 | Leisure workshop (Phase II) and Fruit workshop (Phase II): | 7,527.30 | <b>Total:</b> | <b><u><u>49,402.80</u></u></b> | <p>Portion of the property is currently occupied by the owner as manufacturing facilities, office and staff quarters; whilst the remainder of the land is vacant.</p> | <p>RMB129,800,000</p> <p>(100% interest attributable to the Group:<br/>RMB129,800,000)</p> |
| <u>Portion</u>   | <u>Gross Floor Area</u><br>(square metres)   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Staff hall and canteen:                                    | 4,322.27   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Staff quarter:   | 4,147.35   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Staff quarter:   | 5,138.94   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Fruit workshop:  | 4,590.25   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Jelly workshop:  | 6,095.55   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Leisure workshop:  | 6,095.55   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Finishing workshop:  | 2,937.15   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Integrated workshop:                                       | 8,548.44   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| Leisure workshop (Phase II) and Fruit workshop (Phase II): | 7,527.30   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
| <b>Total:</b>  | <b><u><u>49,402.80</u></u></b>   |   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |
|  |  | <p>The leisure workshop (Phase II) and fruit workshop (Phase II) with total gross floor area of approximately 7,527.30 square metres have not yet been granted with Certificate of Building Ownership nor Construction Quality and Completion Acceptance.</p> <p>The property is held under land use rights for a term expiring on 5th August 2056.</p>   |                  |  |                         |          |                |          |                |          |                 |          |                 |          |                   |          |                     |          |                      |          |  |          |               |                                |   |  |



*Notes (Property 3):*

1. Pursuant to Certificates of State-owned Land Use (Document Nos.: Wu Dan Guo Yong (2006) Nos. 124, 125, 126 and 127) all dated 27th September 2006, the land use rights of four parcels of land located on the northern side of Kaiyuan Road, Wuqing Industrial Zone, Tianjin Municipality, the PRC with total site area of approximately 145,756.60 square metres is vested in the name of “蠟筆小新(天津)有限公司” (Labixiaoxin (Tianjin) Co., Ltd.) with land use rights’ term to be expired on 5th August 2056 for industrial use.
2. Pursuant to Certificate of Building Ownership (Document No.: Fang Di Zheng Zi No. 122011011239) dated 11th May 2010, the building ownership of two 4-storey staff quarters, a 2-storey staff hall and canteen and five single storey workshops located at No. 38 Kaiyuan Road and No. 8 Quanfeng Road, Wuqing District, Tianjin Municipality, the PRC with total gross floor area of approximately 41,875.50 square metres is vested in the name of “蠟筆小新(天津)有限公司” (Labixiaoxin (Tianjin) Co., Ltd.).
3. Pursuant to Permission Certificates for Construction Land Use Planning (Document Nos.: 2006039, 2006110, 2006112 and 2006113) dated 4th April 2006, 18th July 2006 and 24th August 2006 respectively, the land parcels located on the northern side of Kaiyuan Road, Wuqing Industrial Zone, Tianjin Municipality, the PRC with total site area of approximately 145,756.60 square metres are in compliance with the urban and rural planning requirements.
4. Pursuant to Permission Certificate for Construction Works Planning (Document No.: Wu Qing Jian Zheng No. 0130) dated 13th August 2007, the construction works of a leisure workshop (Phase II) and a fruit workshop (Phase II) with total gross floor area of approximately 7,527.40 square metres are in compliance with the urban and rural planning requirements.
5. Pursuant to Permission Certificate for Construction Works Commencement (Document No.: 1222210200711638) dated 7th November 2007, the construction work of a leisure workshop (Phase II) and a fruit workshop (Phase II) with total gross floor area of approximately 7,527.30 square metres are in compliance with the requirements for construction works commencement.
6. In the course of our valuation, we have ascribed no commercial value to the leisure workshop (Phase II) and fruit workshop (Phase II) having an aggregate gross floor area of approximately 7,527.30 square metres since Certificate(s) of Building Ownership and Construction Quality and Completion Acceptance have not yet been granted for this portion of the property. Upon obtaining the corresponding Certificate(s) of Building Ownership for this portion of the property, our opinion to the capital value of this portion of the property would be in the sum of RMB16,100,000.
7. “蠟筆小新(天津)有限公司” (Labixiaoxin (Tianjin) Co., Ltd.) carrying limited liability is an indirect wholly owned subsidiary of the Company established in accordance with the laws of the PRC.
8. A summary of major certificates as at the Valuation Date is shown as follows:
 

|   |      |
|---|------|
| i. Certificate of State-owned Land Use:                         | Yes  |
| ii. Certificate of Building Ownership:                          | Part |
| iii. Permission Certificate for Construction Land Use Planning: | Yes  |
| iv. Permission Certificate for Construction Works Planning:     | Yes  |
| v. Permission Certificate for Construction Works Commencement:  | Yes  |
9. The PRC Legal Advisers have stated in their legal opinion, including but not limited to the following:
  - i. The property is legally vested in “蠟筆小新(天津)有限公司” (Labixiaoxin (Tianjin) Co., Ltd.) which has the right to occupy, use, transfer, lease out, mortgage or by other means dispose of the property.
  - ii. The leisure workshop (Phase II) and fruit workshop (Phase II) have not been granted with Construction Quality and Completion Acceptance Procedure.
  - iii. The property is not subject to mortgage or other material encumbrances.

| No.                                  | Property   | Description and Tenure  | Occupancy Status | Capital Value in Existing State as at 31st August 2011 |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
|--------------------------------------|--|---|------------------|--|----------------------|-----------|---------------------|----------|----------------------|----------|----------------------|----------|--------------------------------------|-----------|--------------------|--------|--------------|--------|------------|----------|---------------|------------------|---|--|
| 4.                                   | Various parcels of land with workshops and staff quarter erected thereon, Heshan Town Industrial Area, Pujiang, Chengdu, Sichuan Province, the PRC | <p>The property comprises three parcels of land and a single storey warehouse (Block A), a 3-storey workshop (Block B), two single storey workshops (Block C and D), a 7-storey staff quarter with hall and canteen, a single storey distribution room, a single storey boiler room and a single storey warehouse located in Heshan Town Industrial Area, Pujiang Province, Chengdu, the PRC.</p> <p>Pursuant to the Certificates of State-owned Land Use, the property has a total site area of approximately 199,989.49 square metres</p> <p>According to the Certificates of Building Ownership provided by the Company, portion of the property is currently occupied by various buildings with a total gross floor area of approximately 54,517.36 square metres with breakdown as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Portion</u></th> <th style="text-align: right;"><u>Gross Floor Area</u><br/>(square metres)</th> </tr> </thead> <tbody> <tr> <td>Warehouse (Block A):</td> <td style="text-align: right;">13,539.36</td> </tr> <tr> <td>Workshop (Block B):</td> <td style="text-align: right;">8,608.66</td> </tr> <tr> <td>Workshops (Block C):</td> <td style="text-align: right;">6,803.36</td> </tr> <tr> <td>Workshops (Block C):</td> <td style="text-align: right;">6,803.36</td> </tr> <tr> <td>Staff quarter with hall and canteen:</td> <td style="text-align: right;">15,719.24</td> </tr> <tr> <td>Distribution room:</td> <td style="text-align: right;">377.86</td> </tr> <tr> <td>Boiler room:</td> <td style="text-align: right;">190.96</td> </tr> <tr> <td>Warehouse:</td> <td style="text-align: right;">2,474.56</td> </tr> <tr> <td><b>Total:</b></td> <td style="text-align: right;"><b>54,517.36</b></td> </tr> </tbody> </table> <p>The property is held under land use rights for a term expiring on 29th June 2057.</p> | <u>Portion</u>   | <u>Gross Floor Area</u><br>(square metres)             | Warehouse (Block A): | 13,539.36 | Workshop (Block B): | 8,608.66 | Workshops (Block C): | 6,803.36 | Workshops (Block C): | 6,803.36 | Staff quarter with hall and canteen: | 15,719.24 | Distribution room: | 377.86 | Boiler room: | 190.96 | Warehouse: | 2,474.56 | <b>Total:</b> | <b>54,517.36</b> | Upon our inspection, portion of the property is currently occupied by the owner as manufacturing facilities, office and staff quarters; whilst the remainder of the land is currently vacant. | RMB176,900,000<br><br>(100% interest attributable to the Group:<br>RMB176,900,000) |
| <u>Portion</u>                       | <u>Gross Floor Area</u><br>(square metres)   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Warehouse (Block A):                 | 13,539.36  |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Workshop (Block B):                  | 8,608.66   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Workshops (Block C):                 | 6,803.36   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Workshops (Block C):                 | 6,803.36   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Staff quarter with hall and canteen: | 15,719.24  |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Distribution room:                   | 377.86   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Boiler room:                         | 190.96   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| Warehouse:                           | 2,474.56   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |
| <b>Total:</b>                        | <b>54,517.36</b>   |   |                  |  |                      |           |                     |          |                      |          |                      |          |                                      |           |                    |        |              |        |            |          |               |                  |   |  |

*Notes (Property 4):*

- Pursuant to Certificates of State-owned Land Use (Document Nos.: Pu Guo Yong Nos.: 689, 690 and 691) dated 19th September 2008, 18th September 2008 and 19th September 2008 respectively, the land use rights of three parcels of land located in Heshan Town Industrial Area, Pujiang, Chengdu, Sichuan Province, the PRC with total site area of approximately 199,989.49 square metres is vested in the name of “蠟筆小新(四川)有限公司” (Labixiaoxin (Sichuan) Co., Ltd.) with land use rights’ term to be expired on 5th August 2056 for industrial use.

2. Pursuant to Certificates of Building Ownership (Document Nos.: Pu Fang Quan Zheng Jian Zi Nos. 0092511, 0092512, 0092513, 0092514, 0092515, 0092516, 0092517 and 0092518) all dated 1st June 2010, the building ownership of a single storey warehouse (Block A), a 3-storey workshop (Block B), two single storey workshops (Block C and D), a 7-storey staff quarter with hall and canteen, a single storey distribution room, a single storey boiler room and a single storey warehouse located at Heshan Town Industrial Area, Pujiang, Chengdu, Sichuan Province, the PRC with total gross floor area of approximately 54,517.36 square metres is vested in the name of “蠟筆小新(四川)有限公司” (Labixiaoxin (Sichuan) Co., Ltd.).
3. “蠟筆小新(四川)有限公司” (Labixiaoxin (Sichuan) Co., Ltd.) carrying limited liability is an indirect wholly owned subsidiary of the Company established in accordance with the laws of the PRC.
4. A summary of major certificates as at the Valuation Date is shown as follows:
  - i. Certificate of State-owned Land Use: Yes
  - ii. Certificate of Building Ownership: Yes
5. The PRC Legal Advisers have stated in their legal opinion, including but not limited to the following:
  - i. The property is legally vested in “蠟筆小新(四川)有限公司” (Labixiaoxin (Sichuan) Co., Ltd.) which has the right to occupy, use, transfer, lease out, mortgage or by other means dispose of the property
  - ii. The property is not subject to mortgage or other material encumbrances.

## Group II – Property Interest Held by the Group in the PRC for Future Development Purpose

| No. | Property   | Description and Tenure   | Occupancy Status  | Capital Value in Existing State as at 31st August 2011                           |
|-----|--|--|---|--|
| 5.  | A parcel of land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC | The property comprises a parcel of land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC.<br><br>Pursuant to the Certificate of State-owned Land Use, the property has a total site area of approximately 111,219 square metres.<br><br>The property is held under land-use rights for a term to be expired on 19th March 2061. | The property is in its preliminary stage of construction. | RMB45,000,000<br><br>(100% interest attributable to the Group:<br>RMB45,000,000) |

*Notes (Property 5):*

- Pursuant to the State-owned Land-use Rights Grant Contract (Document No.: 3541100 Chu Rang (2011) 042) dated 13th June 2011 (the "Grant Contract"), "蠟筆小新(安徽)有限公司" (Labixiaoxin (Anhui) Co., Ltd.) agreed to acquire the land-use rights of a parcel of land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC with total site area of approximately 133,332 square metres (inclusive of site area for public facilities of approximately 22,113 square metres). According to the Grant Contract, the property is subject to the following development conditions:

|                   |   |  |
|-------------------|---|--|
| User              | : | Industrial   |
| Gross Floor Area  | : | Not less than 111,219 square metres  |
| Site Coverage     | : | Not higher than 30%  |
| Plot Ratio        | : | Not lower than 1.0   |
| Building Covenant | : | To commence construction on 8th April 2011 and complete not later than 8th June 2013 |

- Pursuant to Certificate of State-owned Land-use (Document No.: Chu Guo Yong (2011) No. 05216), the land use rights of the land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC with total site area of approximately 111,219 square metres is vested in the name of "蠟筆小新(安徽)有限公司" (Labixiaoxin (Anhui) Co., Ltd.) with land use rights' term to be expired on 19th March 2061 for industrial use.
- Pursuant to the Permission Certificate for Construction Land-use Planning (Document No.: Di Zi No. 341100201100012 Chu Kai 344) issued by Urban and Rural Planning Bureau of Chuzhou on 18th March 2011, a parcel of land located at the north-eastern side of the junction between Shanghai Road and Wuhu Road, Chuzhou, Anhui Province, the PRC with total site area of approximately 111,219 square metres is in compliance with the urban and rural planning requirements.
- Pursuant to the Certificate of Land Permission (Document No.: 341100 (2011060)) issued by Urban and Rural Planning Bureau of Chuzhou on 25th March 2011, the construction period of the property is from March 2011 to March 2012.
- Pursuant to the Permission Certificate for Construction Works Planning (Document No.: Chu Kai F-450) issued by Urban and Rural Planning Bureau of Chuzhou on 8th June 2011, the construction works of 7 workshops, a warehouse, a staff quarter, a material recycling room and a office block are in compliance with the urban and rural planning requirements. The gross floor areas permitted to be built are tabulated as follows:

|       |                         |   |                               |
|-------|-------------------------|---|-------------------------------|
| i.    | Workshops Nos. 1, 2 & 3 | : | 17,244.0 square metres        |
| ii.   | Workshop No. 4          | : | 3,936.0 square metres         |
| iii.  | Workshop Nos. 5 & 6     | : | 12,640.0 square metres        |
| iv.   | Workshop No. 7          | : | 7,568.2 square metres         |
| v.    | Warehouse               | : | 2,960.5 square metres         |
| vi.   | Staff quarter           | : | 14,020.9 square metres        |
| vii.  | Material recycling room | : | 1,440.0 square metres         |
| viii. | Office block            | : | 2,100.8 square metres         |
|       | <b>Total</b>            |   | <b>61,910.4 square metres</b> |

6. A summary of major certificates as at the Valuation Date is shown as follows:

|      |   |     |
|------|---|-----|
| i.   | State-owned Land-use Rights Grant Contract:                 | Yes |
| ii.  | Certificate of State-owned Land Use:                        | Yes |
| iii. | Permission Certificate for Construction Land-use Planning:  | Yes |
| iv.  | Permission Certificate for Construction Works Planning:     | Yes |
| v.   | Permission Certificate for Construction Works Commencement: | No  |
| vi.  | Certificate of Building Ownership:                          | No  |

7. The PRC Legal Advisers have stated in their legal opinion, including but not limited to the following:

- i. The property is legally vested in “蠟筆小新(安徽)有限公司” (Labixiaoxin (Anhui) Co., Ltd.) which has the right to occupy, use, transfer, lease out, mortgage or by other means dispose of the property.
- ii. The property is not subject to mortgage or other material encumbrances.

