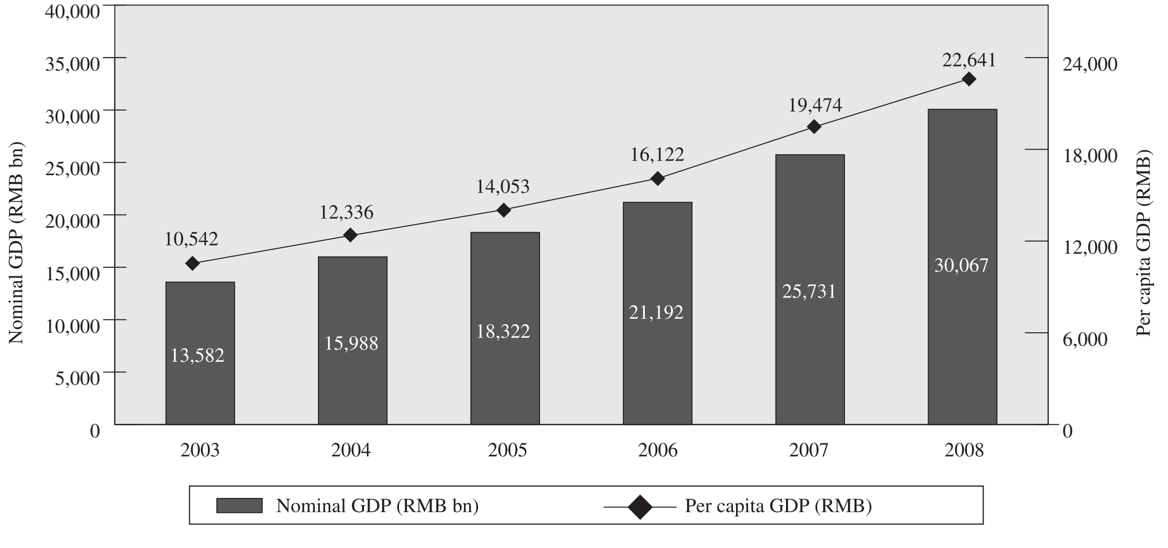
We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

THE PRC ECONOMY

Economic growth and urbanisation

The PRC economy is one of the world's fastest growing economies. According to the National Bureau of Statistics of China, the nominal Gross Domestic Product ("**GDP**") of China in 2008 was RMB30,067 billion, representing a CAGR of 17.2% since 2003 and a 16.9% annual growth in 2008. From 2003 to 2008, the per capita GDP of China also increased from RMB10,542 to RMB22,641, representing a CAGR of 16.5%. The following chart sets forth the nominal GDP and per capita GDP of China from 2003 to 2008.

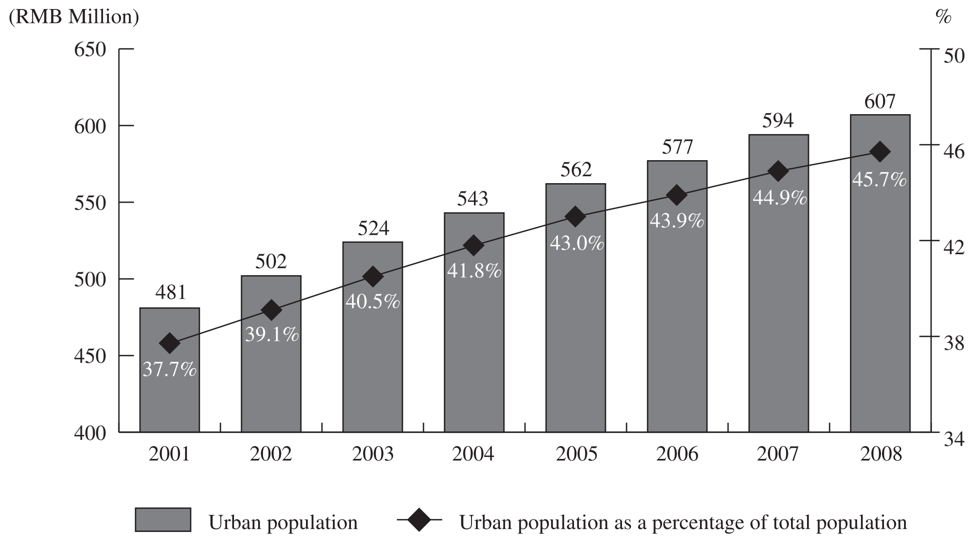
Nominal GDP and GDP per capita growth in China



Source: National Bureau of Statistics of China

The PRC's economic growth has been accompanied by rapid urbanisation. The total urban population in the PRC increased from 481 million as of the end of 2001 to 607 million as of the end of 2008, representing an increase of 26.2% between 2001 to 2008. During the same period, the urban population as a percentage of the total population increased from 37.7% to 45.7%. The chart below sets forth the total urban population and the urban population as a percentage of the total population in the PRC as of the end of the periods indicated.

