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### OVERVIEW

We are a leading paediatric milk formula company in the PRC market<sup>(1)</sup>. We are principally engaged in the production, distribution and sale of high-priced and premium-priced paediatric milk formula products<sup>(2)</sup> 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.

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;

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#### 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. 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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- 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 the 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.

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.

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### 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*

Our Ausnutria (澳優) family of brands is derived from the phrase “Australian Nutrition” and is designed to signify our focus on providing consumers with high quality products sourced from Australia which distinguishes us from other domestic paediatric nutrition products manufacturers. We believe that the Australian dairy industry has a good reputation for the high quality of its dairy products, technological and product innovation and strict quality controls. For example, we believe that since Australia is generally thought to be free from “mad cow disease”, bovine tuberculosis or other serious diseases, our milk powder will likely have a lower risk of contamination by such diseases than milk powder sourced from other geographic regions. Also, in September 2008, all paediatric milk formulas distributed in the PRC were tested for contamination with melamine. Our products were among the first batch of dairy products to be declared free of melamine contamination by the PRC government. We believe that this incident enhanced our brand name recognition among consumers by further emphasising our strong focus on food safety standards and strict quality controls.

We have established stable relationships with two reputable Australian dairy product manufacturers that each has a long and established history of dairy production in Australia: Tatura (a company with more than 100 years of history in the Australian dairy industry) and Murray Goulburn (one of the leading participants in the Australian dairy industry that processes over 35% of Australian milk supply into quality products which are sold in both domestic and export markets). In accordance with our supply agreement with Tatura, Tatura is committed to providing us with high quality milk powder according to the requirements of our production plans. The milk powder produced by Tatura that we procure are either produced in accordance with formulations produced by us or in accordance with formulations jointly developed by Tatura and us. Under the supply agreement, we have an exclusive right to distribute milk formula products using these formulations under the Tatura brand in the PRC. We believe that our close relationship with Tatura has ensured, and will continue to ensure that, we have access to a stable supply of high quality milk powder. We also believe that our relationship with Tatura strengthens our brand recognition with consumers for high-priced and premium-priced paediatric nutrition products in the PRC.

#### *Efficient selling and distribution model*

We believe we have developed an efficient business model for marketing, distribution and customer services. We believe this business model helps us to maintain and grow our market share in the paediatric milk formula market in the PRC. As part of our business model, we have appointed distributors throughout the PRC who have rights to distribute our products in their designated cities, regions and/or provinces through three main sales channels: department stores or supermarkets, babies and parenting specialty stores and sales through promotions at paediatric nutrition education seminars. We believe that segregating our distribution into distribution sales channels reduces internal competition among distributors and thereby enhances efficiency and profitability of our business.

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Each of our distributors signs a standard distribution agreement with us before joining our distribution network. Under the terms of these agreements, the distributors are required to implement standard distribution methods and strategies throughout the PRC. We believe that these standard distribution agreements allow us to maintain control over our distributors’ marketing activities throughout the PRC.

Our distribution agreements generally require our distributors to pay us prior to receiving our products. We believe that this policy increases our distributors’ incentive to distribute our products on a timely basis and helps to minimise credit risk. Further details of the standard distribution agreement are set out in the section headed “Business — Sales and Distribution” in this document.

To complement our distributors’ marketing efforts, we also advertise our products and organise various marketing activities at both national and regional levels to attract greater consumer interest and to strengthen our brand recognition. Further details of our marketing activities are set out in the section headed “Business — Branding and Marketing” in this document.

We have established a customer service centre in Hunan province to deal with all enquiries and complaints made by consumers in the PRC. A toll free call service centre has been set up to allow consumers to contact us directly with any enquiries about our products. In addition, we can obtain timely market information and feedback on consumer preferences from the toll free call service centre as well as other telephone surveys conducted by our marketing department. Furthermore, the distributors are required to have a designated customer service contact for their respective distribution areas for handling customer enquiries and complaints. Together, these customer services enable us to reach our consumers at both a local and national level.

### *Experienced and capable management team*

Our senior management is experienced in the paediatric nutrition products business, and is dedicated to the research and development of milk formulas. We believe our senior management team possesses the requisite leadership, vision and in-depth industry knowledge to anticipate and capture market opportunities in the high-priced and premium-priced paediatric nutrition products market and to direct our research and development efforts in paediatric nutrition products.

Our senior management team is led by Mr Wu, Mr Yan and Mr Chen. Mr Wu and Mr Yan each has more than 20 years of experience in corporate management attained not only from their experience in our Group but also from their previous corporate management roles in other business operations. Mr Chen has more than 25 years of experience in dairy production in the PRC through his previous employment at two other companies, namely Hunan Nanshan Dairy Farm\* (湖南省南山牧場) and Hunan Ava Holding Co Ltd\* (湖南亞華種業股份有限公司), a company established in the PRC whose shares are listed on the Shenzhen Stock Exchange. From his employment with these two companies, Mr Chen has obtained extensive experience and knowledge of the latest technological advancements in dairy production. With the combined talents and experience of Mr Wu, Mr Yan, Mr Chen and other senior management, we believe that our management team possesses the leadership and vision required to anticipate changes in consumer tastes, develop new paediatric nutrition products and to drive our future growth in the paediatric nutrition products market. We continue to strengthen our management team by offering attractive remuneration packages (which include granting share options) and internal promotion opportunities, as well as external recruitment of high quality and well experienced personnel.

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### *Innovative business strategies and Australian sourced products*

Since our establishment in September 2003, we have sourced our milk powder from Australia and applied innovative business strategies to develop a business model which is different from other paediatric nutrition products manufacturers in the PRC. In 2005, we began cooperating with Australian suppliers to produce paediatric milk formulas. Our Allnutria Series in can form is imported to the PRC from Australia for direct resale.

We also focus on the distribution of our products through retail outlets of our distributors, such as department stores, supermarkets and babies and parenting specialty stores. We have appointed an agent to distribute our products online via a website operated by an independent online shopping service provider. We believe all of these business strategies differentiate us from other paediatric nutrition products manufacturers in the PRC and thereby enhance our growth and development.

### *Our products suit the target consumers in the high-priced and premium-priced paediatric nutrition products market in the PRC*

We expect that the demand for high-priced and premium-priced paediatric nutrition products in the PRC will grow in the coming years. This is due to several factors, including a stable birth rate in the PRC, economic development and improvement of living standards leading to an increase in purchasing power. Furthermore, we believe that parents in the PRC are increasingly focused on the quality rather than the price of paediatric nutrition products. For these reasons, we believe people are increasingly able and willing to purchase high-priced and premium-priced paediatric nutrition products.

We focus our research and development efforts in formulating high-priced and premium-priced paediatric nutrition products to capture the future growth in this market. For example, we jointly developed the Allnutria Series with Tatura to capture the premium-priced paediatric milk formula market in the PRC. Our Allnutria Series is one of the few paediatric milk formulas in the PRC to split the first stage of paediatric development (i.e. Stage 1 for new born infants up to 12 months of age) into two stages (i.e. Stage 1 for new born infants up to 100 days and Stage 2 for infants aged from 100 days to 180 days). This extra breakdown of the traditional Stage 1 classification and corresponding specialised formulations for the two stages are believed to further enhance the infant’s neurological and biological development. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. 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. Our Allnutria Series has proven to be a great success and has contributed to a large proportion of the sales revenue of our Group. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the sales revenue from Allnutria Series products amounted to RMB2.9 million, RMB36.5 million, RMB161.0 million and RMB143.8 million respectively, representing 3.2%, 19.5%, 39.8% and 44.8% of the total revenue of our Group during the respective periods.