## Group III – Property Interest Leased by the Group in Hong Kong

| No. | Property   | Description and Tenure  | Occupancy Status  | Capital Value in Existing State as at 31st August 2011 |
|-----|--|---|---|--|
| 6.  | Room 1104,<br>11th Floor,<br>Asia-Pac Commercial<br>Centre,<br>No. 10 North Point<br>Road,<br>North Point,<br>Hong Kong<br><br>No sub-division<br>registration for the<br>property is found from<br>the land title search at<br>the Land Registry. The<br>property together with<br>various other units are<br>registered at the Land<br>Registry as 11th Floor,<br>No. 10 North Point<br>Road, North Point,<br>Hong Kong. The<br>Remaining Portion of<br>Inland Lot No. 6819,<br>Inland Lot No. 6820<br>and Inland Lot No.<br>6821. | The property comprise of one of the<br>various office unit on the 11th floor<br>of the building completed in or about<br>1999. As measured on the registered<br>floor plan, the property has a saleable<br>area of approximately 37.25 square<br>metre (401 square feet).<br><br>Inland Lot Nos. 6819, 6820 and 6821<br>are held under Government Leases for<br>a term of 75 years commencing on<br>5th September 1921 and renewed for<br>a further term of 75 years. | The property is subject<br>to a tenancy agreement<br>for a term of two years<br>commencing on 1st<br>January 2011 and<br>expiring on 31st<br>December 2012 at a<br>monthly rent of<br>HK\$9,560.00<br>(exclusive of Rates,<br>Government Rent and<br>management fees.). | No commercial value                                    |

*Notes (Property 6):*

1. The current registered owner of the property are “Yu Tai Hing Company Limited” and “On Luck Limited” vide Memorial Nos. UB1757987 dated 31st July 1979 and UB6843915 dated 11th November 1996.
2. The property lies on an area zoned “Commercial/Residential” under North Point Outline Zoning Plan (No. S/H8/24) approved on 30th November 2010.

**REGULATIONS**

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our group's operation and business.

*Establishment, operation and management of a wholly foreign-owned enterprise*

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on December 29, 1993 and with effect from July 1, 1994. It was last amended on October 27, 2005 and with effect from January 1, 2006. Under the Company Law, Companies are generally classified into two categories – limited liability companies and companies limited by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which were promulgated on December 12, 1990 and amended on April 12, 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by The Catalog of Industries for Guiding Foreign Investment (外商投資產業指導目錄) (the “**Catalog**”), which was amended and promulgated by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on October 31, 2007, with effect from December 1, 2007. The Catalog contains specific provisions guiding market access of foreign capital, stipulating in detail the rules of entry according to the categories of encouraged industries, restricted industries and prohibited industries. Industries not listed in the Catalog are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations. Foreign investment in the encouraged category is entitled to certain preferential treatment and incentives extended by the government, while foreign investment in the restricted category is permitted but subject to certain restrictions under PRC Law. Foreign investment in the prohibited category is not allowed.

*Manufacture and sales of Food***Licensing System for Food Production and Trading**

Pursuant to Regulations on Food Safety Law of the PRC (中華人民共和國食品安全法) (the “**Food Safety Law**”), which was promulgated on February 28, 2009, and with effect from June 1, 2009, and Implementing Rules on the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) (the “**Implementing Rules on the Food Safety Law**”), which was promulgated on July 20, 2009 and with effect from the same date, the state adopts a licensing system for food production and trading. To engage

in food production, food circulation, and catering services, the food production license, food circulation license, and catering service license shall be obtained in accordance with the law. Food producers who have obtained food production license do not need to obtain food circulation license for selling the food produced by them at their production place; the catering service providers who have obtained the catering service license do not need to obtain the food production or circulation license for selling the food produced by them at their catering service place.

According to Measures for the Administration of Food Production Licensing (食品生產許可管理辦法), which was promulgated on April 7, 2010, and with effect from June 1, 2010, the validity term for a food production license is three years. If the enterprise that has the food production license needs to continue the production upon expiry of the validity term, it shall file an application for replacement of the license with the original licensing authority within six months prior to the expiry of the validity term of the food production license. If the replacement is approved, the number of the food production license shall remain unchanged. Where no application is filed for replacement of license upon expiry of the validity term, it shall be deemed that the enterprise has no license. Where the enterprise intends to continue the production of food, it shall file a new application for re-issuance of the license and a new number of the license, the validity term of which shall be calculated from the date of permission.

#### **Personnel Health Management System**

In accordance with Food Safety Law as well as Implementing Rules on the Food Safety Law, Food producers and traders shall establish and implement a personnel health management system. The personnel suffering from dysentery, typhoid, viral hepatitis or any other infectious disease of digestive tract or suffering from active tuberculosis, purulent or seeping skin disease or any other disease that affects the food safety shall not engage in work that involves contact with ready-to-eat food. Food producers and traders shall have physical check-up each year and shall obtain healthy certificates prior to working.

#### **Procurement Check Record System and Food Ex-factory Check Record System**

According to Food Safety Law as well as Implementing Rules on the Food Safety Law, Food producers purchasing food raw materials, food additives and food-related products shall check the licenses and food eligibility certification documents of the suppliers. The food raw materials whose eligibility certification documents are unavailable shall be checked in accordance with the food safety standards; no food raw materials, food additives or food-related products inconsistent with the food safety standards may be procured or used. Food production enterprises shall establish a procurement check record system of food raw materials, food additives and food-related products, and truthfully record the names, specifications, quantities, names and contact information of suppliers, dates of purchase, etc. of food raw materials, food additives and food-related products. The procurement check records of food raw materials, food additives and food-related products shall be true, and shall be kept for at least two years. Food production enterprises shall establish a food ex-factory check record system, to check the inspection certificates and the safety conditions of ex-factory food and truthfully record the names, specifications, quantities, dates of production, lot numbers of production, numbers of inspection certificates, names and contact methods of purchasers, dates of sales, etc. of food. The food ex-factory check records shall be true, and shall be kept for at least two years.

Still under Food Safety Law as well as Implementing Rules on the Food Safety Law, Food production and trading enterprises may either carry out inspection on the food produced by themselves or entrust the inspection to a food inspection institution complying with the provisions of this Law.



According to Implementation Rules for the Supervision and Administration on the Quality Safety of the Food Manufacturing and Processing Enterprises (For Trial) (食品生產加工企業質量安全監督管理實施細則(試行)), the market access symbol for food quality safety i.e. the symbol for food manufacturing permit, is a quality symbol, and shall be represented by the English abbreviation of quality safety – “QS”, (hereinafter referred to as the “QS”), the QS symbol shall be printed (pasted) on the packaging or label of the food subject to the market access system for food quality safety before leaving factory. Those without the QS symbol shall not leave factory for sale. Article 48 Where an enterprise uses the QS symbol indicates that it promises that its product has passed the inspection and meets the basic requirements of food quality safety. Where a quality problem, not due to any improper use or storage of customers, occurs to the food with a QS symbol printed (pasted) before its expiration date, the manufacturer and the seller shall assume their liabilities in accordance with their respective duties.

### **The Packages of Pre-packed Food**

Also under Food Safety Law as well as Implementing Rules on the Food Safety Law, the packages of pre-packed food shall bear labels. The labels shall state the following matters, such as name, specifications, net content and date of production; list of ingredients or components; producer’s name, address and contact methods; shelf life; product standard code; storage conditions; the general name of the food additives used in the national standards; category number of food production license; and other items that must be indicated according to laws, regulations or food safety standards. The labels of the staple and supplementary food exclusively for infants shall also indicate the principal ingredients and their contents.

### **Food Recall System**

Also under Food Safety Law as well as Implementing Rules on the Food Safety Law, the state will establish a food recall system. Where a food producer finds that the food produced by it does not comply with the food safety standards, it shall immediately stop the production, recall the food on the market for sale, notify the relevant producers and traders, as well as consumers, and record the recall and notification. Where a food trader finds that the food traded by it does not comply with the food safety standards, it shall immediately stop the trading, notify the relevant producers and traders, as well as consumers, record the cessation of trading and the notification. Where the food producers consider that the food should be recalled, the food shall be recalled immediately. The food producers shall take such measures as remedy, destruction and harmless treatment for the recalled food, and report the recalling and treatment of the recalled food to the quality supervision department at or above the county level. Where the food producers or traders fail to recall or stop trading of the food failing to comply with the food safety standards in accordance with the provisions of this Article, the quality supervision, administration for industry and commerce, food and drug supervision and administration departments at and above the county level shall order them to recall or stop trading.

### **Production Licensing system of Industrial Products**

Pursuant to Administrative Regulations of the PRC on the Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例), which was promulgated on July 9, 2005 and with effect from September 1, 2005, and Implementing Measures for the Regulations for Administration of Production License of Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例實施辦法), which was last amended on April 21, 2010 and became effective from June 1, 2010, only enterprises

granted with production license are eligible to produce the important industrial products for which a production licensing system is implemented by the state. Furthermore, the period of validity of a production license shall be five years, other than for production licenses for food processing enterprises, for which the period of validity shall be three years. Where, during the period of validity of a production license, there is any change in the relevant standards and requirements for the product, the competent authorities may organize a further examination and inspection in accordance with the provisions of relevant Regulations. And where, during the period of validity of a production license, there is a change in the production conditions, inspection method, production technology or technique of the enterprise, the enterprise shall file an application with the relevant authorities, and the competent authorities shall organize a further examination and inspection in light of the provisions of the relevant Regulations.

### **Food Import and Export**

Also under Food Safety Law as well as Implementing Rules on the Food Safety Law, the imported food, food additives and food-related products shall be consistent with the national food safety standards of China. A food importer shall apply for inspection with the entry and exit inspection and quarantine institution at the place of customs on the strength of necessary vouchers and relevant documents such as contract, invoices, packing note, bill of lading, etc.. The food imported shall be qualified in the inspection conducted by the entry and exit inspection and quarantine institution. The customs shall release the imported food on the strength of a customs clearance certificate issued by the entry and exit inspection and quarantine institution. The imported food shall be subject to the inspection conducted by the institution for entry and exit inspection and quarantine, and the customs office shall release the imported food on the basis of a customs clearance certificate issued by the institution for entry and exit inspection and quarantine. For any food that is imported for the first time and has neither been regulated by the requirements of the national food safety standards or a new variety of food additives or a new variety of food-related products imported for the first time, the importer shall file an application with and submit the relevant safety assessment materials to the health administration department under the State Council.

The imported pre-packed food shall be accompanied with labels and instructions in Chinese. The labels and instructions shall be consistent with the provisions of this Law and other relevant laws and administrative regulations of China and the requirements of the national food safety standards, and indicate the origin of food and name, address and contact methods of a domestic agent. Where any pre-packed food is not accompanied with labels or instructions in Chinese or the labels or instructions are not consistent with the requirements, the pre-packed food shall not be imported. The importer shall establish a food import and sale record system to truthfully record the names, specifications, quantities, dates of production, lot numbers of production or import, shelf life, names and contact methods of exporters, names and contact methods of purchasers, dates of delivery, etc. of food. The food import and sale records shall be true, and shall be kept for at least two years.

The food to be exported shall be subject to supervision and sample inspection of the entry and exit inspection and quarantine institution. The customs office shall release the food on the basis of a customs clearance certificate issued by the institution for entry and exit inspection and quarantine. The production enterprises of exported food and the planting and breeding farms of raw materials for exported food shall file a record with the department of entry and exit inspection and quarantine department of the state.

**Food Safety**

Pursuant to Food Safety Law as well as Implementing Rules on the Food Safety Law, Food producers and traders shall engage in production and trading activities in accordance with the laws, regulations and food safety standards, be responsible for the society and the public, ensure food safety, accept social supervision, and undertake social responsibility. And in accordance with Law of the PRC on the Protection of Minors (中華人民共和國未成年人保護法), which was promulgated on September 4, 1991, and with effect from June 1, 2007, the food, drugs, toys, utensils and amusement facilities, etc. produced and sold for minors shall meet the national standards or industrial standards, and may not be harmful to the safety or health of minors. If the points for attention need to be indicated, they shall be indicated at an eye-catching position

Pursuant to Circular of the General Administration of Quality Supervision, Inspection and Quarantine of PRC on Printing and Distributing the Implementation Rules for the Examination of Pastry and other six types of Food Production License (國家品質監督檢驗檢疫總局關於印發糕點等7類食品生產許可證審查細則的通知), which was promulgated on August 25, 2006 and with effect on September 1, 2006, special requirements is applied in raw materials, licenses check, supervision check and ex-factory check of jelly industry.

