RISK FACTORS

You should carefully consider all of the information in this document, including the risks and uncertainties described in the following risk factors. You should pay particular attention to the fact that our business and operations are conducted almost exclusively in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. For details regarding the PRC and other relevant matters, please refer to the sections headed "Corporate Information" and "The Laws and Regulations Relating to the Industry" in this document.

These 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.

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

We rely primarily on the use of milk powder in the production of our paediatric milk formula products. We source milk powder from producers in Australia. A majority of the milk powder sourced by us is produced by Tatura pursuant to a long term supply agreement between us and Tatura. We have also sourced milk powder from Murray Goulburn from time to time over the years. As a result, our business and results of operations rely on, among other things, the continued supply of milk powder from Tatura, Murray Goulburn and other milk powder suppliers we may identify in the future, and our continued relationships with these suppliers. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, we purchased 6.1%, 39.1%, 76.7% and 100% of our milk powder from Tatura, and we purchased 93.9%, 60.9%, 23.3% and nil of our milk powder from Murray Goulburn.

There is no assurance that the supply of milk powder will be sufficient to meet our increasing demands associated with our growth strategy. While we have entered into a long term supply agreement with Tatura, we do not have any such agreement with Murray Goulburn or any other milk powder supplier. We may be unable to ensure the continued supply of milk powder if Tatura, Murray Goulburn or other milk powder suppliers we may identify in the future should cease production or otherwise fail to supply us, are unable to comply with the terms and conditions of the supply agreement (if any) with us or if the supply agreement with Tatura is suspended, terminated or otherwise expired without renewal. Furthermore, Tatura, Murray Goulburn and other milk powder suppliers we may identify in the future may be unable to supply us with the required quantities of milk powder in a timely manner, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, our supplies of milk powder from Tatura and Murray Goulburn, or any other milk powder suppliers we may identify in the future, are influenced by a number of factors that are beyond our control, including:

- *changes in the environmental, climatical, economic, political and social conditions in Australia:* as currently all of our milk powder is sourced from Australia, any adverse changes to the environmental, climatical, economic, political and social conditions in Australia may have an adverse effect on our ability to obtain sufficient supplies of milk powder within the required time period and/or at reasonable prices, which may consequently have a material adverse effect on our business, financial condition and results of operations; and
- *seasonal factors:* with cattle generally producing more milk in temperate weather as opposed to cold or hot weather, any extended or unreasonably cold weather or intense heat may potentially lead to lower than expected milk production, which as a result may have a material adverse effect on our business, financial condition and results of operations.

Disruption of our operations could adversely affect our business in material respects

Our ability to obtain supplies, produce, distribute and sell our products is critical to our success. Damage or disruption to milk powder or other raw material supplies, our production capabilities or the distribution capabilities of our distributors due to force majeure events such as bad weather, natural disaster, fire, terrorism, strikes, various contagious diseases or other reasons could affect our ability to produce, distribute or sell our products. Also, we may experience difficulties and delays inherent in the production and sales of our products, such as:

- seizure or recalls of our products or forced closing or suspension of our production plant;
- our failure to obtain, the imposition of limitations on the use of, or loss of, our trademarks, protection of our milk formulas or other intellectual property rights;
- our failure, or the failure of any of our suppliers, distributors, sub-distributors or retailers, to comply with applicable regulations and quality assurance guidelines that could lead to temporary product recalls, production shutdowns, production delays and product shortages;
- other production or distribution problems, including limitations to manufacturing capability due to regulatory requirements, changes in types of products produced or physical limitations that could impact continuous supply; and
- availability of raw materials including milk powder supplies.

Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single location, could materially adversely affect our business, financial condition and results of operations.

Increases in milk powder prices that we are unable to pass on to our distributors will reduce our profit margins and profitability

Our ability to pass any increase in the costs of milk powder to our distributors depends on competitive conditions and pricing methods employed in the various markets in which we sell our products. For example, there is a risk of volatile milk costs affecting the price of milk powder and we may be unable to pass on any increases in milk powder prices to our distributors by increasing the selling prices of our products if we wish to maintain our competitiveness in the market.

