
SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Some of the particular risks faced by the Company are set out in the section headed “Risk Factors” in this document.

OVERVIEW

We are a leading paediatric milk formula company in the PRC market⁽¹⁾. We are principally engaged in the production, distribution and sale of high-priced and premium-priced paediatric milk formula products⁽²⁾ in the PRC market, which we believe is one of the fastest-growing milk formula markets in the world. Our paediatric milk formula products are produced from high quality milk powder imported from Australia.

We believe that the Australian dairy industry has a good reputation for the high quality of its milk sources, technological and product innovation, strict quality controls and high quality dairy products. We currently import all of our milk powder from Australia through trading companies in the PRC which act as our procurement and custom agents, and consequently, our top five suppliers during the Track Record Period included some of these PRC trading companies. We import our milk powder through the PRC trading companies primarily to facilitate the compliance with import and customs clearance procedures. Nevertheless, our principal supply relationships are with the Australian-based dairy producers, namely Tatura and Murray Goulburn, which are reputable dairy producers in Australia. We have entered into a five-year supply agreement with Tatura in 2009 to secure the long term supply of milk powder for producing our products. We believe our relationships with the Australian-based dairy producers and the PRC trading companies help to ensure a stable supply of high quality milk powder sufficient to enable us to meet our current and future production and sale needs.

We currently sell three different series of paediatric milk formula products, namely, A-choice Series, Best-choice Series and Allnutria Series. Each of these series of products is designed to target consumers of high-priced and/or premium-priced paediatric milk formula products. Our A-choice Series of products also include specialty formula products for consumers with special needs, such as for premature or low birth-weight infants. All our products are marketed and sold under our own “Ausnutria” family of brands, which we believe are recognised for Australian milk powder based paediatric milk formula in the PRC market.

Notes:

- (1) According to data issued by Euromonitor International in June 2009, we ranked 13th based on sales value amongst paediatric milk formula producers in China in 2008. We did not commission the preparation of the data which we purchased from Euromonitor International. Based on the information from the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (國家質量監督檢驗檢疫總局) as of September and October 2008, there are 109 paediatric milk formula producers in operation in China and approximately 290 standard milk formula and other milk formula producers in China respectively.
- (2) As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data. For further information, please refer to the section headed “Industry Overview — Market Segment in the PRC Paediatric Milk Formula Market” in this document.

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During the Track Record Period, our paediatric milk formula products were subject to the following processes:

- we import milk powder that is produced by Australian dairy producers according to specifications provided by us. The imported milk powder undergoes our production process which primarily involves the mixing, bacteria killing and purification and other quality control processes. The milk powder is imported in bulk-bag form and is used to produce our A-choice Series and Best-choice Series paediatric milk formula in small foil bag and can forms for retail sale;
- our Allnutria Series paediatric milk formula is produced by Tatura and we import the paediatric milk formula in can form ready for retail sale as well as in bulk-bag form. We do not undertake any further processing with respect to the Allnutria Series paediatric milk formula imported in can form, although the product does undergo our quality control process before it is sold to distributors. The milk powder imported in bulk-bag form undergoes our production process to be produced into Allnutria Series paediatric milk formula in small foil bag form for retail sale. The Allnutria Series paediatric milk formula is a product of our research and development efforts in conjunction with Tatura. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively; and
- the wholesale distribution and sale of our paediatric milk formula products (whether produced or imported by us for direct resale) to distributors through an extensive distribution network across 20 provinces, four autonomous regions and four municipalities in the PRC. These distributors further distribute and sell our products to retail outlets such as department stores, supermarkets and babies and parenting specialty stores throughout the PRC. We have also appointed an agent to distribute our products online via a website operated by an independent online shopping service provider.

During the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our total revenue was RMB93.7 million, RMB186.5 million, RMB405.2 million and RMB321.0 million respectively, and our profit attributable to owners of our Company during the same periods was RMB11.9 million, RMB22.4 million, RMB70.5 million and RMB65.2 million respectively.