Absolute and Relative Growth of Urban Population in the PRC

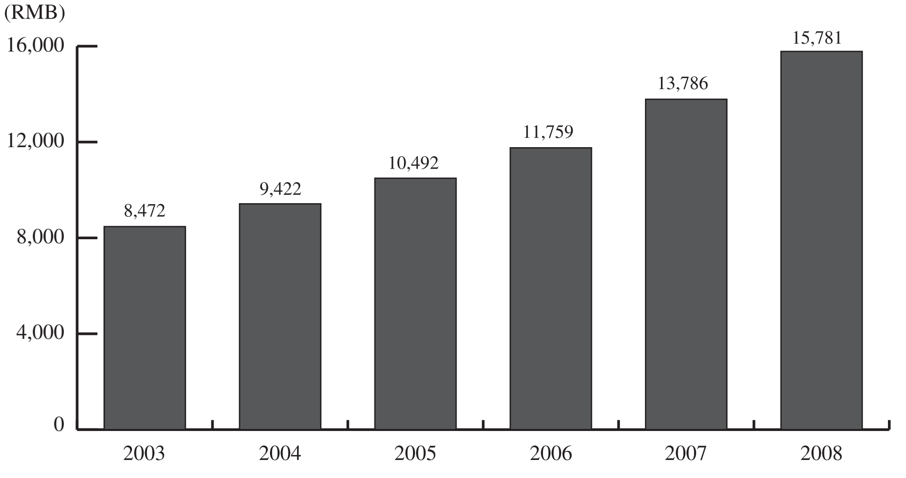


Source: National Bureau of Statistics of China

Growth in disposable income of urban and rural households

Personal income from urban and rural households in China has been increasing along with economic growth and increasing urbanisation. According to the National Bureau of Statistics of China, from 2003 to 2008, the per capita annual disposable income of urban households in China increased from RMB8,472 to RMB15,781, representing a CAGR of 13.2%. During the same period, the per capita annual net income of rural households in China increased from RMB2,622 to RMB4,761, representing a CAGR of 12.7%. These increases indicate that the purchasing power of Chinese consumers is increasing, and as a result Chinese consumers are more capable of purchasing high quality products for their babies and children. The following chart sets forth the per capita annual disposable income of urban households in China from 2003 to 2008.

Per capita income in urban households

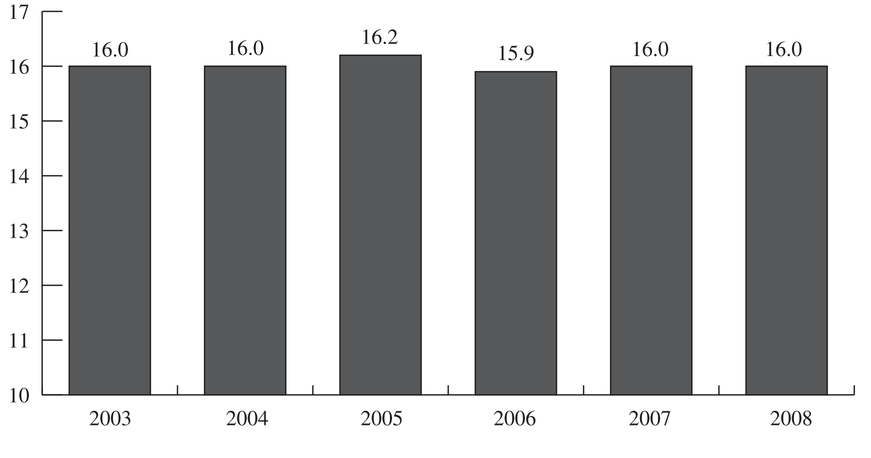


Source: National Bureau of Statistics of China

Number of newborns in China

From 2003 to 2008, the number of newborns in China was relatively stable, at around 16 million births each year. We believe that the number of newborns in China will continue at a relatively consistent level in the near future. The following chart sets forth the number of newborns in China from 2003 to 2008, which is calculated based on the birth rate and population in China during the same period.