As part of our research and development efforts, we will be launching a new product range of organic paediatric nutrition products to the PRC market in late September 2009. We believe this new organic paediatric nutrition products series will enable us to gain greater market share in the PRC paediatric nutrition products market.

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### *Maintaining stringent quality controls*

We place a strong emphasis on the quality of our products and impose stringent quality controls over our entire operations, including sourcing, production, packaging and inventory storage. We understand that our Australian suppliers have obtained HACCP and ISO 9000 certifications for their manufacturing processes, which recognise that their production processes satisfy domestic and international food safety standards. All of our imported milk powder must also pass quarantine inspections at both the Australian and the PRC borders before reaching our plant for production and processing. Within our plant, we implement a stringent quality control system that closely monitors the quality of our products at specific inspection points, including the initial inspection of incoming milk powder, maintenance of the plant environment to ensure high sanitary conditions, monitoring our production process to detect any harmful contaminants, conducting sample inspections of all final products and ensuring inventory storage areas are maintained at suitable conditions to prevent contamination and damage. Further details of our quality controls are set out in the section headed “Business — Quality Control” in this document.

In addition to certifications issued by the quarantine and inspection authorities in Australia and the PRC, we have obtained HACCP and ISO 9000 certifications for our production process. Our quality control team is dedicated to providing a comprehensive quality control system which is aimed at ensuring our products are maintained at high quality standards.

### **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*

We have established stable relationships with our two Australian milk powder suppliers, namely Tatura and Murray Goulburn. We intend to continue to focus on reinforcing our relationships with Tatura and Murray Goulburn as we believe the two suppliers will be able to provide us with additional milk powder supplies to meet the increasing demands for our products.

We intend to explore other forms of cooperation with our existing suppliers, such as joint research and development projects, to further strengthen our ties and to ensure stable and sufficient milk powder supplies. We are also actively seeking for additional quality suppliers of paediatric nutrition products. We are currently negotiating with other overseas suppliers to develop a new series of specialty paediatric milk formula and other paediatric nutrition products. We believe that a greater variety of suppliers will enable us to diversify our risk profile and strengthen our ability to secure stable supplies of milk powder. Furthermore, our search for an increased number of suppliers will provide us with more avenues to explore different kinds of cooperation and joint development opportunities for different kinds of paediatric nutrition products.

#### *Increasing our competitiveness and expanding our product range in the high-priced and premium-priced paediatric milk formula products market segments*

Our business is focused on the high-priced and premium-priced paediatric milk formula products market segments, as we believe such market segments are able to generate a higher profit margin when compared with the low-priced or mid-priced market segments in the paediatric milk formula products

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industry. We believe the high-priced and premium-priced paediatric milk formula products market segments will grow in the coming years and we will continue to concentrate on these segments to further enhance our brand recognition as a supplier of high quality paediatric milk formula products.

We currently cooperate with one of our major suppliers, Tatura, in the development of a series of organic paediatric nutrition products, including organic paediatric milk formula, supplemental fruit and rice cereal which are suitable for infants and children of different ages. We expect to introduce some products from the new organic paediatric nutrition products series to the PRC market in late September 2009. We believe the new organic products series will enable us to capture a broader spectrum of the PRC market which is not currently covered by our existing products. We will continue to cooperate with other international paediatric nutrition manufacturers so as to broaden our product range and to develop new paediatric nutrition products.

We also intend to increase our emphasis on specialty paediatric milk formula products which have not previously contributed a significant amount to our total revenue during the Track Record Period. We intend to cooperate with Tatura and other suppliers in the development of improved specialty paediatric milk formulas for premature or low birth weight infants, children, expectant or nursing mothers and infants and toddlers with allergies to particular ingredients such as protein or dairy products.

We believe that these new products will enable us to meet changing market demands. Furthermore, we believe that our business growth may be facilitated by the introduction of new products series under our existing brand name or sub-brand name in order to increase our market penetration with a broader range of paediatric nutrition products.

### *Reinforcing and expanding our distribution network in the PRC and other regions*

We will continue to focus on reinforcing and expanding our distribution network in the PRC. Our sales and marketing efforts are currently targeted towards the major provinces, autonomous regions and municipalities in the PRC. The PRC will continue to be our key market and we will endeavour to sustain and enlarge our market position by increasing the number of distributors and reinforcing our sales through different sales channels, with a particular focus on babies and parenting specialty stores. We plan to appoint more distributors (for example, in Hong Kong and the rural regions of the PRC) to further expand our existing distribution network by increasing the number of retail outlets such as supermarkets and department stores in which our products are available for sale. We believe this will enable us to further penetrate the paediatric milk formula market in the PRC. In order to complement our plan to expand our distribution network, we intend to increase our advertising and promotional efforts to enhance our brand image and recognition. We intend to increase our spending on media advertisements, such as advertisements on the CCTV network and other entertainment or shopping television channels, and organising sales and promotional activities. We also intend to increase the frequency and/or reach of our promotional activities and seminars to provide parents with information on paediatric nutrition and our products. We also plan to establish local customer service centres and increase the headcount of marketing staff in regions where we have experienced strong sales to improve our customer service in these regions. We will continue to explore opportunities in the areas of the PRC not currently covered by our distribution network in which we believe our products can be competitive, with the ultimate goal of strengthening consumer recognition of our brand as representing high quality and reliable paediatric nutrition products throughout the PRC. We believe these plans will strengthen our brand recognition and increase our sales which will further enlarge our paediatric milk formula market share in the PRC.

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We intend to expand the geographical coverage of our distribution network by introducing our products to other markets including Hong Kong. We may also expand our distribution network in the longer term to cover other regions in south-east Asia.

### *Enhancing our focus and efforts on research and development*

With our drive to bring our products closer to the attributes of mother’s breast milk, we plan to increase our investment in research and development by building a stronger and larger team and by enhancing our technological capability. We believe this will increase our ability to develop and produce a wider range of paediatric milk formula products with higher quality. Increasing our research and development efforts will also increase our ability to develop a wider range of organic paediatric nutrition products described above.

In order to execute this strategy, we plan to upgrade our existing research and development facilities and capabilities by recruiting more qualified research personnel and professionals and by purchasing newer and more advanced laboratory equipment to upgrade and enhance our technological capability.

We are currently in cooperation with Tatura to conduct research into the attributes of mother’s breast milk in order to develop a new product series of organic paediatric milk formula and other paediatric nutrition products closer to mother’s breast milk components using only organic ingredients. We are also in cooperation with infant nutrition and medical institutions to conduct testing on new products. We are also negotiating with other suppliers to jointly conduct research and development in new product lines of specialty paediatric milk formula and other paediatric nutrition products. However, as at the Latest Practicable Date, we have not entered into any written agreements with these parties. We propose to engage private and public research organisations to conduct clinical trials on our existing product series, as well as on the newly developed organic paediatric nutrition products and make applications for certificates and licences for the same.