During the Track Record Period, paediatric milk formula products produced and imported by us for direct resale were equally important to our business. However, due to the fact that our Allnutria Series products are our highest priced products, this series of products has constituted an increasing portion of our sales revenue from 3.2% in 2006, to 19.5% in 2007, to 39.8% in 2008, and further to 44.8% for the six months ended 30 June 2009. Our Allnutria Series products in can form constituted 3.2%, 19.5%, 39.0% and 39.0% of our revenue in the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009.

We adhere to a strict quality control system over our entire operations, from the sourcing of our milk powder through to production, packaging and inventory storage, and to sale and distribution. We have obtained HACCP and ISO 9000 certifications for our production process. In addition, the milk powder that we import from Australian dairy producers is recognised by AQIS in Australia and AQSIQ in the PRC to be in compliance with the relevant requirements for exporting from Australia and importing into the PRC respectively.

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We seek to increase consumer awareness of our brand and products through advertising and promotional activities. We conduct nationwide marketing campaigns through television advertising and other media. Our marketing team also uses telemarketing strategies to advertise our products and make promotional offers. In addition to our marketing activities, our distributors are responsible for regional marketing efforts, including advertising in retail outlets and arranging paediatric nutrition education seminars.

COMPETITIVE STRENGTHS

We believe our success to date and potential for future growth can be attributed to a combination of our competitive strengths, including the following:

- recognised brand name for high-priced and premium-priced paediatric nutrition products from Australia;
- efficient selling and distribution model;
- experienced and capable management team;
- innovative business strategies and Australian sourced products;
- our products suit the target consumers in the high-priced and premium-priced paediatric nutrition products market in the PRC; and
- maintaining stringent quality controls.

For further information, please refer to the section headed “Business — Competitive Strengths” in this document.

BUSINESS STRATEGIES

Our goal is to strengthen our position as a leading paediatric milk formula company in the PRC market and expand our market share in the PRC. We plan to accomplish our goal through the following strategies:

- reinforcing and strengthening our relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to support our diversification;
- increasing our competitiveness and expanding our product range in the high-priced and premium-priced paediatric milk formula products market segments;
- reinforcing and expanding our distribution network in the PRC and other regions;
- enhancing our focus and efforts on research and development;
- improving our production facilities and expanding our storage capacity; and
- evaluating the opportunities for upward integration to secure our milk powder supplies by investing in cattle farms or milk powder producers or cooperating with international institutions that produce milk powder.

For further information, please refer to the section headed “Business — Business Strategies” in this document.

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SUMMARY OF FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, the selected financial data from our combined financial information. For more information, please refer to the section headed “Appendix I — Accountants’ Report” in this document.

Combined Statement of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	93,716	186,526	405,166	174,634	320,972
Cost of sales	(48,443)	(107,729)	(259,163)	(108,258)	(184,711)
Gross profit	45,273	78,797	146,003	66,376	136,261
Other revenue and gain	60	1,045	836	484	4,547
Selling and distribution costs	(21,877)	(43,335)	(56,628)	(27,271)	(44,717)
Administrative expenses	(4,731)	(8,039)	(9,162)	(4,433)	(4,720)
Other expenses	(3,300)	(234)	(695)	(607)	(121)
Finance costs	(536)	(493)	(859)	—	(4,181)
Profit before tax	14,889	27,741	79,495	34,549	87,069
Tax	(3,036)	(5,368)	(8,966)	(4,370)	(21,908)
PROFIT FOR THE YEAR/ PERIOD	11,853	22,373	70,529	30,179	65,161
Other comprehensive income:					
Exchange difference on translating foreign operations	—	(5)	25	—	(10)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD	<u>11,853</u>	<u>22,368</u>	<u>70,554</u>	<u>30,179</u>	<u>65,151</u>
Profit attributable to:					
Owners of the Company	<u>11,853</u>	<u>22,373</u>	<u>70,529</u>	<u>30,179</u>	<u>65,161</u>
Total comprehensive income attributable to:					
Owners of the Company	<u>11,853</u>	<u>22,368</u>	<u>70,554</u>	<u>30,179</u>	<u>65,151</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY — basic (RMB)	<u>1.48 cents</u>	<u>2.80 cents</u>	<u>8.82 cents</u>	<u>3.77 cents</u>	<u>8.15 cents</u>