Number of newborns in China (million)



Source: National Bureau of Statistics of China

PAEDIATRIC MILK FORMULA INDUSTRY IN CHINA

Overview

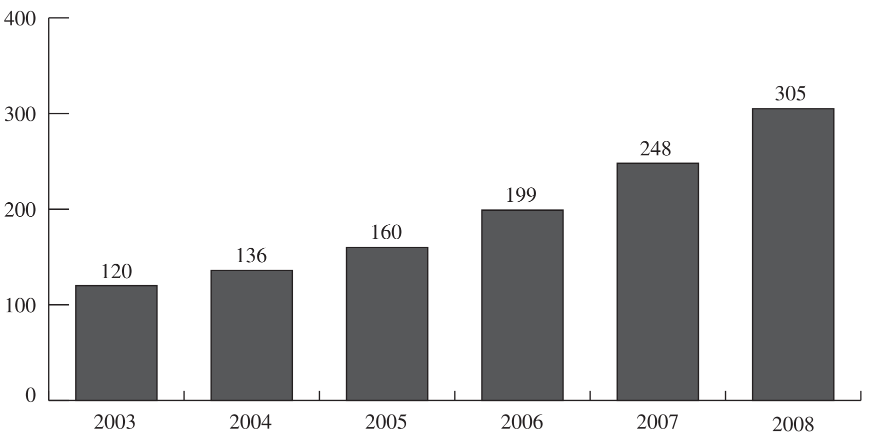
China is the most populated country in the world and one of the fastest growing paediatric milk formula markets globally. Furthermore, we believe that the increasing trend in China towards double income families, where many women continue to work after giving birth, coupled with the benefits of convenience and nutrition offered by paediatric milk formula has resulted in an increasing number of Chinese women willing to accept paediatric milk formula as a substitute for mother's breast milk for their infants. According to Euromonitor International, the retail volume of paediatric milk formula in China was approximately 304,900 tons in 2008. Therefore, China attracts a large number of enterprises, both foreign and domestic, wishing to gain a share in the country's paediatric milk formula market.

Sales of paediatric milk formula in China

Before 1979, China's paediatric milk formula market only included whole milk powder and whole milk powder with sugar added. In the 1990s, technological advancements and process innovation in formulating raw milk powder greatly increased the quality of paediatric milk formula products, and as a result consumers in China became more willing to accept paediatric milk formula as a substitute for mother's breast milk.

With the stable birth rate in China, the trend towards urbanisation, the increase in disposable income, and the increase in the number of working mothers, the paediatric milk formula sector has been growing rapidly. The following chart sets forth the development trends of the retail volume of paediatric milk formula in China from 2003 to 2008.

Retail volume of paediatric milk formula in China ('000 tons)

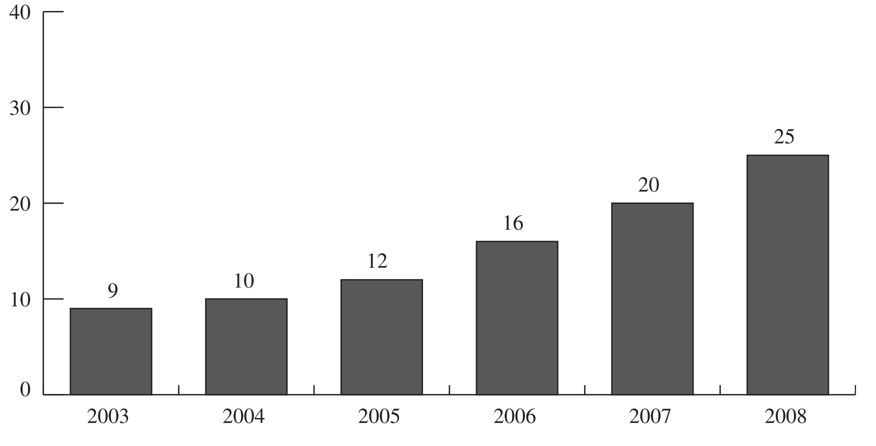


Source: Euromonitor International, which is a leading independent provider of business intelligence on industries, countries and consumers and we did not commission the preparation of the data which we purchased from Euromonitor International. The data prepared by Euromonitor International was issued in June 2009.