If supplies of milk powder become scarce or prices otherwise increase significantly and remain high for an extended period of time, there can be no assurance that we would be able to pass the effects of any such price increases on to our distributors, if at all. Consequently, a material and/or prolonged increase in the cost of milk powder could adversely affect our results of operations, profit margin 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

A major outbreak of any illness or disease in cattle in Australia or any country from which we may source milk powder in the future or where we may make investments in or undertake cooperation with cattle farms and milk powder producers in the future could lead to a loss of consumer confidence in, and demand for, our paediatric nutrition products. A major outbreak of mad cow disease, bovine tuberculosis or other serious diseases in the regions from which we source milk powder for our paediatric nutrition products could result in the widespread destruction of the affected cattle and consequently lead to significant shortfalls in the supply of milk powder or affect the continuity and quality of the supply of milk powder. Further outbreaks of, or concerns about, these or other diseases could create unfavourable publicity, which may discourage consumers from purchasing dairy products, including our products. If consumers were to avoid or reduce consumption of our products, our sales would decline substantially and we could suffer serious losses.

We rely on paediatric milk formula as our primary type of product

We primarily engage in the production, distribution and sale of high-priced and premium-priced paediatric nutrition products, with paediatric milk formula as our major products. During the Track Record Period, sales of our paediatric milk formula accounted for over 90% of our total annual sales revenue. As a result, our business and results of operations rely on, among other things, our ability to maintain and strengthen our market position in the PRC paediatric milk formula market. The continued sales of our paediatric milk formula is subject to a number of factors, such as our ability to identify and react to changing consumer trends, our competitiveness against other paediatric milk formula manufacturers and our ability to improve our brand recognition and consumer acceptance. If sales of our paediatric milk formula decline or if we fail to maintain our market position in the PRC paediatric milk formula market or fail to diversify our product range to increase our sales revenue derived from other paediatric nutrition products, our business, financial condition and results of operations could be materially adversely affected.

We rely on distributors to distribute and market our products

Almost all of our products are sold to consumers through our distributors. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, sales to our top five distributors represented approximately 25.1%, 37.9%, 27.5% and 28.2%, respectively, of our total revenue, whilst sales to the largest distributor represented approximately 7.1%, 13.2%, 8.7% and 9.0%, respectively, of our total revenue during the respective periods. As such, the performance of our distributors and the ability of our distributors to on-sell our products, uphold our brand, to expand their businesses and their sales network are crucial to the future growth of our business and directly affect our sales volume and profitability. Also, if any of our distributors fails to distribute our products in a timely manner or according to the terms of our standard distribution agreement, or at all, or if our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially adversely affected.

We rely on PRC trading companies to import our milk powder

As at the Latest Practicable Date, all of our supplies of milk powder produced by Tatura and Murray Goulburn are imported through a number of PRC trading companies which conduct import and customs clearance procedures on our behalf. We generally pay the PRC trading companies fees ranging from approximately 0.6%–3.0% of the total value of goods imported. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the amount of fees paid to the PRC trading companies was RMB80,000, RMB738,000, nil and RMB145,000 respectively. If any of the PRC trading companies ceases to provide its services to us and we cannot find suitable alternatives, or if any of the PRC trading companies fails to perform its duties in a timely manner or at all, we may receive our imported milk powder late, in a damaged condition or not at all, each of which would have an adverse effect on our business, financial condition and results of operations. In 2007, 2008 and through to May 2009, we also procured milk powder from MoveUp which procured their milk powder produced by Tatura and Murray Goulburn through the PRC trading companies. We paid an average markup to MoveUp of RMB4,408,000, RMB67,801,000 and RMB5,884,000 in 2007, 2008 and the first six months ended 30 June 2009 respectively, representing a markup of approximately 26% to 28% of the total value of goods sold to us by MoveUp during 2007 and 2008 and approximately 6% during the first six months ended 30 June 2009. Since May 2009, we have terminated the arrangement with MoveUp and have procured milk powder directly through the PRC trading companies.