**Food Identification Management System**

Pursuant to the Food Identification Management Requirement (食品標識管理規定) promulgated by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) (the “AQSIIQ”) on August 27, 2007 and effective from September 1, 2008, and the amendments dated October 22, 2009, food identification labels should state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses and contact information of producers, and standardization numbers of national standards, industry standards, local standards or enterprise standards for those who have filed these to the authorities. Food components or ingredients are required to be disclosed on food labels. Nutritional ingredients and their percentage labeling are required with respect to staple and supplementary food for babies, infants or other specified groups of people. Food labels with wordings such as “nutrition” or “strengthened” in their names or descriptions are required to state the nutrition and calories of such food in accordance with the relevant national standards and comply with the quantity identification required by the national standards. Food which is under the production licensing management scheme is required to show its Food Production License number and QS mark on the food label.

**Supervision on the use of food additives**

Pursuant to the Food Safety Law, no food additive may be used in food unless it is technically deemed necessary and has been proven to be safe and reliable after passing risk assessments. The health administrative department of the State Council shall, on the basis of the technical requirements and the results of the food safety risk assessments, revise the varieties, scope of use and standard on the dosage of food additives in a timely manner. A food producer should use food additives in accordance with the food safety standards in relation to the varieties, scope of use and dosage of food additives, and should not, during the process of food production, use any chemical substances other than food additives or any other substances which may cause potential harm to human health.

A food producer should inspect the license and product compliance certification document from the supplier when purchasing raw materials for producing food, food additives and food-related products. For any supplier who is unable to provide a compliance certification document, an inspection on the raw materials for producing food shall be implemented in accordance with the food safety standards. No raw material for food, food additives or food-related products with which the food safety standards have not been complied shall be purchased or used. A food production enterprise shall establish an inspection record system for the raw materials purchased for producing food, food additives and food-related products, which records information such as the names, specifications and quantities of the raw materials for producing food, food additives and food-related products, names and contact information of the suppliers and the date of purchase. Such inspection record must be true and be kept for at least two years.

As the Measures for the Administration of New Varieties of Food Additives (食品添加劑新品種管理辦法) was promulgated by the Ministry of Health of the PRC (中華人民共和國衛生部) (the “MOH”) on March 30, 2010, the Measures for the Hygienic Administration of Food Additives (食品添加劑衛生管理辦法) issued on March 28, 2002 was abolished. According to these new measures, new varieties of food additives refer to the varieties which are not set by food safety national standards, or not listed in the permitted use catalog announced by the MOH, or not part of the varieties whose scope or dosage has been enlarged. The MOH is responsible for the examination and permission of the application submitted by enterprises or individuals who engage in producing, operating, using or importing new varieties of food additives. In accordance with the technical features and food safety risk analysis of the above-mentioned new variety of food additives, the MOH shall make public and announce the permitted food additives varieties, scope of use and dosage to become food safety national standards. The MOH shall make a timely reassessment when safety problems of food varieties caused are proved by scientist research or other proof, or the technical need is not essential. Approved varieties of food additives may be revoked and the scope of use and dosage may be revised by the MOH if the applicant fails the re-examination.

Under the Administrative Measures for the Record of Use of Food Additive by Food Production and Processing Enterprises (Trial) (食品生產加工企業食品添加物質使用備案管理辦法(試行)) promulgated on and implemented since April 19, 2007 by AQSIQ, an enterprise engaged in food processing in the PRC shall file at the county-level Bureau of Quality and Technical Supervision (質量技術監督局) where it is located a record of the varieties, the use and the dosages of all food additives used in the food, and be responsible for the authenticity of its contents. In case of a change in the basic contents of the record made by such enterprise, a new record should be made within 15 days.

The Notice of Recent Rectification Work for the Nationwide Combating of the Illegal Addition of Non-edible Substances and Abused Use of Food Additives (全國打擊違法添加非食用物質和濫用食品添加劑專項整治近期工作重點及要求), jointly issued by nine authorities including the MOH on March 6, 2009, has specifically emphasized that no addition of non-edible substances, such as leather hydrolyte, melamine, B-lactamase, and sodium sulfocyanate should be added into milk and dairy products, and that the use of thickeners, fragrance and color agents, etc., should not be abused in the production of milk and dairy products either.

*Foreign-Investment in Commercial Field*

Pursuant to Measures for The Administration On Foreign Investment In Commercial Field (外商投資商業領域管理辦法), which were promulgated on April 16, 2004 and with effect from June 1, 2004, foreign-funded commercial enterprises refer to enterprises with foreign investment engaged in commission agency, wholesale, retail or franchising. All foreign-invested commercial enterprises must meet the following conditions: (A) the minimum registered capital must accord with the relevant provisions as stated in the Company Law; (B) the relevant provisions as to the registered capital and total investment of the Foreign-invested Enterprises must be complied with; (C) the period of operation of a foreign-invested commercial enterprise must not exceed 30 years in general, and the term of operation of a foreign-invested commercial enterprise established in the middle and western areas must not exceed 40 years in general.

According to Circular of the MOFCOM on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial Enterprises (商務部關於下放外商投資商業企業審批事項的通知), which was promulgated and with effect from September 12, 2008, the establishment of commercial enterprises with foreign investment and changes in the relevant items as to the established foreign-invested commercial enterprises shall be examined and verified by the commercial departments at provincial level, except that the Ministry of Commerce shall continue to examine and approve the establishment and changes in the relevant items as to the foreign-invested enterprise that engaged in non-store retailing through TV, telephone, mail order, Internet, vending machines, etc. or which deal with the wholesale of audio-visual products or the sale of books, newspapers and periodicals.

*Importation and Exportation of goods*

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) (the “**Foreign Trade Law**”), which was promulgated on April 6, 2004 and with effect from July 1, 2004, foreign trade dealers engaged in the import and export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorized bodies unless laws, regulations and the authority responsible for foreign trade under the State Council do not so require. Where foreign trade dealers fail to register as required, the Customs authority shall not process the procedures of declaration, examination and release of the imported and exported goods.

According to the Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Right to Foreign Trade by Foreign-funded Enterprises (商務部關於外商投資企業外貿權備案登記有關問題的通知), which was promulgated and with effect from August 17, 2004, where foreign-funded enterprises duly established before July 1, 2004 apply for the addition of any import/export business to their approved scope of business, they must, in accordance with the Measures for the Record-keeping and Registration by Foreign Trade Dealers (對外貿易經營者備案登記辦法), complete the formalities of adding business items to the enterprises’ business licenses and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration (note: no formalities of change are required in regard to the approval certificate for its establishment) on the strength of the approval certificate for its establishment, business license with the business addition made, and any other documents as required under the Measures for the Record-keeping and Registration. The registration authorities shall affix a stamp indicating “business of distribution of import goods excluded” on the registration form.



Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關對報關單位註冊登記管理規定), which was promulgated on March 31, 2005 and with effect from June 1, 2005, “consignor or consignee of export or import goods” means any legal person, other organization or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After going through the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any other places where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of 3 years.

### *Taxation*

#### **Income tax**

Prior to 1 January 2008, income tax payable by Foreign-invested Enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the “**FIE Tax Law**”) promulgated on April 9, 1991 and with effect from July 1, 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on Foreign-invested Enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on Foreign-invested Enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on Foreign-invested Enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**New Tax Law**”), which was promulgated on March 16, 2007, the income tax for both domestic and Foreign-invested Enterprises is at the same rate of 25% effective from 1 January 2008. The Implementation Rules To the New Tax Law (中華人民共和國企業所得稅法實施條例) (the “**Implementation Rules**”) was promulgated on December 6, 2007 and with effect from January 1, 2008. The New Tax Law provides certain relief during the transition period that apply to enterprises that were established prior to March 16, 2007 (i) if Foreign-invested Enterprises enjoy reduced tax rates under the laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) if Foreign-invested Enterprises enjoy tax holidays for a fixed period under laws and regulations, such Foreign-invested Enterprises can continue the holiday until its expiry. However, if an enterprise has not started to enjoy the tax holiday due to a lack of profit, 2008 will be regarded as the first profit-making year and the enterprise starts to enjoy the tax holiday.

Also under the New Tax Law, High and new technology Enterprises that require key state support are subject to the applicable enterprise income tax rate with a reduction of 15%.

**Value-added tax**

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) last amended on November 5, 2008 and with effect from January 1, 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). The amount of VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% for those engaging in the sale or importation of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on Value-added Tax of the PRC and is also 17% for those providing processing services, repairs and replacement services.

**Urban Maintenance and Construction Tax as well as Education Surtax**

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which was promulgated and with effect from October 18, 2010, from December 1, 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax promulgated in 1985 and the Tentative Provisions on the Collection of Educational Surtax promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例), which was promulgated on February 8, 1985 and with effect from 1985, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on March 12, 1994 and with effect from January 1, 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定), which was last revised on August 20, 2005 and with effect from October 1, 2005, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

*Foreign currency exchange and dividend distribution***Foreign currency exchange**

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange Administration Rules**”). There were promulgated by the State Council of the PRC (中華人民共和國國務院) on January 29, 1996 and with effect from April 1, 1996 and were amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

**Dividend distribution**

Before the promulgation of the New Tax Law, the principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, the FIE Tax Law and their respective Implementation Regulations.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. And dividends paid to its foreign investors are exempt from withholding tax. However, this exemption provision has been revoked by the New Tax Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The Implementation Rules reduced the rate from 20% to 10%, effective from January 1, 2008.

The PRC and the government of Hong Kong SAR signed Arrangement between the Mainland of the PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on August 21, 2006 (the “**Arrangement**”). According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.



Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and with effect from February 2, 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; b) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

In addition, according to the Circular on Printing and Issuing the Administrative Measures (Trial) for Enjoying Treatment Under Taxation Treaties by Non-resident Individuals and Enterprises (關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知) (“Administrative Measures”) which came into force on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties.

### *Product Quality*

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中華人民共和國產品品質法) (the “**Product Quality Law**”), which was promulgated on February 22, 1993 and amended on July 8, 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

According to the Product Quality Law, consumers or other victims who suffer personal injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend operation and its business license may be revoked. Criminal liability may be incurred in serious cases.

### *Consumer Protection*

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

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

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

#### *Anti-Monopoly Law*

Pursuant to the Anti-Monopoly Law of the PRC (中華人民共和國反壟斷法) (the “**Anti-Monopoly Law**”), which was promulgated on August 30, 2007 and effective from August 1, 2008, “dominant market position” shall refer to a position where in an operator may manipulate the price, volume and other trade conditions of commodity on relevant market, or may obstruct or otherwise effect the entrance of other operators into relevant markets. And operators who hold a dominant market position shall be prohibited from engaging in such practices which may be classified as an abuse of said position as: a) selling products at unfairly high or unfairly low prices, b) selling products at a price lower than cost without legitimate grounds, c) refusing to trade with the other trading party without legitimate grounds, d) forcing the other trading party to trade only with said operator or other operators specified by said operator without legitimate grounds, e) conducting tie-in sales or adding other unreasonable conditions on a deal without legitimate grounds, f) discriminating among trading parties of the same qualifications with regards to trade price, etc. without legitimate grounds, or g) other practices recognized by the anti-monopoly law enforcement authorities as abuse of dominant market position. Furthermore, where an operator violates the provisions of the Anti-Monopoly Law by abusing dominant market position, the anti-monopoly law enforcement authorities shall order a halt to the offending behavior, confiscate the illegal earnings, and impose a fine of 1-10% of the previous year’s sales revenue.

#### *Competition Law*

Competitions among the business operators are generally governed by the Law of the PRC for Anti-Unfair Competition (中華人民共和國反不正當競爭法) (the “**Anti-Unfair Competition Law**”). According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntaries, equality, fairness, honesty and credibility, and observe generally recognized business ethics. And acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it or he may institute proceedings in a people’s court. In comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

#### *Price Law*

Pursuant to the Price Law of The PRC (中華人民共和國價格法) (the “**Price Law**”), which was promulgated on December 29, 1997 and with effect from May 1, 1998, the operators shall, in determining prices, abide by the principle of fairness, being in conformity with law, honesty and credibility. And production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

The operators shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. And the operators shall not sell commodities with additional price besides the marked price and shall not collect any fee not indicated. Furthermore, the operators shall not commit such unfair price acts as manipulating market price in collusion to the detriment of the lawful rights and interests of other operators or consumers and so on. Any operator who commits any of the unfair price acts prescribed in the Price Law shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than five times of the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations for consolidation, or the business license revoked by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay more prices for illegal price acts should refund the portion overpaid; where damage has been caused, liability for compensation shall be borne according to law. And any operator who violates the provision of clearly marking prices shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

### *Intellectual Property Rights*

#### **Copyright**

According to the Copyright Law of the PRC (中華人民共和國著作權法) (the “**Copyright Law**”), which was amended in 2010 and with effect from April 1, 2010, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, offer an apology, pay damages, etc.

#### **Trademark**

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) (the “**Trademark Law**”), which was revised on 27 October 2001 and with effect from December 1, 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. And according to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. Where a dispute arises after a party commits any of the acts infringing upon another party’s exclusive right to use a registered trademark as enumerated in the Trademark Law, the parties involved shall settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with the People’s Court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

### Patent

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) (the “**Patent Law**”), which was revised on 27 December 2008 and with effect from October 1, 2009, the term “invention” used in it refers to any new technical solution relating to a product, a process or improvement thereof, and the term “utility model” used therein refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use, while the term “design” used therein refers to any new design of the shape, pattern or their combination and the combination of color and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

Besides, the duration of patent right for inventions shall be twenty years and the duration of patent right for utility models and designs shall be ten years, both commencing from the date of application. Furthermore, where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings with the people’s court, or request the administrative authority for patent affairs to handle the matter.

### Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (中國互聯網域名管理辦法), which was promulgated on 5 November 2004 and effective from December 20, 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the Internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

### *Environmental Protection*

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), which was promulgated and with effect from December 26, 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;

- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

The Ministry of Environmental Protection of the PRC Government authorities shall impose different penalties on persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

#### **Prevention and Control of Water Pollution**

Pursuant to Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), which was revised on February 28, 2008 and with effect from June 1, 2008, the State adopts license system for pollutant discharge. Enterprises and institutions that discharge industrial waste water or medical treatment sewage directly or indirectly into a water body, as well as other enterprises and institutions that can discharge waste water or sewage only after obtaining license for pollutant discharge shall obtain license for pollutant discharge. The specific measures and implementation procedures for the license for pollutant discharge shall be formulated by the State Council (國務院).

Enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge pollutants directly or indirectly into a water body shall, pursuant to the regulations of the competent environmental protection authorities under the State Council (國務院), report to and register with the competent environmental protection authorities under the local people's government at or above the county level their existing facilities for discharging and treating pollutants, and the categories, quantities and concentrations of pollutants discharged under their normal operating conditions, and also provide to the same department technical information concerning prevention and control of water pollution. The enterprises, institutions and individually-owned industrial and/or commercial businesses shall report without delay any substantial change in categories, quantities or concentrations of the pollutants discharged. Their facilities for treating water pollutants must be kept in normal functioning operation enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge pollutants into a water body shall build sewage outlets in accordance with relevant laws, administrative regulations and the provisions of competent environmental protection authorities under the State Council. Those that build any sewage outlet in a river or lake shall also abide by the provisions of the competent authorities of water conservancy administration under the State Council (國務院水行政管理部門).

#### **Prevention and Control of Atmospheric Pollution**

In accordance with Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), which was revised on April 29, 2000, and with effect from September 1, 2000, the relevant local people's governments in the areas where the total amount of the atmospheric pollutants discharged is kept under control shall, in compliance with the requirements and procedures

prescribed by the State Council and in line with the principles of openness, fairness and impartiality, check and fix the total amounts of the main atmospheric pollutants discharged by enterprises and institutions and issue them permits for discharge for such pollutants. The enterprises and institutions that undertake to control their total amounts of atmospheric pollutants discharged shall discharge pollutants in conformity with the checked and fixed total amounts of the main atmospheric pollutants to be discharged and the requirements in respect of their discharge prescribed by the permits.

Units that discharge atmospheric pollutants shall, pursuant to the regulations laid down by the administrative department for environmental protection under the State Council (國務院環境保護行政主管部門), report to the local administrative department for environmental protection the facilities installed for discharging and treating pollutants and the categories, quantities and density of the pollutants discharged under regular operation conditions and submit to the same department the relevant technical data concerning the prevention and control of atmospheric pollution. The units that discharge pollutants, as mentioned in the preceding paragraph, shall without delay report on any substantial change in the categories, quantities or density of the atmospheric pollutants discharged. They shall keep their facilities for treating atmospheric pollutants in regular operation; where the said facilities are to be dismantled or left idle, the matter shall be reported to the local administrative department for environmental protection under the people's government at or above the county level for approval in advance.

#### **Prevention and Control of Environmental Noise Pollution**

Pursuant to Law of the PRC on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), which was revised on and with effect from October 29, 1996, the industrial noise emitted to the living environment of the neighborhood within an urban area shall be kept within the limits set by the State on emission of environmental noise within the boundary of an industrial enterprise. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council (國務院環境保護行政主管部門), report to the competent administrative department for environmental protection of the local people's government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of the equipment that produces environmental noise pollution, in the noise level or facilities for prevention and control of such pollution must submit a report without delay and take prevention and control measures as it should. Industrial enterprises that produce environmental noise pollution shall take effective measures to minimize the impact of noise on the living environment of the neighborhood.

#### **Prevention and Control of Environmental Pollution by Solid Waste**

Pursuant to the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), which was promulgated on December 29, 2004 and with effect from April 1, 2005, entities discharging industrial solid wastes shall establish and improve the responsibility system for the prevention and control of environmental pollution and adopt measures for the prevention and control of environmental pollution by industrial solid wastes.



The State institutes a system of declaration and registration for industrial solid wastes. The entities discharging industrial solid wastes shall, in accordance with the regulations enacted by the environmental protection administrative department of the State Council (國務院環境保護行政主管部門), provide information about the categories, discharging amount, flow direction, storage, treatment and other materials concerning industrial solid wastes to the environmental protection administrative department of the local people's government at or above the county level where such entities are located. Any significant modification of the declaration matters as prescribed in the preceding paragraph shall be declared in a timely manner. Enterprises and public institutions shall make use of industrial solid wastes produced thereby pursuant to economic and technical conditions; for those industrial solid wastes that will not or can't be utilized temporarily, enterprises and public institutions shall, in accordance with the regulations of the environmental protection administrative department of the State Council (國務院環境保護行政主管部門), build facilities and sites for their safe and classified storage or carry out the harmless treatment for them. The construction of facilities and sites for storing and treating industrial solid wastes shall comply with state standards on environmental protection.

#### **Standards of Collecting Fees for Discharge of Pollutants**

According to Circular on the Standards of Collecting Fees for Discharge of Pollutants (排污費徵收標準管理辦法), which was promulgated on February 28, 2003, and with effect from July 1, 2003, environmental protection authorities under the local people's government at or above the county level shall collect the fee for pollutant discharge according to the following matters: Enterprises, institutions and individually-owned industrial and/or commercial businesses that directly discharge pollutants into a water body shall pay the fee for pollutant discharge according to the kinds and quantity of the water pollutants discharged and the standards for collecting the fee for pollutant discharge. Enterprises that pay fees to facilities for centralized treatment of urban sewage according to the kinds and quantity of the water pollutants discharged, shall not pay the fee for discharge of pollutants. Enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge atmospheric pollutants shall pay the fee for pollutant discharge on the basis of the categories and quantities of the atmospheric pollutants discharged. If construction of facilities and sites for storing and treating industrial solid wastes haven't been built or haven't complied with state standards on environmental protection, Enterprises, institutions and individually-owned industrial and/or commercial businesses shall pay fees for solid wastes discharge according to the kinds and quantity of the solid wastes pollutants discharged. Enterprises, institutions and individually-owned industrial and/or commercial businesses that produce environmental noise pollution that impairs the living environment of the neighborhood shall pay fees for excessive emission of such pollution.

#### **Construction Project Environmental Protection**

According to the Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), which were promulgated and with effect from November 29, 1998, the PRC practices a system that evaluates the environmental impact of a construction project. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that necessitates no feasibility study pursuant to relevant state provisions, the construction unit should, prior to the start of the construction of the construction project, submit the construction project environmental impact report, environmental impact statement or

environmental impact registration form for approval. Besides, the construction unit should, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

#### *Labour Contracts*

Pursuant to the Labor Contract Law of the PRC (中華人民共和國勞動合同法) (the “**Labor Contract Law**”), which was adopted by the Standing Committee of the National People’s Congress on June 29, 2007 and with effect from January 1, 2008, to establish a labor relationship, a written labor contract should be concluded. In the event that no written labor contract is concluded at the time when a labor relationship is established, such a written contract should be concluded within one month from the date when the employer employs the employee. Where the employer fail to conclude a written labor contract with the employee for more than one month but less than a year from the date it starts employing him, it shall pay the employee two times his salary for each month. In addition, if the employer fails to conclude a written labor contract with the employee within one year as of the date when it employs the employee, it shall be deemed to have concluded an open-ended contract with the employee.

#### *Social Insurance and Housing Provident Fund*

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on October 28th, 2010 and with effect from July 1st, 2011, employees shall participate in basic pension insurance, basic medical insurance and unemployment insurance schemes. Basic pension, medical insurance and unemployment insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the Social Insurance Law of the PRC, if an employer fails to pay work-related injury insurance contributions in accordance with law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the Social Insurance Law of the PRC.

Furthermore, as to the unemployment insurance, employers shall provide unemployed individuals with certification of the expiry or termination of their employment relations in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing their former employers’ certification of the expiry or termination of employment relations. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.



An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of the PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant bank(s) and other financial institution(s) in which the employer has an account; and may apply with the relevant administrative department above the county level for an administrative order to allocate and transfer the unpaid social insurance contributions and notify the relevant bank or other financial institution in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fail to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

Regulations on Management of Housing Provident Fund (住房公積金管理條例), promulgated and with effect from March 24, 2004, are applicable to enterprises with foreign investment. Enterprises are required to pay housing provident fund for their employees. To the details, enterprises shall register with the relevant housing provident fund management center within 30 days from the date of establishment, and open housing provident fund accounts with designated bank on behalf of their employees within 20 days from the date of the registration with the verified documents of the housing provident fund management center. And when employing new employees, enterprises shall register with the housing provident fund management center within 30 days from the date of the employment of such employees, and open housing provident fund accounts for such employees at the designated bank with the verified documents of the housing provident fund management center. Furthermore, the housing provident fund to be paid and deposited by an employee shall be withheld from his/her salary by the enterprise, and the enterprise itself shall pay and deposit housing provident fund on schedule and in full, and may not be overdue in the payment and deposit or underpay the housing provident fund. The payment and deposit rate for housing provident fund (either for the employee or for the enterprise) shall not be less than five percent of the average monthly salary of the employee concerned in the previous year.

*Production Safety*

Pursuant to the Production Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated on June 29, 2002 and with effect from November 1, 2002, special equipment that concerns the safety of life or is rather dangerous, the containers of hazardous substances, or transportation tools that any production and business operation entity uses must, according to the relevant provisions of the state, be manufactured by specialized production entities, and may only be put into use after it has passed the detections and tests of those detecting and testing institutions that have been equipped with the professional qualifications for which a certificate for safe use or a mark of safety has been obtained. In addition, the production, business operation, transportation, storage, and use of any dangerous substances or the disposal of or abandonment of dangerous substances shall be subject to the examination and approval as well as the supervision and administration of the relevant administrative departments according to the provisions of the relevant laws and regulations, national standards, or industrial standards.

Pursuant to the Regulations on Safety Supervision of Special Equipment (特種設備安全監察條例), promulgated on March 11, 2003 and with effect from June 1, 2003 (amended on January 14, 2009 and with effect from May 1, 2009), “special equipment” used in the regulations refers to boilers, pressure vessels (including gas cylinders, same below), pressure pipelines, elevators, lifting appliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by the Regulations, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position of the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices (referred to as the “operators of special equipment”) shall not engage in corresponding operation or management until they have passed the examination organized by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment with a nationally unified formula.

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

## **1. MEMORANDUM OF ASSOCIATION**

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

## **2. BYE-LAWS**

The Bye-laws were adopted on September 23, 2011. The following is a summary of certain provisions of the Bye-laws:

### ***(a) Directors***

#### **(i) Power to allot and issue shares and warrants**

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(ii) Power to dispose of the assets of the Company or any of its subsidiaries**

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

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Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

**(iii) Compensation or payments for loss of office**

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

**(iv) Loans and provision of security for loans to Directors**

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

**(v) Financial assistance to purchase shares of the Company**

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

**(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries**

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration,

profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(vii) Remuneration**

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

**(viii) Retirement, appointment and removal**

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

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Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

**(ix) Borrowing powers**

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.



***(b) Alterations to constitutional documents***

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

***(c) Alteration of capital***

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

***(d) Variation of rights of existing shares or classes of shares***

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the



issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

***(e) Special resolution-majority required***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

***(f) Voting rights***

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

***(g) Requirements for annual general meetings***

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

***(h) Accounts and audit***

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

*(i) Notices of meetings and business to be conducted thereat*

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

*(j) Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered,

in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

***(k) Power for the Company to purchase its own shares***

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

***(l) Power for any subsidiary of the Company to own shares in the Company***

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

***(m) Dividends and other methods of distribution***

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

***(n) Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

***(o) Call on shares and forfeiture of shares***

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall

pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

***(p) Inspection of register of members***

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

***(q) Quorum for meetings and separate class meetings***

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

***(r) Rights of the minorities in relation to fraud or oppression***

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

***(s) Procedures on liquidation***

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

***(t) Untraceable members***

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

***(u) Other provisions***

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.



### 3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

### 4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### (a) *Share capital*

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

***(b) Financial assistance to purchase shares of a company or its holding company***

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

***(c) Purchase of shares and warrants by a company and its subsidiaries***

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

*(d) Dividends and distributions*

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

*(e) Protection of minorities*

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

*(f) Management*

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

*(g) Accounting and auditing requirements*

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five

(5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

***(h) Auditors***

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

***(i) Exchange control***

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities.

In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

***(j) Taxation***

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

***(k) Stamp duty***

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

***(l) Loans to directors***

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the



company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

***(m) Inspection of corporate records***

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

***(n) Winding up***

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.



In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

## **5. GENERAL**

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of our Company**

Our Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on May 4, 2004 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on September 15, 2011. We have established a principal place of business in Hong Kong at Room 1104, Asia-Pac Commercial Centre, 10 North Point Road, Hong Kong. Mr. Yap Yung who resides at Flat H, 52/F, Tower 7, The Pacifica, 9 Sham Shing Road, Lai Chi Kok, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in Bermuda, we operate subject to the Companies Act and its constitution comprising the Memorandum of Association and Bye-laws. A summary of certain provisions of its constitution and relevant aspects of the Companies Act is set out in Appendix VI to this prospectus.

**2. Change in the share capital of our Company**

Our authorized share capital as at the date of our incorporation was US\$12,000 divided into 12,000 shares of US\$1.00 each. On March 28, 2005, our Company increased its authorized share capital to US\$50,000,000 divided into 50,000,000 Shares of US\$1.00 each. On the same date, our Company subdivided all its issued and unissued shares with par value of US\$1.00 each into 1,000,000,000 Shares, with a par value of US\$0.05 each.