We anticipate that the paediatric milk formula market size in China will continue to increase. The predicted increase is due to a number of factors, including increasing demand for paediatric milk formula in China, increase in the average retail price of paediatric milk formula products and increasing consumer preference for high-priced and premium-priced paediatric milk formula products. The increase in the paediatric milk formula market value in China is also influenced by other macro-economic factors including increasing urbanisation, increase in disposable income and increase in the number of working mothers.

We estimate that the market value of the paediatric milk formula market in China will increase at a higher rate than the corresponding increase in the retail volume of paediatric milk formula in China, as the increase in the paediatric milk formula market size is mainly attributable to an increase in the sales of high-priced and premium-priced paediatric milk formula products, which are sold at significantly higher prices. The following chart sets forth the development trend of the paediatric milk formula market value in China from 2003 to 2008.

Paediatric milk formula market value in China (RMB billion)



Source: Euromonitor International

MARKET SEGMENT IN THE PRC PAEDIATRIC MILK FORMULA MARKET

Overview

We believe paediatric milk formula brands in the PRC market can be broadly grouped into three categories:

- international brands;
- domestic brands whose paediatric milk formula is produced from raw milk powder sourced from overseas and imported into the PRC;
- domestic brands which source all or most of their raw milk powder and produce their paediatric milk formula in the PRC.

We believe the PRC paediatric milk formula market can generally be categorised into four categories based on retail price, namely:

- low-priced paediatric milk formula;
- mid-priced paediatric milk formula;
- high-priced paediatric milk formula; and
- premium-priced paediatric milk formula.

We consider that there is no official industry classification for different priced and different quality paediatric milk formula products in the PRC market. Accordingly, the above classifications have been determined based on the Directors' knowledge and experience in China as well as market research on the range of retail prices of paediatric milk formula products sold by major players in the PRC market including the following brands: Dumex, Mead Johnson, Wyeth, Abbott, Synutra (聖元), Beingmate (貝因美), Yili (伊利), Yashili (雅士利), Nestle (China) Ltd., Hunan Yahua Seeds Co., Ltd., Heilongjiang Feihe Dairy Co., Ltd., Wonder Sun Dairy Co., Ltd and us. Based on the information obtained from our market research, retail prices for paediatric milk formula products range from approximately RMB27 per kg to approximately RMB245 per kg or above. In view of this price range and the distribution of retail prices amongst the products we researched, the Directors consider that the prices of different products gathered from the market can be divided into the above four categories. The Directors use this price range as a standard solely for ease of comparison and classification.

We estimate that the high-priced and premium-priced paediatric milk formula market segments will grow at a faster rate when compared with the growth of the low-priced and mid-priced paediatric milk formula segments. This is due to economic development, improvement in living standards and increase in purchasing power.

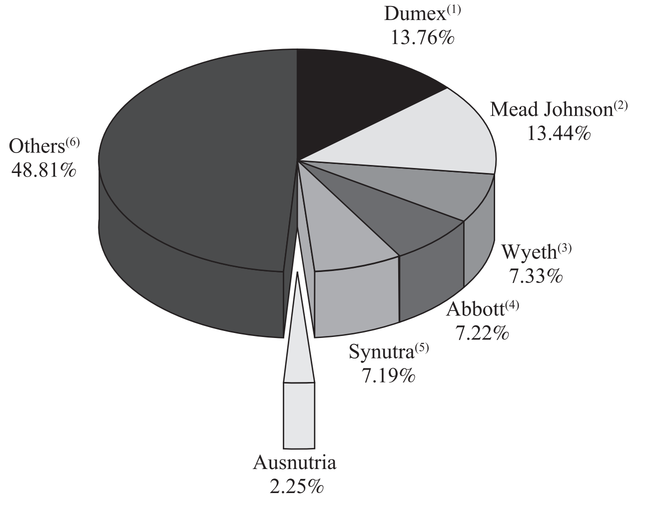
COMPETITION IN THE PRC PAEDIATRIC MILK FORMULA MARKET

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. Whilst the industry is fragmented with a large number of players, based on the data of Euromonitor International, the top five producers accounted for almost 50% of the total market share by sales value in 2008. The market leaders including international brands such as Dumex, Mead Johnson, Wyeth and Abbott accounted for approximately 41.75% of the total market share by sales value in 2008 in the PRC market. Several domestic dairy manufacturers have devoted substantial resources to penetrate into the PRC paediatric milk formula market, however, we believe that it may be some time before domestic dairy manufacturers are able to pose any significant threat to the international paediatric nutrition products manufacturers' dominant market position.