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

Our success depends on our ability to anticipate, identify, interpret and react to the tastes, dietary habits and nutritional needs of consumers and to offer products that appeal to those preferences. Sales of our products could be affected by nutritional and health-related concerns about our products, such as their fat, cholesterol, calorie, sodium, lactose, sucrose and bacteria content. Consumer trends in the paediatric nutrition products industry are constantly changing and our failure to anticipate, identify, interpret and react to these changes, or our failure to generate consumer acceptance or recognition of our new products could lead to, among other things, reduced demand for and/or price reductions of our products, which could materially adversely affect our business, financial condition and results of operations. Moreover, even if we do correctly anticipate, identify and interpret these trends and generate such consumer acceptance or recognition, we may be unable to react effectively. If we fail to develop a product portfolio that can offset the risk of market fluctuations caused by changing consumer preferences, or if we are unable to respond to rapid changes in consumer preferences in a timely manner, or if our competitors are able to address these concerns more effectively or efficiently, our business, financial condition and results of operations could be materially adversely affected.

We may face difficulties as we expand our distribution network to new regions or as we introduce new product series

We intend to expand our distribution network by further penetrating into our existing geographical coverage and expanding to more rural areas in the PRC. We are also planning to expand our market coverage to Hong Kong in the fourth quarter of 2009, and to the south-east Asian region in the longer term. We intend to broaden our product portfolio by adding new product lines, such as an organic paediatric nutrition product series. As we expand our business to new regions or with new product series, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay our ability to start up our operations and distribution network to comply with applicable regulatory requirements or become profitable in such regions or product series. There is also a substantial risk that any new markets to which we introduce our products may not accept, or be as receptive to, our products as our success depends on our ability to anticipate the tastes and dietary habits of consumers and to market our products in ways that would appeal to the consumers' preferences in these new markets. This may affect our relationship with consumers, suppliers, distributors and regulators and could have a material adverse effect on our business.

Our growth strategy may not prove to be successful and we may be unable to manage our expansion of operation effectively

We have grown rapidly in the past few years, with our revenue increasing by 332.3% from RMB93.7 million in 2006 to RMB405.2 million in 2008. We are developing several new product series, such as organic paediatric nutrition products, which we are targeting to launch in late September 2009. Expanding our production capacity and achieving market acceptance for our new products, particularly from new consumers, will require substantial management and marketing efforts and the investment of significant funds. Our business growth could place a significant strain on our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve our operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may materially adversely affect our business, financial condition and results of operations.

We intend to evaluate upward integration opportunities, investments, cooperation and other strategic initiatives, any of which could distract our management or otherwise have a negative effect on our business

We intend to evaluate upward integration opportunities including making investments in cattle farms or milk powder producers, or cooperating with our existing business partners or other international institutions which produce or supply milk powder, or other strategic initiatives that could enhance or expand our current operation or products or that might otherwise offer us growth opportunities. If we attempt to engage in these transactions, we expose ourselves to various inherent risks, including the following risks, which could have a material adverse effect on our business, financial condition and results of operations:

- accurately identifying suitable investment opportunities or initiatives and assessing the likely benefits, commercial viability and technical feasibility of such initiatives;

- the diversion of our management's attention from our existing business to explore and assess our investment initiatives;
- accurately identifying or hiring management and technical personnel to manage such investments; and
- the insufficiency of our experience in managing or operating such upward integration investments which may increase our need to recruit additional personnel with suitable experience and/or may cause our investments to fail to achieve the intended commercial benefits or the level of economic returns or at all.

Our profitability may suffer as a result of competition in our markets

We operate in the PRC paediatric nutrition products industry which is highly competitive. The major players in the industry are leading international paediatric nutrition product manufacturers who have substantial financial, marketing and other resources. In addition, Murray Goulburn, one of our milk powder suppliers, distributes their milk powder into the PRC market through Qingdao Maigao Dairy Company Limited* (青島邁高乳業有限公司). We understand that Murray Goulburn is one of the shareholders in the said company. We compete against these international paediatric nutrition products manufacturers, as well as other regional and local companies, in each of the regions where we distribute our products.