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Combined Statement of Financial Position

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	2,237	22,369	26,434	27,045
Lease prepayments for land use rights	—	2,427	2,370	2,342
Intangible assets	453	460	393	359
Total non-current assets	<u>2,690</u>	<u>25,256</u>	<u>29,197</u>	<u>29,746</u>
CURRENT ASSETS				
Inventories	8,531	28,824	79,965	48,119
Trade and bills receivables	5,702	4,544	6,355	24,470
Prepayments, deposits and other receivables	11,886	33,084	33,865	46,768
Cash and cash equivalents	<u>21,448</u>	<u>24,939</u>	<u>77,659</u>	<u>138,843</u>
Total current assets	<u>47,567</u>	<u>91,391</u>	<u>197,844</u>	<u>258,200</u>
CURRENT LIABILITIES				
Trade payables	2,755	2,267	14,480	12,868
Other payables and accruals	45,344	71,680	69,889	188,738
Interest-bearing bank loan	—	—	30,000	—
Tax payable	<u>2,930</u>	<u>7,706</u>	<u>7,124</u>	<u>18,120</u>
Total current liabilities and total liabilities	<u>51,029</u>	<u>81,653</u>	<u>121,493</u>	<u>219,726</u>
NET CURRENT ASSETS/ (LIABILITIES)	<u>(3,462)</u>	<u>9,738</u>	<u>76,351</u>	<u>38,474</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
NET ASSETS/(LIABILITIES)	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
EQUITY				
Equity attributable to the owners of the Company and total equity	—	—	—	—
Issued capital	—	—	—	—
Retained earnings/(accumulated losses)	(11,161)	10,091	73,567	138,728
Other components of equity	<u>10,389</u>	<u>24,903</u>	<u>31,981</u>	<u>(70,508)</u>
Total equity	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>

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PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

The following profit forecast is based on the principal assumptions set out in the section headed “Appendix II — Profit Forecast” in this document, including:

- there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which we carry on our business or from which it buys or to which we sell the products or source our materials;
- there will be no changes in government policies, legislation, regulations or rules in the PRC or any other country or territory where we carry on our business or with which we have arrangements or agreements, which may have a material adverse effect on our business;
- there will be no material changes in the bases or rates of taxation or duties in the PRC or any other country or territory where we carry on our business, except as otherwise disclosed in this document; and
- there will be no material changes in inflation rate, interest rates or foreign currency exchanges rates from those prevailing as at the last audited balance sheet date.

Our Directors forecast that, in the absence of unforeseen circumstances and on the basis of our audited combined results for the six months ended 30 June 2009, our profit attributable to owners of our Company for the year ending 31 December 2009 will not be less than RMB180 million (approximately HK\$204 million).

DIVIDEND AND DIVIDEND POLICY

The recommendation of the payment of dividend is subject to the discretion of our Board, any declaration of final dividend for the year will be subject to the approval of the Shareholders. In August 2009, an interim dividend of RMB30 million was declared by our Group. In the opinion of our Directors, the interim dividend will be settled prior to [●].

The interim dividend of RMB30 million consisted of undistributed profit of approximately RMB10 million earned before 1 January 2008 which was not subject to withholding tax and undistributed profit of approximately RMB20 million earned in 2008 which was subject to withholding tax in the PRC of 10% for dividend distributed in Hong Kong and 10% for dividend distributed in Australia upon declaration. A deferred tax provision of approximately RMB2.0 million should be accounted for. The declaration of interim dividend was determined after we closed our book and record for the Track Record Period. Considering that the impact of deferred tax provision is immaterial compared to our net profit, our Directors are in the opinion that it is not necessary to adjust its financial information for the Track Record Period.

Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders. Please refer to the section headed “Appendix V — Summary of the Constitution of the Company and Cayman Companies Law” in this document.

Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

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We have not entered into any agreement under which future dividends are waived or agreed to be waived.

RISK FACTORS

The risks can be broadly categorised into (i) risks relating to our business; (ii) risks relating to our industry; and (iii) risks relating to conducting business in the PRC. Set out below is a summary of the risks referred to above. For further information, please refer to the section headed “Risk Factors” in this document.

Risks Relating to our Business

- We rely on two Australian dairy producers, namely Tatura and Murray Goulburn, as our main suppliers of milk powder, and any shortage or suspension of milk powder from such suppliers could result in reduced production and revenue for us.
- Disruption of our operations could adversely affect our business in material respects.
- Increases in milk powder prices that we are unable to pass on to our distributors will reduce our profit margins and profitability.
- Any major outbreak of illness or disease relating to cattle could lead to significant shortfalls in the supply of milk and milk powder and could cause consumers to avoid or reduce consumption of paediatric nutrition products, resulting in substantial declines in our sales and possible serious losses.
- We rely on paediatric milk formula as our primary type of product.
- We rely on distributors to distribute and market our products.
- We rely on PRC trading companies to import our milk powder.
- Sales of our products are subject to changing consumer preferences, and our success depends on our ability to anticipate, identify, interpret and react to changes in consumer preferences and develop and offer new products in a timely manner.
- We may face difficulties as we expand our distribution network to new regions or as we introduce new product series.
- Our growth strategy may not prove to be successful and we may be unable to manage our expansion of operation effectively.
- We intend to evaluate upward integration opportunities, investment, cooperation and other strategic initiatives, any of which could distract our management or otherwise have a negative effect on our business.
- Our profitability may suffer as a result of competition in our markets.
- Sales of our products are subject to seasonality.
- The risk of product contamination resulting in product liability which may materially adversely affect our business.
- Resources devoted to research and development may not yield new products that achieve commercial success.

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- We may not be able to adequately protect our paediatric milk formulas and intellectual property rights.
- We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations.
- Our risk management and internal control systems improvement may not be adequate or effective.
- We have limited insurance coverage which may not be sufficient to cover all of our potential losses.
- Our Controlling Shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders.
- The global financial markets have experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy and may adversely affect our financial condition and results of operations.
- We may not be able to continue to enjoy the benefits from the effects of the melamine incident.

Risks Relating to our Industry

- Adverse publicity concerning paediatric nutrition or dairy products may affect our profitability.
- An adverse change in favourable demographic, consumer and economic trends as well as a change in scientific opinion regarding our products could materially adversely affect our business and reduce our profitability.
- The PRC paediatric nutrition products industry, including the PRC paediatric milk formula industry, could face slower growth.
- Changes in public health and food safety laws and regulations may adversely affect our business.

Risks Relating to Conducting Business in the PRC

- Our business, financial condition, results of operations and prospects could be negatively affected by political, economic and legal developments and changes in government policies in the PRC.
- An outbreak of severe acute respiratory syndrome, avian influenza A, influenza A virus subtype H₁N₁ or other epidemic if uncontrolled could have a negative impact on our production, sales and distribution operations.
- Our business could be adversely affected by changes and uncertainties in the PRC legal system.
- Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, results of operations and our ability to pay dividends.
- The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders, as well as increase our enterprise income tax rate.
- PRC regulations relating to loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us to contribute additional capital or make loans to our PRC subsidiary.

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- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiary to liabilities or penalties, limit our ability to inject capital into our PRC subsidiary or limit the ability of our PRC subsidiary to distribute profits to us.

On the basis that we do not have a substantial amount of bank borrowings and have during the Track Record Period relied, and will continue to rely, largely on cashflows generated from operating activities to support and finance our operations and expansion needs, we are of the view that the recent credit crunch in Hong Kong and the PRC has not affected our operations, business or financial condition in any material respects.