### *Improving our production facilities and expanding our storage capacity*

In order to meet the growing market demand for our paediatric milk formula products and to cater for the introduction of our new paediatric milk formula and other paediatric nutrition products, we intend to improve our production facilities. In order to enhance the efficiency of our production facilities, we intend to establish two new production lines and replace some of our existing equipment with more efficient models and, thereby reducing our production costs and increasing our flexibility with respect to production levels. We also intend to construct a new storage warehouse of approximately 15,000 square metres adjacent to our existing production plant to cater for our business expansion. As we expect market demand for our paediatric milk formula products to increase, we believe our existing storage capacity will be insufficient to meet future demands for our products. Moreover, the development of our new products will require our investment into more advanced technology to better control the temperature and humidity condition for the storage of these new products.

However, we believe the existing land situated at No.2, Wangwang East Road, West River, Changsha, Hunan province, China has sufficient space to cater for our production and storage expansion in the foreseeable future and accordingly, whilst we will need to invest in building premises for our new warehouse and fitting and equipping such new warehouse, we do not currently have any plans to acquire any new parcel of land for implementing this expansion strategy.



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### *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*

We intend to explore investment opportunities in order to secure our milk powder supplies by way of upward integration with potential milk powder suppliers in the PRC, Australia or elsewhere. As we continue to expand our business operations, our demand for milk powder supplies will increase. By investing in cattle farms or cooperating with international organisations that produce milk powder, we will be able to strengthen our relationship with suppliers by equity investment in order to increase or better control the stability and sufficiency of the supply of milk powder. Through cooperation with international organisations, we will also have better control over the quality of our products since we will be able to have control of the entire production process, from sourcing our milk powder, all the way through to distribution. Furthermore, such upward integration will enable us to achieve synergy and streamline our production costs.

Mr Chen and certain members of our senior management have experience in operating cattle farms. We believe that these management members, together with suitable management and technical personnel that we plan to recruit for implementing this strategy, are able to identify appropriate investment or acquisition opportunities, manage the equity investment in the upstream business, to derive the desired returns and benefits to our Group and increase our competitive advantages over our competitors.

As at the Latest Practicable Date, we have not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. However, we have identified an investment opportunity and are currently in discussions with an organisation in Australia about our potential investment in its milk powder production operations. We will continue to pursue this particular opportunity and seek other similar opportunities.

We currently do not have any plans to acquire or invest in milk powder suppliers in the PRC or in foreign countries other than Australia. However, if our Australian suppliers are unable to meet our requirements or if any incident occurs which causes a material deterioration in the quality of milk powder supplied by our Australian dairy producers, or if there are any changes in the PRC policies which require paediatric milk formula producers to have their own milk powder supplies in the PRC, we will consider acquiring or investing in milk powder suppliers in foreign countries other than Australia or in the PRC (as the case may be). In addition, if we plan to launch products under a non-Australian sub-brand, we may also consider sourcing milk powder from another foreign country other than Australia.

## PRODUCTS

### *Overview*

We are primarily engaged in the production, distribution and sales of high-priced and premium-priced paediatric nutrition products in the PRC market, with paediatric milk formula as our major products. We have a long term supply agreement with Tatura to obtain milk powder from Tatura, one of our Australian suppliers. Our suppliers produce and manufacture the paediatric milk formula according to our specifications and package the milk powder in either bulk-bags or finished form (in can form) before exporting to designated PRC ports. Milk powder packaged in bulk-bags will enter the production process at our plant in Changsha, Hunan province, the PRC, before they are sold to our distributors. Further details of our production process are set out in the section headed “Business — Production Process and Facilities” in this document.

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Our products can be broadly classified into two categories:

- (i) paediatric milk formula; and
- (ii) other paediatric nutrition products, such as rice cereals with different added ingredients for infants/toddlers.

Our main product line, paediatric milk formula, which comprises infant formula, is intended to be used as a mother’s breast milk substitute for healthy, full-term infants with ordinary nutritional needs, both for use as the infant’s source of nutrition and as a supplement to breastfeeding. Our paediatric milk formula also comprises toddler formula which is intended to supplement the toddler’s diet during the ages of one to three years.

In addition, we are in the process of developing other paediatric nutritional supplements such as organic paediatric milk formula, rice cereals and other organic nutritional supplements, which we plan to launch in China in late September 2009.

### *Paediatric milk formula*

Our three different product series, which have different specifications and characteristics, are designed to target consumers of high-priced and premium-priced products:

- A-choice Series;
- Best-choice Series; and
- Allnutria Series.

To cater for the changing nutritional needs of growing infants/toddlers, we have different stages of paediatric milk formula within each of these product series. All of our paediatric milk formulas do not contain added flavouring ingredients or sucrose.

### **A-choice Series (A選系列)**



The A-choice Series is divided into three stages for infants/toddlers of different ages: Stage 1 is suitable for new born infants up to 12 months of age; Stage 2 is suitable for infants/toddlers aged from six months to 18 months; and Stage 3 is suitable for toddlers aged from 12 months to three years.

The formula for the A-choice Series products contains a combination of probiotics which enhances the development of healthy bacteria and encourages nutritional absorption as well as ingredients which are known to assist the infant/toddler’s neurological development. The products in the A-choice Series are

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available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The A-choice Series products are targeted towards the high-priced paediatric milk formula market.

### **Best-choice Series (優選系列)**



The Best-choice Series is divided into three stages for infants/toddlers of different ages: Stage 1 is suitable for new born infants up to 12 months of age; Stage 2 is suitable for infants/toddlers aged from six months to 18 months; and Stage 3 is suitable for toddlers aged from 12 months to three years.

The Best-choice Series formula includes ingredients which are known to strengthen the infant/toddler's immune system and assists in the infant/toddler's brain development. The products in the Best-choice Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The Best-choice Series products are targeted towards the high-priced paediatric milk formula market.

### **Allnutria Series (能力多系列)**



The Allnutria Series, which was jointly developed by Tatura and us, is divided into four stages for infants/toddlers of different ages: Stage 1 is suitable for new born infants up to 100 days of age; Stage 2 is suitable for infants aged from 100 days to 180 days; Stage 3 is suitable for infants aged from 180 days to 360 days; and Stage 4 is suitable for toddlers aged from 360 days and upwards.

Compared with the A-choice Series and Best-choice Series, the formula for the Allnutria Series includes additional ingredients which are found in mother's breast milk that are known to strengthen the infant/toddler's immune system as well as ingredients which are known to enhance the infant/toddler's intestinal system. Compared to the A-choice Series and Best-choice Series, the Allnutria Series is most similar to natural mother's breast milk. The products in the Allnutria Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The Allnutria Series products are targeted towards the premium-priced paediatric milk formula market. The

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Allnutria Series products, produced by Tatura in Australia according to the paediatric milk formulas jointly developed by Tatura and us are imported in either bulk-bag form (which will undergo our production process to be packaged in foil bags for retail sale) or in can form which we then on-sell to consumers without undertaking any further processing in our production plant.

We also have different specialty formulas which are designed to target consumers with special needs including:

- premature or low birth-weight infants; and
- expectant or nursing mothers.

Since the immune system of premature or low birth-weight infants may not be fully developed, such infants are more susceptible to infections, diseases and viruses. We have adjusted our formulas to include certain ingredients which are intended to satisfy the additional nutritional requirements of premature or low birth-weight infants.

Our specialty formula for expectant or nursing mothers are intended to ensure a sufficient supply of nutrition for the developing foetus or breastfed infants.