In order to maintain our existing market share and to increase our market share, we intend to continue improving our brand recognition and product value proposition, by investing in marketing and advertising initiatives and through product innovation. The success of our marketing, advertising and product innovation is subject to risks, including uncertainties about trade and consumer acceptance. We may also need to reduce prices for some of our products in order to respond to competition and consumer pressures and to maintain our market share. Competition and consumer pressures may restrict our ability to increase prices, including in response to commodity and other cost increases. Our business will suffer if profit margins decrease, either as a result of a reduction in prices or an increase in costs which we are unable to mitigate by increasing our prices proportionally.

Furthermore, intense competitive environment may induce our competitors to substantially increase their marketing and advertising expenditures or engage in irrational or predatory pricing behaviour. In addition, if our competitors carry out activities to undermine our brand or product quality or to influence consumer confidence in our products, whether legal or illegal, our business, financial condition and results of operations could be materially adversely affected.

Sales of our products are subject to seasonality

The sales of our products are subject to seasonality. We generally experience higher sales in the second half of a year than the first half of a year. Sales can fluctuate during the course of a financial year for a number of reasons, such as timing of launching new products, advertisement and promotional campaigns. As a result, we may not be able to optimise our utilisation of production capacity during the low seasons, or we may not have sufficient production capacity to meet customers' demand during the peak seasons.

The risk of product contamination resulting in product liability which may materially adversely affect our business

As is the case with other consumer product manufacturers, we are subject to product liability claims if our products are found to be unfit for consumption or cause illness. Products may be rendered unfit for human consumption due to contamination of ingredients, whether accidental or not, and illegal tampering. Despite the measures we have in place to control the quality of our products, contamination of ingredients of our products may occur during the transportation, production, distribution and sales processes due to reasons unknown to us or out of our control. The occurrence of such problems may result in product recalls which will cause serious damage to our reputation and brand, as well as loss of revenue. We cannot assure you that such incidents will not occur in the future. In addition, adverse publicity about these types of concerns relating to our brand or to the industry as a whole, whether or not legitimate, may discourage consumers from purchasing our products. If consumers lose confidence in our brand, we could experience long term declines in our sales, resulting in losses which we may not be able to recover.

To protect consumers in relation to the purchase or use of goods and services, the Law of the PRC on Protection of Consumers' Rights and Interests (《中華人民共和國消費者權益保護法》) ("**Consumer Protection Law**") was promulgated in the PRC in 1993. At present, all business entities which provide goods and/or services for sale in the PRC must observe and comply with the Consumer Protection Law. To provide further protection to consumers in relation to the purchase or consumption of food, the Food Safety Law of the PRC (《中華人民共和國食品安全法》) ("**Food Safety Law**") was promulgated on 28 February 2009 and took effect on 1 June 2009. Further details of the Food Safety Law are set out in the section headed "The Laws and Regulations Relating to the Industry — Regulatory System of Infant Food Industry" in this document. We have not been subject to any product liability claims during the Track Record Period. However, we cannot assure that there will not be any product liability claims made against us in the future. If we are subject to such product liability claims, our business, financial condition and results of operations could be materially adversely affected.

Resources devoted to research and development may not yield new products that achieve commercial success

Our ability to develop new paediatric nutrition products depends on, among other factors, the maintenance of our cooperation arrangements with various institutions and manufacturers to jointly research and develop new products. 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. The research and development process is expensive and prolonged, and entails considerable uncertainty. Due to the complexities and uncertainties associated with research and development, products that we are currently developing or that we may develop in future may not complete the development process or obtain the regulatory approvals required for us to market and sell such products successfully. The development of new products may take longer, cost more and be less successful than we anticipated as a result of:

- products that may appear promising in the development stages but fail to satisfy regulatory standards in order to obtain the necessary approvals in Australia, the PRC and/or other places where our products are sourced from or sold in, or fail to reach the market within the expected or optimal time frame, or fail to ever reach market, for any number of reasons, including inefficacy, difficulty or excessive costs for development and production; and
- failure of one or more of our new products to achieve or maintain commercial viability.

We cannot assure you that all of our new products including our organic product series and products currently in the development stages will be commercially successful. If any of our products currently in development fails to become commercially successful, our business, financial condition and results of operations could be materially adversely affected.