Pursuant to the Subscription Agreement, on March 24, 2010, we allotted and issued 43,754,922 Shares to COFCO BVI.

Pursuant to the resolutions in writing of the shareholders of our Company passed on September 23, 2011 below, the authorized share capital of our Company was increased from US\$50,000,000 to US\$250,000,000 by the creation of an additional 4,000,000,000 Shares. We allotted and issued an aggregate of 353,063,478 Shares to our then existing Shareholders pursuant to the Capitalization Issue.

Immediately following completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised and taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be US\$56,280,000 divided into 1,125,600,000 Shares, all fully paid or credited as fully paid and 3,874,400,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the sub-section headed “Resolutions in writing of the Shareholders of our Company” below, there has been no alteration in the share capital of our Company since its incorporation.

**3. Resolutions in writing of the Shareholders of our Company**

- (i) Pursuant to the written resolutions passed by the shareholders of our Company on September 23, 2011:
  - (a) we approved and conditionally adopted the Bye-laws; and
  - (b) the authorized share capital of our Company was increased from US\$50,000,000 to US\$250,000,000 by the creation of an additional 4,000,000,000 Shares;
- (ii) Pursuant to the written resolutions passed by the shareholders of our Company on November 25, 2011:
  - (a) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Capitalization Issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
    - (i) the Global Offering was approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering;
    - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the sub-section headed “— Other Information — Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and
    - (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to capitalize an amount of US\$17,653,173.9 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 353,063,478 Shares, such Shares to be allotted and issued to our Shareholders as of November 25, 2011 on a pro rata basis.
  - (b) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the shareholders of our Company in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our

Company in issue immediately following completion of the Capitalization Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Bye-laws or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first;

- (c) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Bye-laws or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first; and
- (d) the general unconditional mandate mentioned in paragraph (b) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above.

#### **4. *Changes in share capital of subsidiaries***

Our Company's subsidiaries are referred to in the Accountant's Report in Appendix I to this prospectus. The following sets out the change to the share capital made by a subsidiary of our Company during the two years preceding the date of this prospectus:

- (a) The registered capital of LBXX Tianjin was increased from HK\$200,000,000 to HK\$228,080,000 on October 13, 2010.

Save for the subsidiaries mentioned in the Accountant's Report in Appendix I to this prospectus, our Company has no other subsidiaries.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

**5. Particulars of our subsidiaries in the PRC**

Set out below is a summary of the corporate information of our subsidiaries established in the PRC:

**(a) LBXX Fujian (蠟筆小新(福建)食品工業有限公司)**

|                         |                           |
|-------------------------|---------------------------|
| Date of Establishment:  | March 15, 2000            |
| Place of Establishment: | PRC                       |
| Nature:                 | Limited liability company |
| Registered Capital:     | HK\$53,880,000            |
| Shareholder(s):         | Timeluck                  |

**(b) LBXX Sichuan (蠟筆小新(四川)有限公司)**

|                         |                           |
|-------------------------|---------------------------|
| Date of Establishment:  | January 17, 2008          |
| Place of Establishment: | PRC                       |
| Nature:                 | Limited liability company |
| Registered Capital:     | HK\$150,000,000           |
| Shareholder(s):         | LBXX Holdings             |

**(c) LBXX Tianjin (蠟筆小新(天津)有限公司)**

|                         |                           |
|-------------------------|---------------------------|
| Date of Establishment:  | January 24, 2006          |
| Place of Establishment: | PRC                       |
| Nature:                 | Limited liability company |
| Registered Capital:     | HK\$228,080,000           |
| Shareholder(s):         | Timeluck                  |

**(d) LBXX Anhui (蠟筆小新(安徽)有限公司)**

|                         |                           |
|-------------------------|---------------------------|
| Date of Establishment:  | November 3, 2010          |
| Place of Establishment: | PRC                       |
| Nature:                 | Limited liability company |
| Registered Capital:     | HK\$180,000,000           |
| Shareholder(s):         | LBXX Holdings             |

## 6. *Repurchases of our Shares*

### (a) **Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

#### (i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

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Note: Pursuant to resolution passed by the shareholders of our Company on November 25, 2011, a general unconditional mandate (the "Buyback Mandate") was granted to the Directors authorizing the repurchase of shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Bye-laws to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of our Company in general meeting, whichever is the earliest.

#### (ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Bye-laws and the laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in effect from time to time.

### (b) **Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have general authority from its Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

### (c) **Funding of repurchases**

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Bye-laws and the applicable laws of Bermuda.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Act, out of capital and, in the case of any premium payable on the re-purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Act, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

**(d) Share capital**

Exercise in full of the Buyback Mandate, on the basis of 1,125,600,000 Shares in issue immediately after the listing of the Shares (but not taking into account the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), could accordingly result in up to 112,560,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held; or
- (iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first.

**(e) General**

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

No connected person (as defined in the Listing Rules) has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.



If the Buyback Mandate is fully exercised immediately following completion of the Capitalization Issue and the Global Offering (but taking no account of the Shares which may be allotted and issued up on the exercise of the Over-allotment Option or pursuant to the exercise of the options granted under the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 112,560,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions). The percentage shareholding of our Controlling Shareholders will be increased to approximately 71.2% of the issued share capital of our Company immediately following the full exercise of the Buyback Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

## B. INFORMATION ABOUT THE BUSINESS

### 1. Summary of material contracts











The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:




- (a) a share transfer agreement and a supplemental share transfer agreement both dated June 1, 2010 entered into between LBXX Investments as transferor and Zheng Hong Xiong (鄭鴻雄) as transferee regarding the transfer of a 50% interest in Coco Foods at a consideration of US\$425,000;
- (b) a trademark application rights transfer agreement dated March 9, 2011 entered into between Labixiaoxin (Xiamen) Trading Co., Ltd. (蠟筆小新 (廈門)商貿有限公司) and LBXX Fujian pursuant to which Labixiaoxin (Xiamen) Trading Co., Ltd. (蠟筆小新 (廈門)商貿有限公司) agreed to transfer three trademark application rights to LBXX Fujian at a consideration of RMB1,000;
- (c) the subscription agreement dated March 21, 2011 entered into between our Company and COFCO BVI pursuant to which COFCO BVI agreed to subscribe 43,754,922 Shares at a consideration of Hong Kong dollars equivalent of RMB139,130,435.61;
- (d) a trademark transfer agreement dated August 20, 2011 entered into between Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司) and LBXX Fujian pursuant to which Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司) agreed to transfer 20 trademarks to LBXX Fujian at a consideration of RMB1,000;
- (e) the deed of indemnity dated September 23, 2011 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of its present subsidiaries) in respect of, amongst others, taxation and property matters referred to in the paragraph headed “Tax and other indemnities” in this Appendix;
- (f) the deed of non-competition dated September 23, 2011 entered into by our Controlling Shareholders in favor of our Company as detailed in the paragraph headed “Relationship with our Controlling Shareholders — Non-competition Undertakings” of this prospectus; and
- (g) the Hong Kong Underwriting Agreement.







## 2. Intellectual property rights of the Group





### (a) Trademarks

As of the Latest Practicable Date, our Group was the registered proprietor of the following trademarks:

| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
|    | 1470228             | 29    | LBXX<br>Fujian                | PRC                   | 2010.11.07           | 2020.11.06  |
|    | 1954434             | 30    | LBXX<br>Fujian                | PRC                   | 2002.11.28           | 2012.11.27  |
|   | 3847322             | 29    | LBXX<br>Fujian                | PRC                   | 2006.03.21           | 2016.03.20  |
|  | 4713948             | 30    | LBXX<br>Fujian                | PRC                   | 2008.05.07           | 2018.05.06  |
|  | 3987953             | 36    | LBXX<br>Fujian                | PRC                   | 2007.01.14           | 2017.01.13  |
|  | 3987952             | 37    | LBXX<br>Fujian                | PRC                   | 2007.01.14           | 2017.01.13  |
|  | 3978088             | 39    | LBXX<br>Fujian                | PRC                   | 2006.12.28           | 2016.12.27  |
|  | 3978087             | 40    | LBXX<br>Fujian                | PRC                   | 2006.12.28           | 2016.12.27  |
|  | 3978086             | 41    | LBXX<br>Fujian                | PRC                   | 2006.12.28           | 2016.12.27  |
|  | 3978085             | 42    | LBXX<br>Fujian                | PRC                   | 2006.12.28           | 2016.12.27  |

| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
|    | 3978077             | 44    | LBXX<br>Fujian                | PRC                   | 2006.12.28           | 2016.12.27  |
|    | 3987951             | 45    | LBXX<br>Fujian                | PRC                   | 2007.01.14           | 2017.01.13  |
|    | 1289025             | 29    | LBXX<br>Fujian                | PRC                   | 2009.06.28           | 2019.06.27  |
|    | 1316511             | 29    | LBXX<br>Fujian                | PRC                   | 2009.09.21           | 2019.09.20  |
| 蜡笔小新  | 1319010             | 29    | LBXX<br>Fujian                | PRC                   | 2009.09.28           | 2019.09.27  |
| 蜡笔小生  | 1328886             | 29    | LBXX<br>Fujian                | PRC                   | 2009.10.28           | 2019.10.27  |
| 蜡笔小生  | 1328886             | 30    | LBXX<br>Fujian                | PRC                   | 2009.10.28           | 2019.10.27  |
| labixiaoxin   | 3208551             | 29    | LBXX<br>Fujian                | PRC                   | 2003.06.21           | 2013.06.20  |
| 玲珑果   | 3912459             | 29    | LBXX<br>Fujian                | PRC                   | 2006.06.28           | 2016.06.27  |
| 缤纷庆   | 3916150             | 29    | LBXX<br>Fujian                | PRC                   | 2005.12.07           | 2015.12.06  |
| 缤纷庆   | 4148315             | 30    | LBXX<br>Fujian                | PRC                   | 2006.10.14           | 2016.10.13  |
|  | 4049339             | 30    | LBXX<br>Fujian                | PRC                   | 2006.05.21           | 2016.05.20  |
|  | 4049338             | 29    | LBXX<br>Fujian                | PRC                   | 2006.05.21           | 2016.05.20  |
|  | 4550083             | 32    | LBXX<br>Fujian                | PRC                   | 2007.10.28           | 2017.10.27  |
| 异度果宝  | 4049337             | 29    | LBXX<br>Fujian                | PRC                   | 2006.05.21           | 2016.05.20  |
| 蜡笔小小生   | 4060972             | 29    | LBXX<br>Fujian                | PRC                   | 2006.05.28           | 2016.05.27  |
|  | 4073904             | 29    | LBXX<br>Fujian                | PRC                   | 2006.06.14           | 2016.06.13  |

| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
| 果 点   | 4148314             | 29    | LBXX<br>Fujian                | PRC                   | 2006.10.14           | 2016.10.13  |
| 蜜 你   | 4166969             | 30    | LBXX<br>Fujian                | PRC                   | 2006.10.21           | 2016.10.20  |
| 纽可美   | 4172148             | 30    | LBXX<br>Fujian                | PRC                   | 2006.10.21           | 2016.10.20  |
|    | 4322233             | 30    | LBXX<br>Fujian                | PRC                   | 2007.05.28           | 2017.05.27  |
|    | 4328629             | 29    | LBXX<br>Fujian                | PRC                   | 2007.03.14           | 2017.03.13  |
|    | 4527230             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|    | 4527229             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|    | 4527468             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|   | 4527469             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|  | 4527470             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|  | 4527471             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|  | 4527472             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|  | 4527473             | 29    | LBXX<br>Fujian                | PRC                   | 2007.10.07           | 2017.10.06  |
|  | 4708381             | 29    | LBXX<br>Fujian                | PRC                   | 2008.03.07           | 2018.03.06  |
|  | 4708380             | 30    | LBXX<br>Fujian                | PRC                   | 2008.03.07           | 2018.03.06  |
|  | 4708379             | 32    | LBXX<br>Fujian                | PRC                   | 2008.03.07           | 2018.03.06  |
| 圣加伦   | 4742801             | 30    | LBXX<br>Fujian                | PRC                   | 2008.03.07           | 2018.03.06  |
| 浪漫时光  | 4756440             | 29    | LBXX<br>Fujian                | PRC                   | 2008.03.21           | 2018.03.20  |
| 酷能冰   | 4768579             | 32    | LBXX<br>Fujian                | PRC                   | 2008.04.07           | 2018.04.06  |
| 浪漫故事  | 4791632             | 29    | LBXX<br>Fujian                | PRC                   | 2008.04.07           | 2018.04.06  |

| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
| 浪漫季节  | 4791631             | 29    | LBXX<br>Fujian                | PRC                   | 2008.06.07           | 2018.06.06  |
|    | 4850312             | 30    | LBXX<br>Fujian                | PRC                   | 2008.07.14           | 2018.07.13  |
| 快乐新地  | 4864596             | 29    | LBXX<br>Fujian                | PRC                   | 2008.05.14           | 2018.05.13  |
|    | 4921694             | 29    | LBXX<br>Fujian                | PRC                   | 2008.06.21           | 2018.06.20  |
| 星语  | 3883912             | 29    | LBXX<br>Fujian                | PRC                   | 2005.11.28           | 2015.11.27  |
|    | 3892416             | 30    | LBXX<br>Fujian                | PRC                   | 2005.12.07           | 2015.12.06  |
| 奇汁  | 4495990             | 30    | LBXX<br>Fujian                | PRC                   | 2007.09.07           | 2017.09.06  |
|    | 3800160             | 29    | LBXX<br>Fujian                | PRC                   | 2009.11.07           | 2019.11.06  |
| 欧点  | 4172147             | 30    | LBXX<br>Fujian                | PRC                   | 2007.02.21           | 2017.02.20  |
|  | 4172150             | 30    | LBXX<br>Fujian                | PRC                   | 2009.01.07           | 2019.01.06  |
| 金狮王   | 4341710             | 30    | LBXX<br>Fujian                | PRC                   | 2007.06.21           | 2017.06.20  |
|  | 4742800             | 29    | LBXX<br>Fujian                | PRC                   | 2009.05.21           | 2019.05.20  |
|  | 4745606             | 30    | LBXX<br>Fujian                | PRC                   | 2009.09.28           | 2019.09.27  |
|  | 4791633             | 30    | LBXX<br>Fujian                | PRC                   | 2009.04.07           | 2019.04.06  |
|  | 5077666             | 29    | LBXX<br>Fujian                | PRC                   | 2008.10.28           | 2018.10.27  |
| 开心城堡  | 5077669             | 29    | LBXX<br>Fujian                | PRC                   | 2008.10.28           | 2018.10.27  |
| 上品屋   | 5253276             | 30    | LBXX<br>Fujian                | PRC                   | 2010.03.14           | 2020.03.13  |
|  | 5334768             | 29    | LBXX<br>Fujian                | PRC                   | 2009.04.21           | 2019.04.20  |
|  | 5426899             | 29    | LBXX<br>Fujian                | PRC                   | 2009.11.07           | 2019.11.06  |
| 果吧  | 5427027             | 30    | LBXX<br>Fujian                | PRC                   | 2009.07.28           | 2019.07.27  |

| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
| 专家  | 5463251             | 30    | LBXX<br>Fujian                | PRC                   | 2010.01.07           | 2020.01.06  |
| 激巧  | 5478175             | 30    | LBXX<br>Fujian                | PRC                   | 2009.06.07           | 2019.06.06  |
|    | 5488075             | 30    | LBXX<br>Fujian                | PRC                   | 2009.07.21           | 2019.07.20  |
| 怡巧  | 5488076             | 30    | LBXX<br>Fujian                | PRC                   | 2009.06.07           | 2019.06.06  |
| 玛丽莎   | 5622940             | 30    | LBXX<br>Fujian                | PRC                   | 2009.07.21           | 2019.07.20  |
| 纯滋  | 5982730             | 30    | LBXX<br>Fujian                | PRC                   | 2010.08.07           | 2020.08.06  |
| 麦奇  | 6044024             | 30    | LBXX<br>Fujian                | PRC                   | 2010.01.14           | 2020.01.13  |
| 纯滋100%  | 6126333             | 30    | LBXX<br>Fujian                | PRC                   | 2010.06.07           | 2020.06.06  |
| 纯滋100%  | 6126332             | 29    | LBXX<br>Fujian                | PRC                   | 2009.08.28           | 2019.08.27  |
| 富贵满堂  | 6128424             | 30    | LBXX<br>Fujian                | PRC                   | 2010.01.07           | 2020.01.06  |
| 优多菓子  | 6140497             | 30    | LBXX<br>Fujian                | PRC                   | 2010.01.14           | 2020.01.13  |
| 怡巧莎   | 6140496             | 30    | LBXX<br>Fujian                | PRC                   | 2010.01.14           | 2020.01.13  |
| 美丽菓子  | 6140495             | 29    | LBXX<br>Fujian                | PRC                   | 2010.05.28           | 2020.05.27  |
| 妙哈  | 6140498             | 30    | LBXX<br>Fujian                | PRC                   | 2010.02.07           | 2020.02.06  |
| 美粒多   | 6376920             | 29    | LBXX<br>Fujian                | PRC                   | 2009.10.21           | 2019.10.20  |
|  | 6376924             | 29    | LBXX<br>Fujian                | PRC                   | 2009.10.21           | 2019.10.20  |
|  | 6422221             | 30    | LBXX<br>Fujian                | PRC                   | 2010.03.21           | 2020.03.20  |
|  | 6422218             | 29    | LBXX<br>Fujian                | PRC                   | 2009.11.07           | 2019.11.06  |
| 缤纷季节  | 6490263             | 29    | LBXX<br>Fujian                | PRC                   | 2009.11.28           | 2019.11.27  |






| Trademark  | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|--|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
| 葫芦棒  | 6805121             | 30    | LBXX<br>Fujian                | PRC                   | 2010.06.21           | 2020.06.20  |
| 谷力100  | 6814475             | 30    | LBXX<br>Fujian                | PRC                   | 2010.10.14           | 2020.10.13  |
|   | 6846178             | 30    | LBXX<br>Fujian                | PRC                   | 2010.07.21           | 2020.07.20  |
| 青春物语   | 6932927             | 29    | LBXX<br>Fujian                | PRC                   | 2010.09.21           | 2020.09.20  |
| 青梅物语   | 6939611             | 29    | LBXX<br>Fujian                | PRC                   | 2010.04.07           | 2020.04.06  |
|   | 7206077             | 30    | LBXX<br>Fujian                | PRC                   | 2010.07.28           | 2020.07.27  |
|   | 7206088             | 29    | LBXX<br>Fujian                | PRC                   | 2010.09.28           | 2020.09.27  |
|   | 7206107             | 29    | LBXX<br>Fujian                | PRC                   | 2010.09.28           | 2020.09.27  |
|  | 7206124             | 32    | LBXX<br>Fujian                | PRC                   | 2010.08.21           | 2020.08.20  |
| 欢乐万家   | 7338241             | 30    | LBXX<br>Fujian                | PRC                   | 2010.10.21           | 2020.10.20  |
| 谷谷劲  | 7359162             | 32    | LBXX<br>Fujian                | PRC                   | 2010.08.28           | 2020.08.27  |
| 样样U  | 7365127             | 32    | LBXX<br>Fujian                | PRC                   | 2010.08.28           | 2020.08.27  |
| 漾漾U  | 7365134             | 32    | LBXX<br>Fujian                | PRC                   | 2010.08.28           | 2020.08.27  |
| 样样优  | 7365139             | 32    | LBXX<br>Fujian                | PRC                   | 2010.10.14           | 2020.10.13  |
| 漾漾优  | 7365160             | 32    | LBXX<br>Fujian                | PRC                   | 2010.08.28           | 2020.08.27  |
| 漾漾优  | 7365177             | 30    | LBXX<br>Fujian                | PRC                   | 2010.08.28           | 2020.08.27  |
| 漾漾优  | 7365241             | 29    | LBXX<br>Fujian                | PRC                   | 2010.10.21           | 2020.10.20  |
| 悠沫   | 7421614             | 32    | LBXX<br>Fujian                | PRC                   | 2010.09.07           | 2020.09.06  |
| 幽沫   | 7421624             | 32    | LBXX<br>Fujian                | PRC                   | 2010.09.07           | 2020.09.06  |
| 幽沫   | 7458052             | 43    | LBXX<br>Fujian                | PRC                   | 2010.11.07           | 2020.11.06  |
| 优沫   | 7458074             | 43    | LBXX<br>Fujian                | PRC                   | 2010.11.07           | 2020.11.06  |















| Trademark  | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|--|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
| 幽沫   | 7474734             | 30    | LBXX<br>Fujian                | PRC                   | 2010.09.14           | 2020.09.13  |
| 幽沫   | 7474753             | 29    | LBXX<br>Fujian                | PRC                   | 2010.10.28           | 2020.10.27  |
|  咪啉脆      | 7490020             | 30    | LBXX<br>Fujian                | PRC                   | 2010.09.14           | 2020.09.13  |
| 汁恋   | 7495451             | 30    | LBXX<br>Fujian                | PRC                   | 2010.09.07           | 2020.09.06  |
| 爆米香  | 7545686             | 30    | LBXX<br>Fujian                | PRC                   | 2010.09.14           | 2020.09.13  |
|  开心童年     | 7723972             | 29    | LBXX<br>Fujian                | PRC                   | 2011.01.28           | 2021.01.27  |
|  SUN CITY | 2014422             | 30    | LBXX<br>Fujian                | PRC                   | 2002.09.07           | 2012.09.06  |
|  SUN CITY | 3000762             | 30    | LBXX<br>Fujian                | PRC                   | 2003.01.21           | 2013.01.20  |
| 阳光城市   | 3875558             | 30    | LBXX<br>Fujian                | PRC                   | 2005.11.28           | 2015.11.27  |
|  阳光城市   | 1743404             | 30    | LBXX<br>Fujian                | PRC                   | 2002.04.07           | 2012.04.06  |
|  阳光城市   | 1723079             | 32    | LBXX<br>Fujian                | PRC                   | 2002.02.28           | 2012.02.27  |
|  阳光城市   | 4302678             | 30    | LBXX<br>Fujian                | PRC                   | 2007.03.07           | 2017.03.06  |
| 超女   | 4862881             | 29    | LBXX<br>Fujian                | PRC                   | 2008.07.28           | 2018.07.27  |
| 牛仔很忙   | 6914091             | 30    | LBXX<br>Fujian                | PRC                   | 2011.02.21           | 2021.02.20  |
| 戴安娜  | 4930216             | 30    | LBXX<br>Fujian                | PRC                   | 2008.09.28           | 2018.09.27  |
|  蜡小新    | 154387              | 29    | LBXX<br>Fujian                | Dominica              | 2006.05.31           | 2016.05.31  |
|  蜡小新    | 300135477           | 30    | LBXX<br>Fujian                | HK                    | 2003.12.31           | 2013.12.30  |
|  蜡小新    | 13592               | 29    | LBXX<br>Fujian                | Laos                  | 2006.02.16           | 2016.02.16  |
|  蜡小新    | 932581              | 29    | LBXX<br>Fujian                | Mexico                | 2006.02.27           | 2016.02.27  |










| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
|    | 0700169LM           | 29    | LBXX<br>Fujian                | Nicaragua             | 2007.01.31           | 2017.01.30  |
|    | 36946               | 29    | LBXX<br>Fujian                | Trinidad              | 2006.02.14           | 2016.02.13  |
|    | 300042245           | 29    | LBXX<br>Fujian                | HK                    | 2003.07.04           | 2013.07.03  |
|    | 168197              | 29    | LBXX<br>Fujian                | Costa Rica            | 2007.06.11           | 2017.06.11  |
|   | 836031              | 30    | LBXX<br>Fujian                | Chile                 | 2008.12.12           | 2018.12.12  |
|  | 7354-08             | 30    | LBXX<br>Fujian                | Ecuador               | 2008.09.22           | 2018.09.22  |
|  | 00149312            | 30    | LBXX<br>Fujian                | Peru                  | 2009.02.27           | 2019.02.27  |
|  | 322165              | 30    | LBXX<br>Fujian                | Paraguay              | 2009.07.21           | 2019.07.21  |
|  | 180980              | 30    | LBXX<br>Fujian                | Costa Rica            | 2008.10.17           | 2018.10.17  |
|  | 1081748             | 30    | LBXX<br>Fujian                | Mexico                | 2008.07.15           | 2018.07.15  |
|  | 173646-01           | 30    | LBXX<br>Fujian                | Panama                | 2008.08.07           | 2018.08.07  |
|  | 122003-C            | 30    | LBXX<br>Fujian                | Bolivia               | 2010.07.29           | 2020.07.29  |
|  | 900534257           | 30    | LBXX<br>Fujian                | Brazil                | 2010.07.20           | 2020.07.20  |
|  | 01337779            | 29    | LBXX<br>Fujian                | Taiwan                | 2008.11.16           | 2018.11.15  |
|  | 01337924            | 30    | LBXX<br>Fujian                | Taiwan                | 2008.11.16           | 2018.11.15  |




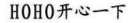

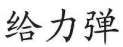

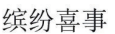












| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
|    | N/035419            | 29    | LBXX<br>Fujian                | Macao                 | 2008.09.30           | 2015.09.30  |
|    | N/035420            | 30    | LBXX<br>Fujian                | Macao                 | 2008.09.30           | 2015.09.30  |
|    | 08007385            | 30    | LBXX<br>Fujian                | Malaysia              | 2008.04.16           | 2018.04.16  |
|    | 08007384            | 29    | LBXX<br>Fujian                | Malaysia              | 2008.04.16           | 2018.04.16  |
|    | 4-2008-500224       | 29    | LBXX<br>Fujian                | Philippines           | 2008.08.25           | 2018.08.25  |
|    | 4-2008-500224       | 30    | LBXX<br>Fujian                | Philippines           | 2008.08.25           | 2018.08.25  |
|   | IDM000238785        | 29    | LBXX<br>Fujian                | Indonesia             | 2010.03.02           | 2020.03.02  |
|  | IDM000238786        | 30    | LBXX<br>Fujian                | Indonesia             | 2010.03.02           | 2020.03.02  |
|  | 138396              | 29    | LBXX<br>Fujian                | Vietnam               | 2009.12.14           | 2019.12.14  |
|  | 138396              | 30    | LBXX<br>Fujian                | Vietnam               | 2009.12.14           | 2019.12.14  |
|  | 17092               | 29    | LBXX<br>Fujian                | Laos                  | 2008.03.26           | 2018.03.25  |
|  | 17093               | 30    | LBXX<br>Fujian                | Laos                  | 2008.03.26           | 2018.03.25  |
|  | T08/02639I          | 29    | LBXX<br>Fujian                | Singapore             | 2008.03.03           | 2018.03.03  |
|  | T08/02639I          | 30    | LBXX<br>Fujian                | Singapore             | 2008.03.03           | 2018.03.03  |
|  | Kor324317           | 29    | LBXX<br>Fujian                | Thailand              | 2009.06.30           | 2019.06.29  |
|  | Kor324318           | 30    | LBXX<br>Fujian                | Thailand              | 2009.06.30           | 2019.06.29  |






| Trademark   | Registration Number | Class | Name of Registered Proprietor | Place of Registration | Date of Registration | Expiry Date |
|---|---------------------|-------|-------------------------------|-----------------------|----------------------|-------------|
|  | KH/30666/09         | 29    | LBXX<br>Fujian                | Cambodia              | 2008.06.10           | 2018.06.10  |
|  | KH/30665/09         | 30    | LBXX<br>Fujian                | Cambodia              | 2008.06.10           | 2018.06.10  |
|  | 301040543           | 29    | LBXX<br>Fujian                | HK                    | 2008.01.28           | 2018.01.27  |
|  | 39712               | 29    | LBXX<br>Fujian                | Brunei                | 2008.06.19           | 2018.06.19  |
|  | 39712               | 30    | LBXX<br>Fujian                | Brunei                | 2008.06.19           | 2018.06.19  |