We also sell rice cereals with different added ingredients as supplemental meals for infants.

The table below sets forth some details relating to our paediatric milk formula<sup>(1)</sup>:

	<b>A-choice Series</b> (A選系列)	<b>Best-choice Series</b> (優選系列)	<b>Allnutria Series</b> (能力多系列)
Approximate retail price/price range	Bag form: RMB68 Can form: RMB178	Bag form: RMB76–79 Can form: RMB197–199	Bag form: RMB118 Can form: RMB298
Main distinguishing ingredients	Five types of nucleotides (核苷酸) ARA  DHA  Galacto lactulose (低聚果糖)  Galacto oligosaccharides (低聚半乳糖) Alpha-whey protein (α-乳清蛋白)	Lactoferrin (乳鐵蛋白)  Immunoglobulin G (免疫球蛋白G) Phosphatidyl ethanol amine (磷脂) ARA  DHA  Alpha-whey protein (α-乳清蛋白)	Immunoglobulin A (免疫球蛋白A) Phosphatidyl ethanol amine (磷脂) Phosphatidyl choline (磷脂酰膽鹼) Phosphatidyl serine (磷脂酰絲氨酸) Sphingomyelin (神經鞘磷脂) Alpha-whey protein (α-乳清蛋白) Galacto lactulose (低聚果糖)
Volume	Bag form: 400 g Can form: 800 g	Bag form: 400 g Can form: 800 g	Bag form: 400 g Can form: 800 g
Shelf life	Bag form: 18 months Can form: 2 years	Bag form: 18 months Can form: 2 years	Bag form: 18 months Can form: 2 years

*Note:*

- (1) The standard ingredients in the A-choice Series, Best-choice Series and Allnutria Series include protein, carbohydrate, various vitamins and taurine.

The above table only sets forth the price range obtained through our market research as at the Latest Practicable Date.

## BUSINESS

The table below sets forth a breakdown of our revenue by product series for the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009. We note that the revenue derived from sales of our specialty formula products did not contribute a significant amount to our Group during the Track Record Period.

	For the financial year ended 31 December						For the six months ended 30 June 2009	
	2006		2007		2008		Revenue (RMB'000)	% of total revenue
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue		
A-choice Series . . . . .	42,934	45.8	38,187	20.5	59,336	14.6	33,833	10.5
Best-choice Series . . . . .	44,728	47.7	106,809	57.3	173,920	42.9	137,088	42.7
Allnutria Series . . . . .	2,942	3.2	36,531	19.5	161,042	39.8	143,847	44.8
Other paediatric nutrition products <sup>(1)</sup>	3,112	3.3	4,999	2.7	10,868	2.7	6,204	2.0
Total . . . . .	<u>93,716</u>	<u>100</u>	<u>186,526</u>	<u>100</u>	<u>405,166</u>	<u>100</u>	<u>320,972</u>	<u>100</u>

### SUPPLY OF MILK POWDER AND OTHER RAW MATERIALS

#### *Milk powder*

We have established stable relationships with our Australian suppliers, Tatura and Murray Goulburn.

We believe that our established relationships with Tatura and Murray Goulburn enable us to obtain a sufficient and stable supply of high quality milk powder to meet the increasing demands for our products.

We procure our supplies of milk powder produced by Tatura and Murray Goulburn through the PRC trading companies which are Independent Third Parties. The supply from Tatura is procured according to the long term supply agreement we entered into with Tatura. We believe that the PRC trading companies are more familiar with the relevant import and customs clearance procedures than us and thus our Directors believe that it is more efficient to appoint them to conduct these 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 by the relevant PRC trading companies. We paid aggregate fees of RMB80,000, RMB738,000 and nil to the PRC trading companies in 2006, 2007 and 2008, respectively and aggregate fees of RMB145,000 during the six months ended 30 June 2009. For the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the volume of milk powder we procured through the PRC trading companies represented approximately 100%, 86.8%, 12.0% and 21.8% of the total volume of milk powder procured by us respectively.

*Note:*

(1) Other paediatric nutrition products comprise rice cereals.

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## BUSINESS

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In 2007, 2008 and through to May 2009, we also procured milk powder from MoveUp which in turn procured milk powder produced by Tatura and Murray Goulburn through the PRC trading companies. We have paid MoveUp a markup 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 approximately 26% to 28% of the total value of goods sold to us by MoveUp during 2007 and 2008 as well as approximately 6% in the first six months of 2009. Payments to MoveUp were settled by bank transfer and the credit period granted by MoveUp to us was normally up to 30 days. Prior to the termination of the Equity Purchase Agreement and the Equity Purchase Deed, it was anticipated that upon completion of the transactions contemplated by the Equity Purchase Agreement and the Equity Purchase Deed, MoveUp would become part of the same business group as Ausnutria Hunan. Accordingly, Mr Chen (our chief executive officer) determined that, in light of certain tax benefits available to MoveUp, it would be beneficial to the anticipated group if the procurement of milk powder was made through MoveUp, notwithstanding the higher markup charged by MoveUp. The amounts of the markup paid to MoveUp during the relevant periods were determined by reference to the potential amount of tax that MoveUp would incur and the potential amount of tax benefits to be enjoyed by MoveUp for the given period. We paid MoveUp RMB4,408,000 and RMB67,801,000 in 2007 and 2008, respectively, and RMB5,884,000 during the six months ended 30 June 2009. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the volume of milk powder we procured through MoveUp (which in turn procured through the PRC trading companies) represented approximately nil, 13.2%, 88.0% and 78.2% of the total volume of milk powder procured by us respectively. During 2008, we only placed procurement orders with MoveUp and did not place any new order with the PRC trading companies, and milk powder procured through the PRC trading companies in 2008 was ordered in 2007. Since May 2009, we have not had any business transactions with MoveUp. For further information in relation to MoveUp and its relationship with us, please refer to the sections headed “History and Corporate Structure” and “Financial Information” in this document.

The PRC trading companies and MoveUp are not involved in any processing of the milk powder or production of the paediatric milk formula before despatching the milk powder to us. When the PRC trading companies import milk powder from Tatura and Murray Goulburn, documents evidencing the sale and purchase relationships between Ausnutria Hunan and the PRC trading companies must be included as part of the documents submitted to the PRC customs department for compliance with the customs clearance requirements. In respect of the measures taken by us to ensure the source and quality of the milk powder supplies procured from the PRC trading companies, please refer to the information in the sections headed “Business — Quality Control” and “Business — Production Process and Facilities” in this document. The milk powder imported from Tatura and Murray Goulburn must be accompanied by a certificate of origin to prove that the milk powder is imported from Australia.

During the Track Record Period, we purchased milk powder that was produced by Tatura and Murray Goulburn. The milk powder producers (i.e. Tatura and Murray Goulburn or their suppliers) are primarily responsible for the inclusion of additives in the milk powder which are conducted in their respective production plants in Australia. Such milk powder had complied with all the relevant safety and hygiene regulations both in Australia and the PRC. For further information, please refer to the section headed “Business — Quality Control” in this document.

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the cost of milk powder comprises 84.8%, 90.1%, 92.9% and 91.6% of our cost of sales respectively.

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## BUSINESS

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### *Our supply relationship with Tatura*

We entered into a five-year supply agreement with Tatura in August 2009, which was effective in September 2009. Under this long term supply agreement with Tatura, Tatura is committed to providing us with a stable supply of high quality milk powder according to our production plans, subject to our meeting of an annual minimum purchase amount from Tatura.