We may not be able to adequately protect our paediatric milk formulas and intellectual property rights

Our paediatric milk formulas and intellectual property rights concerning the production processes of our paediatric milk formulas are of fundamental importance to our business as we rely on our paediatric milk formulas to produce our paediatric milk formula products. Our paediatric milk formulas are developed jointly with other parties. We have not made (and are not planning to make) patent applications for our paediatric milk formulas, as we understand that many stages of our production processes and some elements of our paediatric milk formula products involve proprietary know-how, technology or data that are not protectable by patents. Further, as details of the ingredients and nutrition contents of our paediatric milk formula products are required by applicable regulations to be listed on the packaging of these products, the information is in the public domain. Therefore, we have no protection against our competitors who may copy our trade secrets and formulas and thereby gain a competitive advantage.

To the extent that protection is afforded under applicable laws on trade secret protection, we rely on such laws as well as confidentiality agreements with some of our suppliers and our employees to establish and protect the trade secrets of our paediatric milk formulas. For example, our long term supply agreement with Tatura includes provisions to protect the paediatric milk formulas jointly developed by Tatura and us. According to such provisions, the proprietary rights concerning the composition, nutritional details, microbiological and functional characteristics of the Allnutria Series paediatric milk formula and any new products to be jointly developed by Tatura and us in the future shall remain the joint property of Tatura and us, which cannot be disclosed to any third party unless Tatura and us mutually agree otherwise.

If we fail to enforce such provisions or are unsuccessful in taking enforcement proceedings against the relevant parties, our business may be materially adversely affected. Moreover, if we fail to effectively observe such provisions and disclose confidential information to other parties, we may be exposed to legal proceedings and substantial compensation claims which could materially adversely affect our business, financial condition and results of operations.

We have not entered into any kind of confidentiality agreement with Murray Goulburn in relation to the A-choice Series and Best-choice Series paediatric milk formulas which were jointly developed by Murray Goulburn and us. If Murray Goulburn uses the paediatric milk formulas of these two series of products to produce and distribute paediatric milk formula products in the PRC market, our business, financial condition and results of operations could be materially adversely affected.

The brand names and trademarks under which our products are marketed and sold are also important to our business. As at the Latest Practicable Date, we have 11 material registered trademarks and had made 13 material trademark applications of different classes in the PRC, Hong Kong and Australia for our brands and sub-brands. Further details of our intellectual property portfolio are set out in the section headed "Appendix VI — Statutory and General Information — Our Intellectual Property Rights" in this document. If we fail to effectively protect our brand name and our production processes and techniques used in producing our paediatric milk formulas from inappropriate or unauthorised use by third parties in ways that adversely affect our brand name and paediatric milk formulas, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in the section headed "Directors, Senior Management and Employees" in this document. In particular, Mr Wu, Mr Yan and Mr Chen all play vital roles in our operations and have been crucial to our success. Mr Wu and Mr Yan, the co-founders of our Group, have been primarily responsible for the corporate strategy, planning and business development of our Group. In addition, Mr Chen brings to our Group a wealth of experience in food production and dairy products and is primarily responsible for the day-to-day management and operations of our Group. There can be no assurance that such persons will continue to provide services to us or will honour the agreed terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

Our risk management and internal control systems improvement may not be adequate or effective

We have established risk management and internal control systems consisting of relevant organisational framework policies, procedures and risk management methods that we believe are appropriate for our business operations. We seek to continue to improve our risk management systems from time to time. However, we cannot assure you that our risk management and internal control systems will be sufficiently effective in identifying and preventing all such risks.

In addition, as some of our risk management and internal control policies and procedures are relatively new, we may need to establish and implement additional risk management and internal control policies and procedures to further improve our systems from time to time. Since our risk management and internal control depend on their implementation by our employees, we cannot assure you that such implementation will not involve any human errors or mistakes. If we fail to timely adapt and implement our risk management policies and procedures, our business, financial condition and results of operations could be materially adversely affected.