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks:




| Trademark   | Application Number | Class | Name of Applicant | Place of Application | Date of Application |
|---|--------------------|-------|-------------------|----------------------|---------------------|
|  | 5386756            | 30    | LBXX<br>Fujian    | PRC                  | 2006.05.31          |
|  | 6805114            | 30    | LBXX<br>Fujian    | PRC                  | 2008.06.30          |
|  | 8210287            | 30    | LBXX<br>Fujian    | PRC                  | 2010.04.15          |
|  | 8308036            | 29    | LBXX<br>Fujian    | PRC                  | 2010.05.18          |
|  | 8333779            | 29    | LBXX<br>Fujian    | PRC                  | 2010.05.26          |
|  | 8333770            | 29    | LBXX<br>Fujian    | PRC                  | 2010.05.26          |
|  | 8333804            | 29    | LBXX<br>Fujian    | PRC                  | 2010.05.26          |
|  | 8333760            | 29    | LBXX<br>Fujian    | PRC                  | 2010.05.26          |
|  | 8479115            | 32    | LBXX<br>Fujian    | PRC                  | 2010.07.14          |
|  | 8440362            | 30    | LBXX<br>Fujian    | PRC                  | 2010.06.30          |
|  | 8551764            | 29    | LBXX<br>Fujian    | PRC                  | 2010.08.06          |
|  | 7338275            | 29    | LBXX<br>Fujian    | PRC                  | 2009.04.20          |

| Trademark   | Application Number | Class | Name of Applicant        | Place of Application | Date of Application |
|---|--------------------|-------|--------------------------|----------------------|---------------------|
| 果蔬派对  | 7425486            | 29    | LBXX                     | PRC                  | 2009.05.26          |
| 果蔬派对  | 7425498            | 32    | Fujian<br>LBXX<br>Fujian | PRC                  | 2009.05.26          |
|    | 7429233            | 30    | LBXX                     | PRC                  | 2009.05.27          |
|    | 7458026            | 30    | LBXX                     | PRC                  | 2009.06.09          |
|    | 7490003            | 30    | LBXX                     | PRC                  | 2009.06.22          |
|    | 8206460            | 30    | LBXX                     | PRC                  | 2010.04.14          |
| 纤体五谷  | 7513155            | 32    | LBXX                     | PRC                  | 2009.07.01          |
|    | 8668980            | 29    | Fujian<br>LBXX           | PRC                  | 2010.09.14          |
|   | 8676356            | 30    | LBXX                     | PRC                  | 2010.09.16          |
|  | 8810633            | 30    | LBXX                     | PRC                  | 2010.11.04          |
|  | 8810673            | 29    | LBXX                     | PRC                  | 2010.11.04          |
| 10分Q  | 8831178            | 30    | Fujian<br>LBXX           | PRC                  | 2010.11.10          |
| 谷力棒   | 8880405            | 30    | LBXX                     | PRC                  | 2010.11.24          |
| 谷力卷   | 8880414            | 30    | Fujian<br>LBXX           | PRC                  | 2010.11.24          |
| 巧麦哆   | 6805114            | 30    | LBXX                     | PRC                  | 2008.06.25          |
| 蜡笔小新新鲜果多  | 3987954            | 29    | Fujian<br>LBXX           | PRC                  | 2004.03.30          |
|  | 3978089            | 38    | LBXX                     | PRC                  | 2004.03.25          |
| 上品  | 4172146            | 30    | Fujian<br>LBXX           | PRC                  | 2004.07.16          |
| 比卡Q   | 4902391            | 30    | LBXX                     | PRC                  | 2005.09.19          |
| 音乐不断  | 5067190            | 29    | Fujian<br>LBXX           | PRC                  | 2005.12.19          |

| Trademark   | Application Number | Class | Name of Applicant | Place of Application | Date of Application |
|---|--------------------|-------|-------------------|----------------------|---------------------|
|    | 6807239            | 30    | LBXX<br>Fujian    | PRC                  | 2008.06.26          |
|    | 6805120            | 30    | LBXX<br>Fujian    | PRC                  | 2008.06.25          |
|    | 5684508            | 29    | LBXX<br>Fujian    | PRC                  | 2006.10.27          |
|    | 6932934            | 29    | LBXX<br>Fujian    | PRC                  | 2008.09.02          |
|    | 9237918            | 30    | LBXX<br>Fujian    | PRC                  | 2011.03.21          |
|    | 9175451            | 30    | LBXX<br>Fujian    | PRC                  | 2011.03.04          |
|    | 9669216            | 30    | LBXX<br>Fujian    | PRC                  | 2011.07.01          |
|    | 9663945            | 30    | LBXX<br>Fujian    | PRC                  | 2011.06.30          |
|    | 9663938            | 30    | LBXX<br>Fujian    | PRC                  | 2011.06.30          |
|    | 9663929            | 30    | LBXX<br>Fujian    | PRC                  | 2011.06.30          |
|  | 1424103            | 29    | LBXX<br>Fujian    | India                | 2006.02.23          |
|  | 003047             | 29    | LBXX<br>Fujian    | Guatemala            | 2006.10.04          |
|  | 01608047           | 30    | LBXX<br>Fujian    | India                | 2007.10.01          |
|  | 2009-00279         | 30    | LBXX<br>Fujian    | Nicaragua            | 2009.02.03          |
|  | 29597-08           | 30    | LBXX<br>Fujian    | Honduras             | 2008.08.27          |
|  | 2009-00022         | 30    | LBXX<br>Fujian    | Guatemala            | 2009.01.06          |
|  | 141848             | 30    | LBXX<br>Fujian    | Sri Lanka            | 2007.10.15          |
|  | 01646140           | 29    | LBXX<br>Fujian    | India                | 2008.01.25          |
|  | 01646140           | 30    | LBXX<br>Fujian    | India                | 2008.01.25          |
|  | LK/T/1/144540      | 29    | LBXX<br>Fujian    | Sri Lanka            | 2008.03.28          |

| Trademark   | Application Number | Class | Name of Applicant | Place of Application | Date of Application |
|---|--------------------|-------|-------------------|----------------------|---------------------|
|  | LK/T/1/144541      | 30    | LBXX<br>Fujian    | Sri Lanka            | 2008.03.28          |
|  | 5394/2008          | 29    | LBXX<br>Fujian    | Myanmar              | 2008.07.02          |
|  | 5394/2008          | 30    | LBXX<br>Fujian    | Myanmar              | 2008.07.02          |
|  | N/A                | 29    | LBXX<br>Fujian    | East Timor           | 2008.03.24          |
|  | N/A                | 30    | LBXX<br>Fujian    | East Timor           | 2008.03.24          |

As of the Latest Practicable Date, the registration application right for the following trademarks were being transferred to our Group and upon completion of such transfers, our Group will be the registered applicant for the registration of these trademarks:

| Trademark   | Application Number | Class | Name of Applicant  | Place of Application | Date of Application |
|---|--------------------|-------|--|----------------------|---------------------|
|  | 8616339            | 29    | Labixiaoxin (Xiamen) Trading Co., Ltd.<br>(蠟筆小新(廈門)商貿有限公司)<br>(Note 1) | PRC                  | 2010.08.27          |
|  | 8568433            | 29    | Labixiaoxin (Xiamen) Trading Co., Ltd.<br>(蠟筆小新(廈門)商貿有限公司)<br>(Note 1) | PRC                  | 2010.08.12          |
|  | 8568438            | 29    | Labixiaoxin (Xiamen) Trading Co., Ltd.<br>(蠟筆小新(廈門)商貿有限公司)<br>(Note 1) | PRC                  | 2010.08.12          |

Note:



- (1) The trademark applications are still in the name of Labixiaoxin (Xiamen) Trading Co., Ltd. (蠟筆小新(廈門)商貿有限公司), a company owned by Zheng Yu Ting, daughter of Zheng Yu Shuang, and Zheng Jia Bao, daughter of Zheng Yu Long. Applications have been made to transfer the above application rights to LBXX Fujian.



As of the Latest Practicable Date, the following trademarks were being transferred to our Group and upon completion of such transfers, our Group will be the registered proprietor of these trademarks:

| Trademark   | Registration Number | Class | Name of Registered Proprietor                               | Place of Registration | Validity Period         |
|---|---------------------|-------|---|-----------------------|-------------------------|
|    | 1953222             | 32    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.5.21-<br>2013.5.20 |
|    | 3064883             | 35    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.5.14-<br>2013.5.13 |
|    | 3064884             | 16    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.1.28-<br>2014.1.27 |
|   | 3064885             | 14    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.3.7-<br>2013.3.6   |
|  | 3064886             | 3     | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.3.21-<br>2014.3.20 |
|  | 3064887             | 5     | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.1.28-<br>2014.1.27 |
|  | 3082225             | 9     | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.5.14-<br>2013.5.13 |
|  | 3082226             | 12    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.6.7-<br>2013.6.6   |
|  | 3082227             | 24    | Jinjiang Weili Foods Co., Ltd.<br>(晉江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.4.21-<br>2013.4.20 |

| Trademark   | Registration Number | Class | Name of Registered Proprietor                               | Place of Registration | Validity Period           |
|---|---------------------|-------|---|-----------------------|---------------------------|
|    | 3082228             | 20    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.4.7-<br>2013.4.6     |
|    | 3257083             | 34    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.8.7-<br>2013.8.6     |
|    | 3257084             | 33    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.8.7-<br>2013.8.6     |
|   | 3257085             | 26    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.5.28-<br>2014.5.27   |
|  | 3257086             | 11    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.11.14-<br>2013.11.13 |
|  | 3257087             | 8     | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2003.10.7-<br>2013.10.6   |
|  | 3257088             | 6     | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.2.14-<br>2014.2.13   |
|  | 3257089             | 2     | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2004.5.21-<br>2014.5.20   |
|  | 4195832             | 24    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2008.3.14-<br>2018.3.13   |

| Trademark   | Registration Number | Class | Name of Registered Proprietor                               | Place of Registration | Validity Period         |
|---|---------------------|-------|---|-----------------------|-------------------------|
|  | 4195833             | 14    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2007.7.21-<br>2017.7.21 |
|  | 1603350             | 32    | Jinjiang Weili Foods Co., Ltd.<br>(晋江市味力食品有限公司)<br>(Note 1) | PRC                   | 2011.7.14-<br>2021.7.13 |

Note:

- (1) The trademarks are still registered under the name of Jinjiang Weili Foods Co., Ltd. (晋江市味力食品有限公司), a company jointly owned by two of our executive Directors, Mr. Zheng Yu Long and Mr. Zheng Yu Huan. Applications have been made to transfer the above trademarks to LBXX Fujian.

**(b) Patents**

As of the Latest Practicable Date, our Group was the registered proprietor of the following patents:

| Patent Type                 | Patent           | Patent No.       | Name of Registered Proprietor | Place of Registration | Validity                  |
|-----------------------------|------------------|------------------|-------------------------------|-----------------------|---------------------------|
| Appearance design . . . . . | 包裝袋<br>(鮮Q草莓)    | ZL201030238916.3 | LBXX Fujian                   | PRC                   | 2010.7.15-<br>2020.7.14   |
| Appearance design . . . . . | 包裝袋<br>(鮮Q葡萄)    | ZL201030238911.0 | LBXX Fujian                   | PRC                   | 2010.7.15-<br>2020.7.14   |
| Appearance design . . . . . | 包裝袋<br>(鮮Q香橙)    | ZL201030238914.4 | LBXX Fujian                   | PRC                   | 2010.7.15-<br>2020.7.14   |
| Appearance design . . . . . | 糖果包裝袋<br>(黑加倫)   | ZL200930316826.9 | LBXX Fujian                   | PRC                   | 2009.9.18-<br>2019.9.17   |
| Appearance design . . . . . | 果凍包裝容器<br>(異度果包) | ZL200430081083.9 | LBXX Fujian                   | PRC                   | 2004.8.26-<br>2014.8.27   |
| Appearance design . . . . . | 包裝袋<br>(禮品包)     | ZL200830157128.4 | LBXX Fujian                   | PRC                   | 2008.12.12-<br>2018.12.11 |
| Appearance design . . . . . | 果凍杯              | ZL201030108675.0 | LBXX Fujian                   | PRC                   | 2010.2.11-<br>2020.2.10   |
| Appearance design . . . . . | 糖果包裝紙<br>(富貴滿堂)  | ZL200930306254.6 | LBXX Fujian                   | PRC                   | 2009.6.16-<br>2019.6.15   |
| Appearance design . . . . . | 罐貼               | ZL200930172125.2 | LBXX Fujian                   | PRC                   | 2009.5.27-<br>2019.5.26   |
| Appearance design . . . . . | 糖果包裝袋<br>(粟米軟糖)  | ZL201030300460.9 | LBXX Fujian                   | PRC                   | 2010.1.7-<br>2020.1.6     |

As of the Latest Practicable Date, our Group had applied for the registration of the following patents:

| Patent Type                 | Patent           | Application Number | Name of Applicant   | Date of Application |
|-----------------------------|------------------|--------------------|---|---------------------|
| Utility Model . . . . .     | 一種陳列櫃            | 201020240503.3     | LBXX Fujian   | 2010.6.24           |
| Appearance design . . . . . | 糖果包裝袋<br>(台灣貢酥)  | 201030616096.7     | LBXX Fujian   | 2010.11.16          |
| Appearance design . . . . . | 包裝袋 (鮮Q水蜜桃)      | 201030238913.X     | LBXX Fujian   | 2010.7.15           |
| Appearance design . . . . . | 糖果包裝袋            | 200930316826.9     | LBXX Fujian   | 2009.9.18           |
| Invention . . . . .         | 青梅果粒果凍及其製備<br>方法 | 201010188619.1     | LBXX Fujian   | 2010.6.2            |
| Invention . . . . .         | 合生元果凍及其製作<br>方法  | 201010031398.7     | LBXX Tianjin<br>& Tianjin<br>University of<br>Science &<br>Technology | 2010.1.21           |

As of the Latest Practicable Date, the Group held the exclusive right to use the following patent:

| <u>Patent Type</u>  | <u>Patent</u>       | <u>Application Number</u> | <u>Name of Registered Proprietor</u>       | <u>Validity</u>     | <u>Exclusive Right Period</u> |
|---------------------|---------------------|---------------------------|--|---------------------|-------------------------------|
| Invention . . . . . | 魔芋葡甘聚糖可食性兒童玩具及其製備方法 | 200610069246.X            | Fujian Agriculture and Forestry University | 2006.9.27-2026.9.26 | 2009.7.1-2014.6.30            |

Note: Pursuant to an agreement dated July 1, 2009 entered into between our Company and Fujian Agriculture and Forestry University, Fujian Agriculture and Forestry University agreed to grant us an exclusive right to use the patent for a period of five years commencing from the date of the Agreement for a fee of RMB50,000.