If we fail to meet the minimum purchase amount, it may constitute a material breach of the terms of our supply agreement with Tatura, and Tatura may serve a written notice on us regarding the breach. If we fail to rectify the situation within 20 business days after receiving such written notice, Tatura is entitled to terminate the supply agreement with us according to its terms. We generally pay for our placement orders with the respective PRC trading companies by telegraphic transfer.

The supply agreement may also be terminated:

- (i) by mutual written agreement between Tatura and us;
- (ii) by either party serving not less than 15 months’ prior written notice to the other party;
- (iii) by written notice served from one party to the other party upon the occurrence of certain events of default, namely, a material breach of the terms of the supply agreement which has not been rectified within 20 business days after written notice thereof, insolvency of a party, and cessation of business of a party;
- (iv) if Tatura fails to provide the specified milk powder ordered by us within 90 days after Tatura serves notice to us stating that it cannot meet our purchase orders for milk powder; or
- (v) the occurrence of certain force majeure events for a period of at least six months.

The PRC trading companies are responsible for the import and customs clearance procedures of the paediatric milk formula imported whereas the suppliers are liable for the quality, food safety, product claims and compliance with the imports and customs regulations.

We understand that Tatura is supplied by approximately 330 dairy farms and processes approximately 450 million litres of milk each year. Approximately 70,000 tons of manufactured dairy products, including milk powder products, are produced each year by Tatura, with more than 60% of its products exported overseas. We believe the scale of Tatura’s operations and our mutual efforts to strengthen our business relationship can help to ensure that we are able to obtain a stable supply of milk powder produced by Tatura.

Tatura is responsible for producing milk powder according to the formulations, specifications, quality standards and purchase orders provided by us. We submit a six-month rolling forecast for each of our product’s purchasing requirements to Tatura at least ten days before the end of each month. The first three months of the rolling forecast are treated as lock orders. The lock orders for each month are deemed to be our purchase orders placed with Tatura. Tatura is required to confirm the acceptance of each purchase order placed by us by written notice and deliver the finished products to us within 60 days from the date of the manufacturing of the products. We are not obliged to order the exact amounts as stated in the last three months of the rolling forecast, as this is dependant on our inventory level and sales at the particular time.

Tatura delivers the finished products to our designated ports in the PRC and is required to ensure the shipping quantities of the finished products and delivery date are the same as those stated in the purchase order. Finished products that do not comply with the specifications stated in the purchase order or fail to pass the quality control tests will be returned to Tatura.

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## BUSINESS

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The prices for different products are fixed in the supply agreement for each 12-month period subject to review. Variable factors would be taken into consideration when determining the prices of the finished products. The supply agreement will be automatically renewed after its expiry unless either party serves a three months’ prior written notice to the other party.

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, approximately 6.1%, 39.1%, 76.7% and 100% of the milk powder that we purchased were produced by Tatura respectively.

### *Our supply relationship with Murray Goulburn*

We also purchase milk powder produced by Murray Goulburn, a major Australian manufacturer of dairy products. We understand that Murray Goulburn intakes more than three billion litres of milk each year, representing approximately one-third of the Australian milk supply. As one of the largest Australian milk processors and exporters of processed dairy products, we believe that Murray Goulburn will be able to provide us with a stable supply of milk powder. We have cooperated with Murray Goulburn since the commencement of our operations. We obtain supplies of milk powder produced by Murray Goulburn by placing supply orders on an “as needs” basis. Once we have reached an annual minimum purchase amount with Tatura and Tatura is unable to completely satisfy our additional supply requirements, we may consider obtaining any further supplies of the A-choice Series and Best-choice Series milk powder from Murray Goulburn based on commercial considerations (including but not limited to the prices offered by Murray Goulburn) from time to time. When the milk powder arrives in the PRC, we generally pay for our placement orders with the respective PRC trading companies by telegraphic transfer.

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, approximately 93.9%, 60.9%, 23.3% and nil of the milk powder that we purchased were produced by Murray Goulburn respectively.

During the Track Record Period, we gradually shifted sourcing our milk powder from Murray Goulburn to Tatura as we have entered into a long term supply agreement with Tatura under which Tatura is responsible for supplying milk powder for the production of our paediatric milk formula as well as our Allnutria Series. This long term supply agreement with Tatura seeks to ensure that we have a stable and sufficient supply of milk powder. Moreover, we have been informed by Tatura that it has sufficient production capacity to meet our present and future production plans. We have not entered into any long term supply agreement with Murray Goulburn. We may place purchase orders with Murray Goulburn from time to time if we require extra supplies of milk powder, provided that Murray Goulburn has the production capacity to supply the required milk powder.

During the Track Record Period, we did not experience any material shortage or delay in the supply of milk powder from Tatura or Murray Goulburn. We expect to continue to source our milk powder supplies from Australia, as we have no immediate need to source our milk powder supplies from the PRC or other countries.



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## BUSINESS

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### *Other raw materials*

Other raw materials required in our production process are primarily packaging materials (such as aluminium foil bags, aluminium cans, cardboard boxes, plastic spoons and plastic caps). All raw materials including packaging materials delivered by suppliers to our plant are subject to inspection before use. Details of our quality control systems are set out in the section headed “Business — Quality Control” in this document.

Our packaging material suppliers provide a 45-day credit period to us. Our policy is to maintain a supply of packaging materials for up to 60 days. We choose our packaging material suppliers based on quality, price, production capacity, contract performance record, credit terms and customer services. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our costs of packaging materials were approximately RMB5.4 million, RMB8.4 million, RMB13.2 million and RMB12.0 million respectively, amounting to approximately 11.1%, 7.8%, 5.1% and 6.5% of cost of sales respectively.

### *Suppliers*

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our purchase from our five largest suppliers accounted for 83.6%, 75.5%, 99.2% and 91.6% respectively of our total purchases. The PRC trading companies which imported Tatura and Murray Goulburn’s milk powder were amongst our five largest suppliers during the Track Record Period. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our purchase from our single largest supplier (being MoveUp for the year ended 31 December 2008 and the six months end 30 June 2009) accounted for 72.0%, 41.0%, 83.8% and 64.4% respectively of our total purchases. None of our Directors or our Shareholders, who, to the best knowledge of our Directors, owns more than 5% of our issued capital, has any interest in our five largest suppliers.

## PRODUCTION PROCESS AND FACILITIES

### *Production facilities and production capacity*

Our production process primarily involves the bacteria killing, purification and mixing processes carried out at our own plant located at No. 2, Wangwang East Road, West River, Changsha City, Hunan province, China. Our plant currently has three production lines, with an aggregate annual production capacity of approximately 15,000 tons of milk powder. Our PRC legal advisers advised that we have obtained the relevant building ownership certificate for our existing eight buildings. For any new buildings that we build on our land in the future, we will apply for the necessary building ownership certificate(s) as required under applicable PRC laws and regulations.