We have limited insurance coverage which may not be sufficient to cover all of our potential losses

We only obtain limited insurance coverage. As a result, we may have to pay out of our resources for financial and other losses, damages and liabilities, including those caused by fire, inclimate weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any product liability insurance or business interruption insurance. Any defective product claim or business interruption may result in substantial costs to us. Losses incurred or payments we may be required to make may have a material adverse effect on our business, financial condition and results of operations to the extent that such losses or payments are not insured or the insured amount is not adequate to compensate the losses.

Our Controlling Shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders

Our Controlling Shareholder will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company. In addition, the interests of our Controlling Shareholder may differ from 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

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowdown of economic growth both in China and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. As it is difficult to predict how long these conditions will exist and whether consumers will shift their purchases from our high-priced and premium-priced products to other lower-priced products, these developments could continue to present risks to our business and operations for an extended period of time, including a potential slowdown in our sales to consumers, increase in interest expenses on bank borrowings, and reduction in the amount of banking facilities currently available to us. If this economic downturn continues, our financial condition and results of operations may be materially adversely affected.

We may not be able to continue to enjoy the benefits from the effects of the melamine incident

We recorded a substantial increase in revenue for the several months immediately after the melamine incident in September 2008 as more consumers in the PRC shifted their purchase from domestically sourced paediatric milk formula products to internationally sourced paediatric milk formula products after the paediatric milk formula of a number of large domestic sourced dairy products manufacturers were found to contain melamine, causing infants to develop kidney stones. However, the melamine incident is a one-off incident and its effect on our increase in revenue may not be sustainable. If we fail to sustain consumers' confidence in our product quality and brand recognition, our business, financial condition and results of operations may be materially adversely affected.

RISKS RELATING TO OUR INDUSTRY

Adverse publicity concerning paediatric nutrition or dairy products may affect our profitability

We are highly dependent upon consumers' perception of the safety, quality and health benefits of our products. As a result, substantial and sustained negative publicity concerning paediatric nutrition or dairy products could lead to a loss of consumer confidence in our products, removal of our products from retailers' shelves and reduced sales and prices of our products. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

In September 2008, various brands of paediatric milk formula and other dairy products were found to be contaminated with melamine which could pose serious health issues for consumers. As a result, a nationwide investigation was launched on all paediatric milk formula and dairy products for traces of melamine. From this investigation, products manufactured by certain domestic producers which sourced their milk sources domestically were recalled and removed from retailers' shelves. This incident had a material adverse impact on local paediatric nutrition products manufacturers which generally sourced their milk powder from domestic sources. Also, we have been subjected to wrongful media speculation alleging that our products sold in the PRC were contaminated with enterobacter sakazakii. Further details relating to these incidents are set out in the section headed "Business — Quality Control" in this document. We cannot guarantee that there will not be other adverse publicity in the future concerning the paediatric nutrition or dairy products industry or our products, which may have a material adverse effect on our business, financial condition or results of operations.

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

Our growth plan relies on favorable demographic, consumer and economic trends in the PRC market, including: (i) rising incomes in emerging markets; (ii) increasing number of working mothers; and (iii) increasing number of Chinese women willing to accept paediatric milk formula as a substitute for breast milk for their infants. If these demographic trends change in an adverse way, our business could be materially adversely affected. In addition, an adverse change in scientific opinion regarding our products, such as the health benefits of DHA and ARA, could materially adversely affect our business.

The PRC paediatric nutrition products industry, including the PRC paediatric milk formula industry, could face slower growth

The PRC paediatric milk formula industry has undergone substantial growth in recent years. According to data issued by Euromonitor International in June 2009, the PRC paediatric milk formula market has grown from approximately RMB9 billion in 2003 to approximately RMB25 billion in 2008. However, there is no guarantee that the PRC paediatric milk formula industry will continue to grow at such a rate in the future. The PRC paediatric nutrition products industry including the PRC paediatric milk formula industry may experience slower growth in the future due to market saturation as well as competition from alternative products, which may impact upon the size and growth of the market for dairy products in general. Growth in the PRC market for paediatric nutrition products may also be affected by changes in the purchasing behaviour of consumers.