According to data issued by Euromonitor International in June 2009, we ranked 13th in terms of sales value in 2008 in the PRC market amongst the producers assessed. The top 12 paediatric milk formula producers in 2008 comprised four leading international brands, namely Dumex, Mead Johnson, Wyeth and Abbott, and eight domestic brands including Synutra, Beingmate and Yili. We believe that, with approximately 50% of the sales value in 2008 constituted by a large number of smaller players, our leading position and competitive advantage (including high product quality, recognised brand name and extensive distribution network) over these other players will enable us to capture an increasing portion of market share in the PRC market and thereby reinforcing our leading position and increasing our returns. While we believe the market has yet to see a domestic paediatric nutrition manufacturer capable of overtaking the international paediatric nutrition products manufacturers, we consider this as providing us with immense opportunities to grow, to increase our market share and to improve our position in the PRC market.

The following chart sets forth the market shares of paediatric milk formula producers in the PRC based on sale value in 2008.

Market shares of different paediatric milk formula producers in the PRC (in terms of sales value) in 2008



Source: Euromonitor International

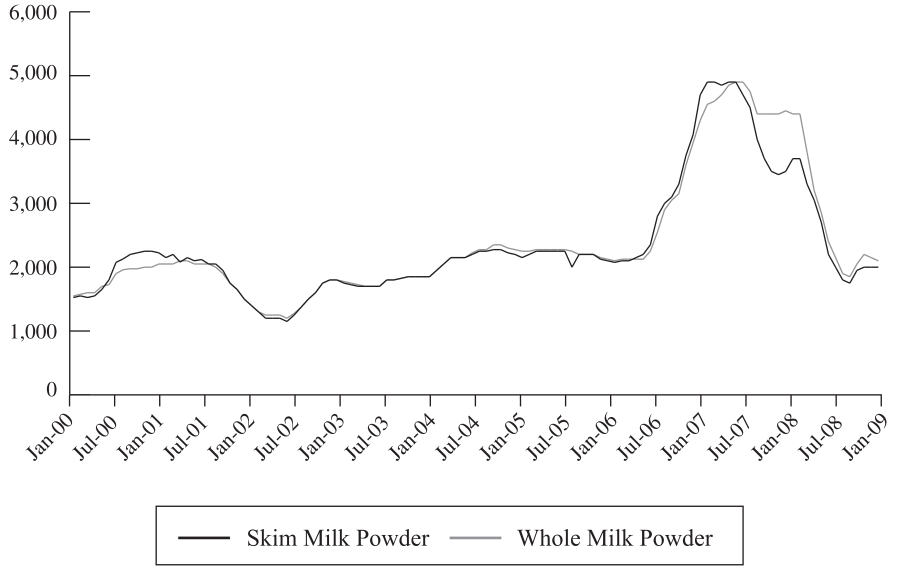
1. Dumex manufactures infant and child nutritional products which are distributed in Malaysia and Singapore with exports to around 20 countries around the world.
2. Mead Johnson is a global leader in infant and children's nutrition, best known for certain paediatric milk formulas and regional children's nutritional products.
3. Wyeth is a global leader in pharmaceuticals, consumer health care products and animal health care products.
4. Abbott is well recognised as one of the world's most respected names for nutritional products.
5. Synutra is one of the leading manufacturers of dairy-based nutritional products in China.

6. Others include Beingmate (6.23%), Yili (5.49%), Yashili (5.4%), Nestle (China) Ltd. (5.03%), Hunan Yahua Seeds Co., Ltd. (3.38%). Heilongjiang Feihe Dairy Co., Ltd. (2.37%), Wonder Sun Dairy Co., Ltd. (2.26%) and other manufacturers which have smaller market share than us.