## BUSINESS

### *Production processing*

The milk powder which is imported in bulk-bag form will be further processed by us at our production plant. The milk powder imported in can form that are ready for retail sale will only be randomly tested and branded for the prevention of counterfeiting. The milk powder imported in can form increased from approximately 20% to 40% of the total amount of sales from 2007 to 2008. The table below sets forth a breakdown of the respective amount of sales of each series of our paediatric milk formula which are (i) imported directly in can form and ready for retail sale without undergoing our production process (ie. Allnutria Series (in cans)); (ii) imported in bulk-bag form which undergoes our production process to be produced in foil bags for retail sale; and (iii) imported in bulk-bag form which undergoes our production process to be produced in can form for retail sale, during the Track Record Period.

	<u>For the financial year ended 31 December</u>			<u>For the six months end</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>30 June</u>
	<u>Total amount of sales (RMB'000)</u>			
A-choice Series (in foil bags) . . . . .	26,056	27,375	40,514	19,499
A-choice Series (in cans) . . . . .	16,878	10,812	18,822	14,334
Best-choice Series (in foil bags) . . . . .	13,197	36,440	75,741	63,099
Best-choice Series (in cans) . . . . .	31,531	70,369	98,179	73,989
Allnutria Series (in foil bags) . . . . .	—	—	2,985	18,791
Allnutria Series (in cans) . . . . .	2,942	36,531	158,057	125,056

*Note:* All the A-choice Series and Best-choice Series milk powder are imported in bulk-bag form and undergoes our production process to be produced in foil bags and cans for retail sale. Our Allnutria Series milk powder are imported in either bulk-bag form (which will undergo our production process to be produced in foil bags for retail sale) or in can form (which are ready for retail sale without undergoing our production process).

One of the key focus of our research and development department is to conduct ongoing research into paediatric nutrition, including the constituents of mother’s breast milk, in order to improve our existing product series and to develop new products. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. 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. We also cooperate with international paediatric milk formula manufacturers for the research and development of paediatric milk formulas. For example, the Allnutria Series was jointly developed by Tatura and us in 2006. Such research and development activities are integral to our operations, and we consider such activities to be part of our production process of paediatric milk formula. We also conduct market surveys and research to ensure that we obtain the latest data on consumer preferences and market sentiment for paediatric milk formula products.

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## BUSINESS

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Once the milk powder has passed the CIQ inspection in the PRC and arrived at our plant, a random sample is taken for further inspection to ensure that it meets our quality standards. The milk powder then undergoes a bacteria killing procedure by way of processing the milk powder through a machine which emits ultraviolet rays to kill harmful bacteria in the milk powder. This process is essential to ensure the quality of our products. Milk powder is then filtered to remove impurities. After the bacteria killing and filtering processes, the milk powder undergoes a mixing procedure in which the milk powder is placed in a container and mixed at pre-determined velocities. Mixing at the correct velocities is essential to ensure that the quantity of ingredients contained in the milk powder is maintained at a consistent blend for each batch of products. The milk powder is then offloaded to our warehouse for packaging.

Our packaging materials also undergo an inspection and testing process, as well as a bacteria killing process to ensure there is no bacteria or other harmful substance which may contaminate the milk powder and that the packaging materials satisfy the storage and transportation requirements.

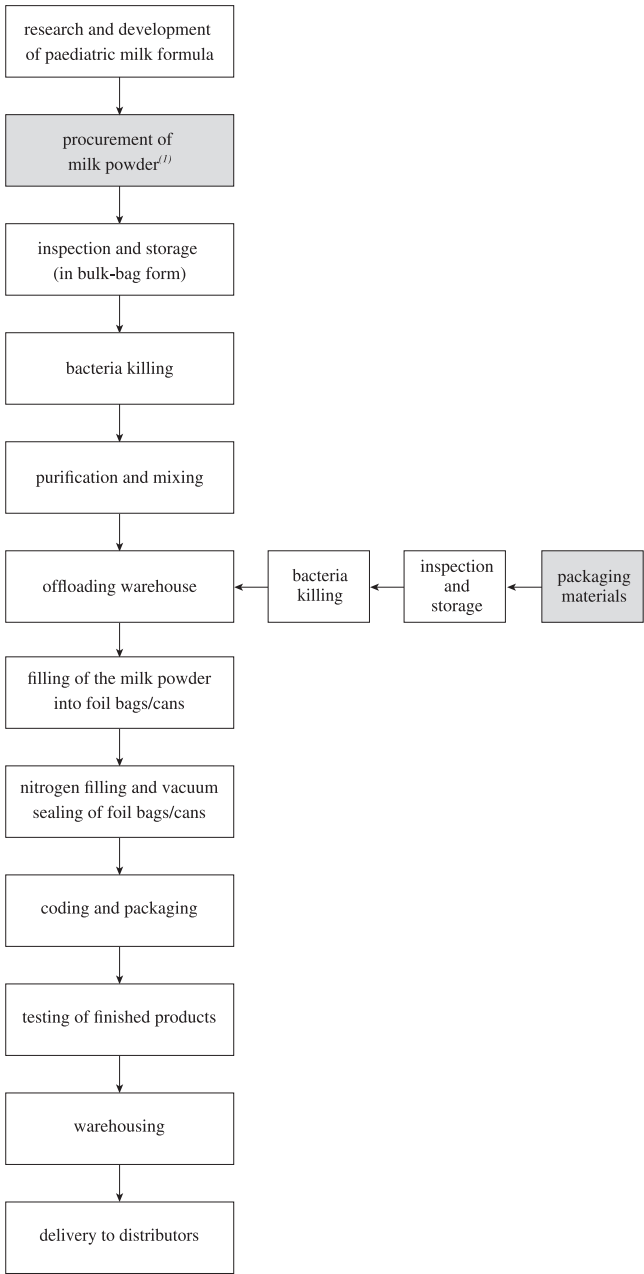
For the milk powder imported in bulk-bag form, the milk powder will be filled into foil bags or cans by automated machines to minimise the risk of contamination. Nitrogen is injected into the foil bags and cans before vacuum sealing to prevent oxidation and to lengthen the preservation period. The packaged foil bags and cans are coded with details of the production, expiry dates and unique bar codes, which will facilitate tracking of the products after distribution. Prior to delivery, our products will undergo a final inspection by sampling to ensure the quality of our products are satisfactory for consumption. Generally, the total production process takes approximately four hours to complete.

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## BUSINESS

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Our production process has been designed to comply with HACCP guidelines, which set out unsafe practices and preventive measures to enhance food safety by reducing or minimising physical, chemical, and biological hazards during the production process. Also, our plant has implemented stringent sanitation procedures to prevent our employees from contaminating the production area. Our products are packaged in vacuum which further minimises contamination. The diagram below illustrates the production process of our paediatric milk formula.



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*Note:*

(1) Only milk powder imported in bulk-bag form sourced from our suppliers will undergo the production process described above in our production plant.

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The table below sets forth the annual production capacity and average utilisation rate of our production lines for the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009.