Changes in public health and food safety laws and regulations may adversely affect our business

Our operations are subject to extensive laws and regulations promulgated by the Australian government, AQIS, the State Council, the Ministry of Health of the PRC, AQSIQ, the Ministry of Agriculture of the PRC, the State Food and Drug Administration of the PRC, and other national or local regulatory authorities in the countries where our products are produced or sold, regarding the production, packaging, storage, distribution, sales, export and labelling of our paediatric milk formula products and our organic paediatric nutrition products. Our production facilities and products are subject to periodic inspection by national and local authorities of the PRC. Save as disclosed in the section headed "Financial Information — Review of Historical Operating Results 2007 compared to 2006" in this document, we are currently in full compliance with all laws and regulations and maintain all permits and licences necessary for our operation in all material aspects. Nevertheless, there can be no assurance that we are capable of complying with current laws and regulations, or that we will be able to comply with any future laws and regulations. Any incapability of our Group to comply with relevant governmental laws and regulations may have a material adverse effect on our business and results of operations.

There can also be no assurance that the Australian or the PRC government will not change the existing laws or regulations or adopt additional or more stringent laws or regulations. To the extent that new laws and regulations are adopted, we will be required to conform our activities and operation in order to comply with such laws and regulations. We cannot predict the nature of such future laws, regulations, interpretations, or applications, nor can we predict the impact of additional laws, regulations or administrative orders, when and if promulgated, on our business in the future. Such laws and regulations could, however, require the re-configuration of other methods for sourcing raw materials, production, processing and transportation, including, but not limited to, more onerous food safety, labelling and packaging requirements; more stringent compliance requirements for waste management; increase in transportation costs; and greater uncertainty in production and sourcing estimates. Any or all such government actions could have a material adverse effect on our business, financial condition and results of operations. Also, our failure to comply with any applicable laws and regulations could subject us to civil remedies, including fines, injunctions, products recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

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

All of our operating assets are located in the PRC and substantially all of our revenue are derived from our operations in the PRC. The results of our operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and government control of foreign exchange.

The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market economy. However, we cannot predict the extent of economic reform pursued by the PRC government and the economic system in the future. In addition, while the PRC economy has experienced significant growth in the last two decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, financial condition, results of operations and future prospects may be adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the dairy industry.

An outbreak of severe acute respiratory syndrome ("SARS"), avian influenza A ("H_5N_1"), influenza A virus subtype H_1N_1 ("H_1N_1") or other epidemic if uncontrolled could have a negative impact on our production, sales and distribution operations

An outbreak in the future of SARS, H_5N_1, H_1N_1 or other epidemic, if protracted and uncontrolled, may result in the contraction of such disease amongst our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. In addition, if there is an outbreak of SARS, H_5N_1, H_1N_1 or other epidemic, there is no guarantee that the World Health Organisation or the PRC government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of SARS, H_5N_1, H_1N_1 or other epidemic could cause significant interruption to our business and have a significant impact upon our revenue and profitability.

Our business could be adversely affected by changes and uncertainties in the PRC legal system

The PRC legal system is based on the civil law system. Unlike the common law system, prior legal decisions and judgments have limited significance for guidance. The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends

RMB is not currently a freely convertible currency. We receive all of our revenue in RMB and will need to convert RMB into foreign currencies for payment of dividends, if any, to holders of our Shares. Regarding the operations during the Track Record Period, our milk powder supplies were obtained through our PRC agents and paid in RMB. In the future, we may pay for our milk powder supplies in foreign currencies. Under the current foreign exchange regulations in the PRC, our PRC subsidiary will be permitted effect foreign exchange for current-account transactions (including the distribution of dividends) through accounts permitted by the PRC government. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from

SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. There can be no assurance that the PRC government will not in the future impose restrictions on foreign exchange transactions for current-account items, including the payment of dividends.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. From 21 July 2005 to 30 June 2009, according to the PBOC official website, the value of RMB has appreciated by approximately 18.7% against the U.S. dollar.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies.