PRICES OF RAW MILK POWDER

According to Dairy Australia, the dairy industry is one of Australia's major rural industries with a farmgate value of production of approximately A$4.6 billion in 2007 and 2008. Export dairy commodity prices rose to record levels in 2007 due to consistently strong demand and tight supplies. Prices suffered a minor contraction during the first half of 2008, due to some buyers' resistance and increased availability of products. The following chart sets forth the skim milk powder and whole milk powder export spot prices from January 2000 to January 2009. The price trends of skim milk powder and whole milk powder is directly correlated to the price of raw milk powder obtained from our Australian suppliers.

Dairy Australia Spot Price Survey of Raw Milk Powder Prices (US$/ton)



Source: Dairy Australia, which is a dairy industry organisation formed in 2003 by the Australian dairy industry which provides industry services to Australian dairy farmers. Dairy Australia's data is available from its website and accessible by the general public.

THE MELAMINE INCIDENT

Overview and the effect on the high-priced and premium-priced paediatric milk formula market segments

In September 2008, the paediatric milk formula of a number of large domestic dairy products manufacturers were found to contain melamine, causing infants to develop kidney stones, and affecting several thousands of children. The melamine incident undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and in turn a decrease in production volume. According to the 2009-2012 Report on the Effect of Melamine on Dairy Products — Market Investigation and Future Market Predictions*《中國三聚氰胺對乳製品的影響市場調研與未來市場預測分析報告》prepared by Beijing Huajing Shidian Information Consulting Co. Ltd.*（北京華經視點信息諮詢有限公司）issued in June 2009 ("**2009 Report**"), as at September 2008, 66 of the 175 paediatric milk formula manufacturers in China had ceased to produce paediatric milk formula products. In general, sales volume of dairy products produced by Chinese enterprises dropped to only 20% of the usual sales volume prior to the melamine incident. For details of the impact of the melamine incident on our revenue and our Directors' view on the melamine incident, please refer to the section headed "Business — Quality Control — The Melamine Incident" in this document.

According to the 2009 Report, the high-priced and premium-priced paediatric milk formula market segments have grown at a faster rate than the low-priced and mid-priced paediatric milk formula market segments after the melamine incident in the second half of 2008. We believe that Chinese consumers who originally purchased paediatric milk formula products produced by raw milk powder sourced domestically shifted their purchases to brands which produced paediatric milk formula using raw milk powder sourced from overseas, as such raw milk powder is considered to be of a higher quality.

Laws and regulations implemented by the PRC government

Due to the impact of the melamine incident on China's dairy products industry, a number of regulations and measures have been introduced by the PRC government since the incident took place. These are aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. For example, the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products《乳品質量安全監督管理條例》issued and effective on 9 October 2008 aims to strengthen the management of dairy products safety and quality. Manufacturers are now required to follow more stringent rules which include the prohibition of adding non-edible chemical substances or substances which may be harmful to humans into dairy products, and the establishment of quality management systems to ensure quality control throughout the whole production process.

In September 2007, the PRC Premier Mr. Wen Jiabao signed the State Council Opinion on the Promotion of Continuing the Healthy Development of the Dairy Industry (《國務院關於促進奶業持續健康發展的意見》) ("**Opinion**"). In the Opinion, the State Council recommended restrictions to the entry system to the China dairy industry. The PRC dairy manufacturers are encouraged to enlarge their production scale through asset reorganisation, merger and acquisition or otherwise on a reasonable basis.

Following the melamine incident, as part of the PRC government's measures, more than 5,000 investigators were appointed to supervise the manufacturing of dairy products in China. A new set of national standards was put in place in October 2008 for manufacturers, which included the legally acceptable level of melamine content in paediatric milk formula products as well as other dairy products. Breaches of such standards could result in the revocation of licences and the referral of cases to law enforcement bodies for investigation and enforcement actions.

According to the 2009 Report, the dairy products industry in China has slowly recovered as a result of the combined efforts made by the government, enterprises, agricultural sector and others. From January to March 2009, the total production value of dairy products amounted to approximately RMB352 billion, representing an increase of 5.53% compared to the same period in 2008, and production of dairy products reached approximately 4.37 million tons, representing an increase of 3.28% over the same period.

It can be seen from these increases that Chinese consumers are slowly regaining confidence in Chinese dairy products. In February 2009, the annual production volume of Chinese dairy products reached approximately 1.5 million tons, representing an increase of 13.8% compared to the previous year, and this also marked the first increase in production volume since the melamine incident in September 2008. In addition, those manufacturers which ceased production because of the melamine incident are gradually resuming production or are offering their businesses for sale.