Facilities	For the financial year ended 31 December						For the six months ended 30 June 2009		
	2006		2007		2008		Foil bag	Foil bag	Can line
	Foil bag line	Can line	Foil bag line	Can line	Foil bag line	Can line	line	line	Can line
	Foil bags	Cans	Foil bags	Cans	Foil bags	Cans	Foil bags	Foil bags	Cans
Facilities production capacity (per minute) . . . . .	40 bags	22 cans	50 bags	22 cans	50 bags	30 cans	50 bags	65 bags	30 cans
Product specification (grammes per bag/can) . . . .	400g	900g	400g	900g	400g	800g	400g	400g	800g
Total production capacity (tons) (per hour) <sup>(1)</sup> . . . . .	2.148		2.388		2.64		4.2		
Approximate annual production capacity (tons) <sup>(2)</sup> . . . . .	7,800		8,200		9,400		15,250		
Approximate actual production volume (tons) <sup>(3)</sup> . . . . .	1,349		2,013		3,162		2,258		
Utilisation rate (%) <sup>(4)</sup> . . . . .	17.29		24.55		33.63		29.62		

*Notes:*

- (1) The total production capacity per hour is calculated on the basis of facilities’ production capacity per minute multiplied by the amount of milk powder that can be processed and then further multiplied by 60 minutes.
- (2) Approximate annual production capacity is calculated on the basis of 15 hours per day, 242 days per year. Any time not included in calculating the annual production capacity covers time spent on, among other things, maintenance, sanitation and public holidays.
- (3) Approximate actual production volume does not include the Allnutria Series in can form as they are directly imported from Australia in can form that are ready for on-sale.
- (4) Utilisation rate is calculated based on approximate actual production volume divided by the approximate annual production capacity for each of the three financial years ended 31 December 2006, 2007 and 2008 while the utilisation rate for the six months ended 30 June 2009 is calculated based on approximate actual production volume divided by the approximate annual production capacity for the six months ended 30 June 2009 and multiplied by two.

The utilisation rate of our production line represents our average utilisation rate during a year. During the Track Record Period, our revenue has experienced an average annual growth of almost 100%. Our business growth is attributable to deeper market penetration within our PRC distribution network.

The utilisation rate of our production line was 17.29% in 2006, which increased to 24.55% and 33.63% in 2007 and 2008, respectively. Approximate actual production volume increased by 49.2% and 57.1% in 2007 and 2008, respectively. The utilisation rate during the Track Record Period, which increased approximate annual production capacity by 5.1% and 4.6% in 2007 and 2008 respectively, supports our need to invest in building new production facilities and to upgrade our production facilities. The relatively low utilisation rate is due to our use of 15 hours per working day (being a double shift calculation of a 7.5 hours working day) and 242 days per year (which is calculated by using 22 working days per month for an eleven month year, since one month will be spent on repair and maintenance) in calculating our utilisation rate. However, our Directors consider that the additional capacity is reasonable in view of the anticipated growth of our business and introduction of new product series which is expected to further utilise our production facilities. Furthermore, our sales revenue during the Track Record Period has increased by approximately 100% during each of 2006, 2007 and 2008.

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## BUSINESS

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The substantially greater growth in sales revenue relative to the increase in approximate annual production capacity during this period reflected the effect of our Allnutria Series products which we introduced in late 2006. We import the milk powder for producing our Allnutria Series products in bulk-bag form (which will undergo our production process for production into foil bags for retail sale) or the Allnutria Series products in can form (which are ready for retail sale without undergoing our production process). Most of our Allnutria Series is imported in can form. The Allnutria Series products are our highest priced products and, accordingly, has had the effect of substantially increasing our sales revenue in 2007 and 2008 without a corresponding increase in the approximate annual production volume.

### *Repair and Maintenance*

We have implemented a repair and maintenance system for our equipment and facilities in order to run our production facilities efficiently. We have not experienced any material or prolonged stoppages of our facilities due to any equipment or facility failure during the Track Record Period. In order to sustain our production capacity and to prolong the useful life of our equipment, we perform routine equipment maintenance.

### INVENTORY MANAGEMENT

We monitor and control our inventory levels of our raw materials, work-in-progress and finished products to optimise our operations. Each type of inventory is stored in separate areas to avoid cross contamination, and to facilitate classification and stocktaking. To maintain optimal storage conditions, we ensure that our storage areas are well ventilated and our milk powder is appropriately distanced from the walls of the storage room to avoid exposure to humidity.

We have inventory management procedures that monitor the planning and allocation of storage space and stock of our inventory to meet the delivery requirements and schedules. We closely supervise our production and have a policy to maintain suitable inventory levels in our plant to store at least 30 days’ supply of milk powder to satisfy demands of our distributors.

All our products are sold to our distributors on a first-in-first-out basis. The details of our products, including names of the suppliers, the date of entry and the preservation period, are recorded in our inventory management system, which enables us to write off any obsolete inventory. We also dispose any damaged or defective products which are returned by distributors.

### AWARDS, CERTIFICATES, ACCREDITATIONS, PERMITS AND REGISTRATIONS

#### *Awards, Certificates and Accreditations*


As at the Latest Practicable Date, we have been granted the following awards, certificates and accreditations:

<u>Certificate and Permit/Registration</u>	<u>Awarding/Issuing Organisation</u>	<u>Date of Issue</u>	<u>Term of Validation</u>
Certificate for the Implementation and Maintenance of Management System in Compliance with ISO9001:2000 Standard for Production of Infant Formula with the Method of Dry Mixing	China Quality Certification Centre (中國質量認證中心)	1 February 2009	31 January 2012

## BUSINESS

<u>Certificate and Permit/Registration</u>	<u>Awarding/Issuing Organisation</u>	<u>Date of Issue</u>	<u>Term of Validation</u>
Certificate for Compliance with Quality Management System — ISO9001:2000 and GB/T 19001-2000 Standards for Production of Infant Formula with the Method of Dry Mixing	China Quality Certification Centre (中國質量認證中心)	1 February 2009	31 January 2012
HACCP (Hazard Analysis Critical Control Points System) Certificate for Compliance with the Application of CAC/RCP-1969 Rev. 4 (2003) Guidelines for Production of Infant Formula with the Method of Dry Mixing	China Quality Certification Centre (中國質量認證中心)	23 January 2009	22 January 2012
Certificate of Honour in Satisfaction of the Requirements Under Health Food GMP Regulations (GB17405-1998) as a Health Food GMP Qualified Enterprise (榮譽證書) (已經達到保健食品GMP規範(GB17405-1998)的要求，為保健食品GMP合格企業)	Department of Health of Hunan province (湖南省衛生廳)	15 January 2009	N/A
Good Manufacturing Practice for Dairy Products Qualified Enterprise (乳製品良好生產規範 (GMP))合格企業	Department of Health of Hunan province (湖南省衛生廳)	January 2009	N/A
National Industrial Production Permit dairy product (Milk Powder) (special formula milk powder) (全國工業產品生產許可證) (乳製品(乳粉(特殊配方乳粉)))	AQSIQ (國家質量監督檢驗檢疫總局)	12 November 2007	11 November 2010
Registration Certificate for Imported Foods, Cosmetics Company (進口食品, 化妝品經營單位備案登記証)	AQSIQ (國家質量監督檢驗檢疫總局)	29 August 2008	August 2011
Food Hygiene Permit (食品衛生許可証)	Department of Health of Hunan province (湖南省衛生廳)	4 May 2009	10 January 2012
National Industrial Production Permit infant formula milk powder (Method of Dry Mixing) (全國工業產品生產許可證 嬰幼兒配方乳粉) (乾法工藝)	Quality and Technical Supervision Bureau of Hunan province (湖南省質量技術監督局)	27 August 2009	22 September 2012