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

We are incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiary. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which took effect on 1 January 2008, ("**New Tax Law**"), if our overseas members are deemed to be non-PRC resident enterprises for tax purposes without an office or premises in the PRC, our overseas members will be subject to a withholding tax rate of 10% for any dividends paid by our PRC incorporated subsidiary unless they are entitled to certain tax reductions or exemptions, for example, by tax treaties. Under the Arrangement between the Mainland and Hong Kong Special Administrative Region 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避免雙重徵稅和防止偷漏稅的安排》) which took effect on 1 January 2007 ("**Tax Agreement**"), the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%. According to the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties (《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》) ("**Notice 81**") promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Pursuant to the Tax Arrangement, and Notice 81, a payment of dividends by Ausnutria Hunan to Ausnutria Australia and Ausnutria Hong Kong, which hold 25% and 75% of the equity interests in Ausnutria Hunan respectively, may be subject to a PRC withholding tax at a rate of 10% and 5% respectively, if the provisions of Notice 81 are satisfied and our overseas members are not considered to be PRC resident enterprises for tax purposes. According to Notice 81, if the primary purpose of the transactions or arrangements is deemed by the relevant authorities to be entered into for enjoying a favourable tax treatment, the favourable tax benefits enjoyed by us pursuant to the Tax Arrangement may be adjusted by the relevant tax authorities in the future.

The New Tax Law provides that if an enterprise incorporated outside the PRC has its "de facto management organisation" within the PRC, such enterprise may be deemed a PRC resident enterprise for tax purposes and be subject to an enterprise income tax rate of 25% on its worldwide income. Most members of our management are located in the PRC and, if they remain there after the effective date of the New Tax Law, our overseas members may be deemed PRC resident enterprises and therefore subject to an enterprise income tax rate of 25% on our worldwide income. As a result of these tax provision changes, our historical operating results may not be indicative of our operating results for future periods and the value of our Shares may be materially and adversely affected.

The New Tax Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, but due to the short history of the New Tax Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC incorporated subsidiary to us will meet such qualification requirements even if our overseas members are considered as PRC resident enterprises for tax purposes.

The New Tax Law also stipulates that if (i) an enterprise distributing dividends is domiciled in the PRC or (ii) capital gains are realised from the transfer of equity interests in enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. If our overseas members are deemed PRC resident enterprises for tax purposes, then (i) any dividends we pay to our overseas Shareholders and (ii) any capital gains realised by our Shareholders from transfers of our Shares may be regarded as PRC-sourced income and be subject to a PRC withholding tax rate of up to 10%.

As the New Tax Law has only recently taken effect, it is uncertain as to how it will be implemented by the relevant PRC tax authorities. If dividend payments from our PRC incorporated subsidiary to us are subject to the PRC withholding tax, it may have a material adverse effect on our business, financial condition and results of operations.

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

We are an offshore holding company conducting our operations in the PRC through our PRC subsidiary. In utilising the resources of our Company, we may make loans or additional capital contributions to our PRC subsidiary.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the the resources of our Company to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially adversely affect our liquidity and our ability to fund and expand our business.

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

SAFE issued a public notice in October 2005, namely Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("**SAFE Circular No. 75**"), requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an "offshore special purpose company". PRC residents that are shareholders of offshore special purpose companies established before 1 November 2005 which had completed roundtrip investments were required to register with the local SAFE branch before 31 March 2006. In addition, any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration within 30 days after any major change in the share capital of the offshore special purpose company without any roundtrip investment being made, such as any increase or decrease of capital, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to a foreign party etc. In May 2007, SAFE issued relevant guidance to its local branches with respect to the operational process for SAFE registration, which standardised more specific and stringent supervision on the registration relating to SAFE Circular No. 75. As advised by the Company's PRC legal advisers, Mr Wu, Mr Yan and Mr Chen and other shareholders who are PRC residents have made their SAFE registrations for their foreign investment at the SAFE Hunan Branch. However, we may not be fully informed of the identities of all our future shareholders who are PRC residents. Moreover, we do not have control over our shareholders and cannot assure you that all of our PRC resident beneficial owners will comply with SAFE Circular No. 75. The failure of our shareholders who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular No. 75 or the failure of future shareholders who are PRC residents to comply with the registration requirements set forth in SAFE Circular No. 75 may subject such beneficial owners and/or our PRC subsidiary to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiary, limit the ability of our PRC subsidiary to distribute dividends to our Company or otherwise materially and adversely affect our business.