### (c) Domain names

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain name:

| <u>Domain name</u>          | <u>Name of Registered Proprietor</u> | <u>Date of Registration</u> | <u>Expiry Date</u> |
|-----------------------------|--------------------------------------|-----------------------------|--------------------|
| www.lbxx.cn . . . . .       | LBXX Fujian                          | 2003.11.24                  | 2017.11.24         |
| www.lbxxgroup.com . . . . . | LBXX Holdings                        | 2011.03.05                  | 2012.03.05         |

### (d) Copyrights

As of the Latest Practicable Date, our Group was the registered proprietor of the following copyrights:

| <u>Copyright Type</u> | <u>Copyright</u> | <u>Registration Number</u> | <u>Name of Registered Proprietor</u> | <u>Registration Date</u> |
|-----------------------|------------------|----------------------------|--------------------------------------|--------------------------|
| Art. . . . .          | 卡通人物形象           | 13-2009-F-0176             | LBXX Fujian                          | 2009.03.09               |
| Art. . . . .          | 卡通人物形象           | 13-2009-F-0177             | LBXX Fujian                          | 2009.03.09               |
| Art. . . . .          | 卡通人物形象           | 13-2009-F-0178             | LBXX Fujian                          | 2009.03.09               |
| Art . . . . .         | 卡通人物形象           | 13-2009-F-0179             | LBXX Fujian                          | 2009.03.09               |

## C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

## 1. Directors

## (a) Disclosure of Interests – interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the interests or short positions of the Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and the Stock Exchange, once the Shares are listed will be as follows:

## (i) Interest in the Shares of our Company

| Name of Director                          | Nature of Interest                   | Number of Securities | Approximate percentage of shareholding |
|---|--------------------------------------|----------------------|--|
| Zheng Yu Long ( <i>Note</i> ) . . . . .   | Beneficial owner                     | 110,208,060          | 9.8%                                   |
|   | Interest of a controlled corporation | 610,915,527          | 54.3%                                  |
| Zheng Yu Shuang ( <i>Note</i> ) . . . . . | Interest of a controlled corporation | 610,915,527          | 54.3%                                  |
| Zheng Yu Huan ( <i>Note</i> ) . . . . .   | Interest of a controlled corporation | 610,915,527          | 54.3%                                  |
| Li Hung Kong ( <i>Note</i> ) . . . . .    | Interest of a controlled corporation | 610,915,527          | 54.3%                                  |

Note:

- (1) Alliance Holding is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and 16% by Li Hung Kong. Each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.

*(ii) Interest in associated corporations*

| <u>Name of Director</u>   | <u>Name of associated corporation</u> | <u>Number of shares</u> | <u>Percentage Shareholding</u> |
|---------------------------|---------------------------------------|-------------------------|--------------------------------|
| Zheng Yu Long . . . . .   | Alliance Holding                      | 28                      | 28%                            |
| Zheng Yu Shuang . . . . . | Alliance Holding                      | 28                      | 28%                            |
| Zheng Yu Huan . . . . .   | Alliance Holding                      | 28                      | 28%                            |
| Li Hung Kong . . . . .    | Alliance Holding                      | 16                      | 16%                            |

**(b) Particulars of service contracts**

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our non-executive Directors has entered into a service contract with our Company for a term of one year commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

**(c) Directors' remuneration**

Each of our executive Directors is entitled to the following respective amount of annual emolument for acting as the director and committee member of and/or holding other positions with our Company or other members of the Group:

| <u>Name</u>               | <u>Annual Emolument</u> |
|---------------------------|-------------------------|
|                           | <b>(RMB)</b>            |
| Zhong Yu Long . . . . .   | 800,000                 |
| Zhong Yu Shuang . . . . . | 800,000                 |
| Zheng Yu Huan . . . . .   | 800,000                 |

Each of Mr. Zhong Yu Long, Mr. Zhong Yu Zhuang and Mr. Zheng Yu Huan shall also be entitled to a bonus for each financial year of our Company which is at the discretion of the Board and determined by reference to the performance of each Director concerned and our Group's performance for the financial year concerned and based on the recommendation from the remuneration committee of our Company.

Our independent non-executive Directors have been appointed for a term of one year. Our Company intends to pay a director's fee of HK\$200,000 per annum to each of our non-executive and independent non-executive Directors.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending December 31, 2011 is estimated to be no more than RMB2.5 million.

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection headed "Directors" in this Appendix.

## 2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering assuming that the Over-allotment Option is not exercised and taking no account of any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the following persons (other than the Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| <u>Name</u>                 | <u>Nature of interest</u>            | <u>Interests in Shares</u> | <u>Approximate percentage shareholding</u> | <u>Note</u> |
|-----------------------------|--------------------------------------|----------------------------|--|-------------|
| Alliance Holding . . . . .  | Beneficial owner                     | 610,915,527                | 54.3%                                      | 1           |
| COFCO BVI . . . . .         | Beneficial owner                     | 72,000,000                 | 6.4%                                       | 2           |
| COFCO (BVI) Limited . . .   | Interest of a controlled corporation | 72,000,000                 | 6.4%                                       | 2           |
| COFCO Corporation . . . . . | Interest of a controlled corporation | 72,000,000                 | 6.4%                                       | 2           |

Notes:

- (1) Alliance Holding is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and 16% by Li Hung Kong. Each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.
- (2) COFCO BVI is wholly owned by COFCO (BVI) Limited, which is in turn wholly owned by COFCO Corporation. Each of COFCO (BVI) Limited and COFCO Corporation is deemed to be interested in the Shares held by COFCO BVI for the purpose of the SFO.

## 3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

## 4. Disclaimers

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;



- (b) none of our Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) save as disclosed in this prospectus, so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

#### **D. OTHER INFORMATION**

##### ***1. Share Option Scheme***

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on September 23, 2011.

##### **(a) Purpose**

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

**(b) Who may join**

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “Eligible Participants”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisors, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

**(c) Acceptance of an offer of Options**

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an Option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Exercise Price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate,

receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of the Shares so allotted.

The exercise of any Option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

**(d) Maximum number of Shares**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering, being 112,560,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

**(e) Maximum number of options to any one individual**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
  - (aa) the Eligible Participant's name, address and occupation;
  - (bb) the date on which an Option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
  - (cc) the date upon which an offer for an Option must be accepted;
  - (dd) the date upon which an Option is deemed to be granted and accepted in accordance with paragraph (c);
  - (ee) the number of Shares in respect of which the Option is offered;
  - (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the Option;
  - (gg) the date of the notice given by the grantee in respect of the exercise of the Option; and
  - (hh) the method of acceptance of the Option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

**(f) Price of Shares**

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

**(g) Granting options to connected persons**

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by our Company and the approval of the shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favor, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;

- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

**(h) Restrictions on the times of grant of Options**

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement, and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

**(i) Rights are personal to grantee**

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

**(j) Time of exercise of Option and duration of the Share Option Scheme**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

**(k) Performance target**

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

**(l) Rights on ceasing employment or death**

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

**(m) Rights on dismissal**

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

**(n) Rights on takeover**

If a general offer is made to all the shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

**(o) Rights on winding-up**

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.



**(p) Rights on compromise or arrangement between our Company and its members or creditors**

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

**(q) Ranking of Shares**

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

**(r) Effect of alterations to capital**

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on September 5, 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in absence of manifest error, be final and conclusive and binding on the Company and the grantees.



Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

**(s) Expiry of option**

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his or her integrity or honesty, or in relation to an employee of the Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

**(t) Alteration of the Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

**(u) Cancellation of Options**

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (m).

**(v) Termination of the Share Option Scheme**

Our Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

**(w) Administration of the Board**

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

**(x) Condition of the Share Option Scheme**

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within two calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

**(y) Disclosure in annual and interim reports**

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

**(z) Present status of the Share Option Scheme**

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 112,560,000 Shares in total.

**3. Tax and other indemnities**

Alliance Holding, Mr. Zhong Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (e) of the sub-section headed "Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

**4. Litigation**

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

**5. Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

**6. Preliminary expenses**

The estimated preliminary expenses incurred and paid by our Company were approximately HK\$42,950.

**7. Promoter**

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

**8. Taxation of holders of Shares****(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

**(b) Bermuda**

Under the present Bermuda law, there is no stamp duty payable in Bermuda on transfers of Shares.

**(c) Consultation with professional advisers**

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

**9. Qualification of experts**

The following are the qualifications of the experts who have given their opinion or advice which are contained in, or referred to in this prospectus:

| <b>Name</b>                             | <b>Qualifications</b>  |
|---|--|
| Citigroup Global Markets Asia Limited   | Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO |
| PricewaterhouseCoopers                  | Certified Public Accountants   |
| Vigers Appraisal And Consulting Limited | Property valuer  |
| Jingtian & Gongcheng                    | PRC legal advisers   |
| Conyers Dill & Pearman                  | Bermuda barristers and attorneys   |

**10. Consents of experts**

Each of the experts named in paragraph 9 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

**11. Interests of experts in our Company**

None of the persons named in paragraph 9 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

**12. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**13. Particulars of the Selling Shareholders**

The particulars of the Selling Shareholders are set out as follows:

Name: Alliance Holding  
Registered Address: Romasco Place, Wickhams Cay 1, P.O. Box 3140  
Road Town, Tortola, British Virgin Islands, VG 1110  
Number of Sale Shares to be sold: 26,772,166

Name: Or Hon Fai  
Address: Room 2512, Sheung Chun House, Sheung Tak Estate  
Tseung Kwan O, New Territories, Hong Kong  
Number of Sale Shares to be sold: 2,381,081

Name: Sun Kam Ching  
Address: Flat C, 15/F, Block 5, City Garden  
North Point, Hong Kong  
Number of Sale Shares to be sold: 1,336,170

Name: Kangta Investments  
Address: Quastisky Building, P.O. Box 4389  
Road Town, Tortola, British Virgin Islands  
Number of Sale Shares to be sold: 3,291,058

Name: Merrill Lynch (Singapore) Pte. Ltd.  
Address: 2 Harbourfront Place, #02-01 Merrill Lynch  
Harbourfront, Singapore 098499  
Number of Sale Shares to be sold: 22,619,525 <sup>(Note)</sup>

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Note:

Merrill Lynch (Singapore) Pte. Ltd. as the nominee of Po Sang Group holds the 22,619,525 Shares for Po Sang Group.

**14. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since May 31, 2011 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in Bermuda by Codan Services Limited and a branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Share Registrar, Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in Bermuda. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (g) our Directors have been advised that under the Companies Act the use of a Chinese name by our Company does not contravene the Companies Act; and
- (h) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.

#### **15. *Bilingual Prospectus***

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, a statement of particulars of the Selling Shareholders as set out in the section headed “Statutory and General Information — Other Information — Particulars of the Selling Shareholders” in Appendix VII to this prospectus, the written consents referred to in “— Other Information — Consents of experts” in Appendix VII to this prospectus, and copies of the material contracts referred to in “— Information About The Business — Summary of material contracts” in Appendix VII to this prospectus.

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Bermuda for filing were copies of the Application Forms.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Sidley Austin at Level 39, Two International Finance Center, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus.

- (a) our Memorandum and Bye-laws;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;
- (d) the letters from PricewaterhouseCoopers and the Sole Sponsor relating to the profit forecast of the Group, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter, summary of values and valuation certificates relating to our property interests prepared by Vigers Appraisal And Consulting Limited, the texts of which are set out in Appendix IV to this prospectus;
- (f) the PRC legal opinions issued by Jingtian & Gongcheng, our PRC legal adviser in respect of our Group’s business operations and property interests in the PRC;
- (g) the letter of advice prepared by Conyers Dill & Pearman, our Bermuda legal adviser summarizing certain aspects of Bermuda company law as referred to in Appendix VI to this prospectus;
- (h) the material contracts referred to in “— Information About The Business — Summary of material contracts” in Appendix VII to this prospectus;
- (i) the written consents referred to in “— Other information — Consents of experts” in Appendix VII to this prospectus;



- (j) the rules of the Share Option Scheme;
- (k) the service contracts referred to in “— Further Information About Directors and Substantial Shareholders — Directors — Particulars of service contracts” in Appendix VII to this prospectus;
- (l) the Companies Act; and
- (m) the statement of particulars of the Selling Shareholders including its name, address and descriptions.



**中國休閒食品集團有限公司**  
**CHINA LIFESTYLE FOOD AND BEVERAGES GROUP LIMITED**