## BUSINESS

<u>Certificate and Permit/Registration</u>	<u>Awarding/Issuing Organisation</u>	<u>Date of Issue</u>	<u>Term of Validation</u>
Registration Notice for Enterprise using Offshore Registered Commodity Bar Codes (使用境外註冊商品條碼企業備案通知書)	Chinese Goods Bar Code Centre — Hunan province branch (中國物品編碼中心湖南分中心)	31 December 2007	31 December 2009
AustCham Business Promotion Award	The Australian Chamber of Commerce in Hong Kong and Macau	15 October 2008	N/A
Accreditation for  as a Hunan province famous trademark (湖南省著名商標)	Administration for Industry & Commerce of Hunan province (湖南省工商行政管理局)	2008	2011
Accreditation for “澳优” as a Hunan province famous trademark for dairy products (湖南省著名商標)	Administration for Industry & Commerce of Hunan province (湖南省工商行政管理局)	December 2006	December 2009
Certificate of Honour 2006 Hunan Provincial High Quality Product (Health and Quality) (2006年度湖南省衛生品質優質產品)	Preventative Medicine Association of Hunan province (湖南省預防醫學會)	December 2006	N/A
Provincial Quality Assurance A Grade Enterprise (湖南省質量信用等級A級企業)	Quality Assurance Rating Commission for Enterprise of Hunan province (湖南省企業質量信用等級評定委員會)	March 2009	March 2011

## SALES AND DISTRIBUTION

### *Distribution network*

We have an extensive sales and distribution network. Our distributors distribute our products across the PRC in 20 provinces, four autonomous regions and four municipalities.

We sell our products to more than 70 direct distributors, who sell directly to retail outlets, such as department stores, supermarkets and babies and parenting specialty stores. During the Track Record Period, all of our sales were through external distributors, with a small portion of which were sold to our customers through our branch office in Changsha as we could not find a suitable distributor in the region at that time. Our branch office in Changsha closed down in June 2009 and ceased to distribute our products after we found suitable distributors to distribute our products in the region.

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, approximately 100%, 97.9%, 99.8% and 100% of our sales were made to our distributors.



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The map below shows the coverage of our distribution network:



Save for our Changsha branch office, our distributors are all Independent Third Parties who have no relationship with any of our Directors or Controlling Shareholder and are usually local distributors who are engaged in the distribution of paediatric nutrition products. We have neither ownership nor management control over our external distributors. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the amount of sales made to our customers through our Changsha branch office was nil, RMB3,857,000, RMB599,000 and nil respectively. We carefully consider the background and credentials of potential distributors in a region and examine their suitability before appointing the distributor in any particular region. We adhere strictly to our own procedures in selecting distributors. Factors taken into account include their distribution network and sales channel, financial condition and experience of their distribution personnel. Each distributor is responsible for building up its own sales network and contacting its own customers (i.e. retail outlets) according to our distribution plan as stated in the standard distribution agreement. On average, we have maintained a relationship of approximately three years with our distributors.

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### *Standard distribution agreement*

Our distributors are required to sign a standard distribution agreement with us before joining our distribution network. Our standard distribution agreements are prepared in accordance with our guidelines, policies and procedures and usually have a term of one year, renewable on a yearly basis. Under the terms of the distribution agreement, the distributors are required to implement standard distribution methods and strategies throughout the PRC. They are generally required to observe the following:

- *Initial payment of lump sum surety.* Each new distributor that we engage to distribute our products must first pay a lump sum surety to us before we supply them with our products. This lump sum surety will under normal circumstances be retained by us until the termination of the standard distribution agreement.
- *Advance payments.* Distributors are required to pay in advance of receiving supplies of our products. We usually do not allow credit purchases for orders made by distributors. This assists us to strengthen our cash flows, minimises our receivables and prevents us from being exposed to the risk of bad debts. Our revenue from sales of products is recognised when the significant risks and rewards of ownership of the products are transferred to the distributors (i.e. when the products are delivered to the location designated by the distributors). Goods are delivered to distributors without any recourse from the distributors except to the extent that the goods are defective or have been damaged during the course of our delivery. As the distributors pay for goods in advance, we believe this policy increases our distributors’ incentive to distribute our products on a timely basis rather than accumulating large quantities of inventory on hand.
- *Refund and exchange of goods.* Our distributors in the PRC are only entitled to return to us any defective goods or goods damaged during the course of delivery at the original price. Distributors are not able to refund any other unsold or perished goods already paid and delivered to them. We believe this increases the distributors’ incentive to market our products in their respective distribution areas rather than accumulating large quantities of inventory on hand. During the Track Record Period, the amount of goods which were returned to us were minimal and did not have any material adverse impact on our business operations.
- *Marketing activities.* To enhance our brand image, we require our distributors to conduct marketing activities as part of the terms under the standard distribution agreement. Details of the marketing activities which are performed by our distributors are set out in the section headed “Business — Branding and Marketing — Marketing activities by our distributors” in this document.

We may, from time to time, vary the terms of our standard distribution agreement depending on particular circumstances of our distributors and may indicate recommended retail prices for each of our products for some distributors. We believe that these standard distribution agreements allow us to maintain control over the marketing activities of the distributors throughout the PRC.

To ensure that distributors’ activities are in accordance with our guidelines and policies, we also have in place a control and monitoring system, and provide guidance to our distributors’ staff through publishing quarterly and monthly sales guidelines and have our staff to meet our distributors on a regular basis.

Under the standard distribution agreement we are entitled to terminate the agreement if a distributor fails to make payment or delays in making payment for our products. During the Track Record Period, we did not terminate relationship with any distributor. However, for those distributors which had poor

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performance in achieving their respective sales objectives or breached the terms as stated in the standard distribution agreement, we did not renew the agreement with them after expiry of the same. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the number of distributors with which we did not renew their one year distribution agreement after their expiry was 16, ten, nine and nine respectively.

We have implemented procedures to monitor the risk of provision against inventories. We review inventory ageing listing on a periodical basis. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete or slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance is needed in respect of any obsolete or defective inventories identified. During the Track Record Period, we had not made any provision for obsolete or defective inventories.

### *Relationships with distributors*

Almost all of our products are sold to consumers through our distributors. Our distributors are local distributors and are experienced in the sale and distribution of paediatric nutrition products. We have also appointed an agent to allow our products to be available for sale via a website operated by an independent online shopping service provider. Our agent has been providing online shopping services for over three years, and with the largest online customers network in Shanghai, has an annual sales revenue of over RMB10 million through online sales of maternal and children products. We engage an agent to distribute our products via the website as the agent is experienced in online shopping and we consider that this arrangement is more cost efficient. We pay commission fees of approximately 15% of the total value of the products sold by this agent. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the amount of revenue through online shopping was nil, RMB318,000, RMB947,000 and RMB690,000 respectively.

To strengthen our ties with our distributors, we provide regular training to our distributors in order to familiarise their representatives with the ingredients contained in, and the health benefits of, our products. We also regularly provide them with the latest information on our products and introduce our new products to them during these training sessions. Further, during these training sessions, we also exchange information relating to any market developments, changes in consumer preferences and demands, other industry news or legal developments relating to the industry. These training sessions are conducted by our headquarters staff and we believe these sessions are pivotal to ensuring our distributors are able to deliver their services and promote our products to retailers in accordance with our distribution agreements.

We require all our distributors to meet pre-determined sales targets, which are determined by reference to various criteria, including past performance. We grant favourable terms such as sales rebates and additional supplies of products to our distributors as incentives for achieving sales targets. We do not pay any cash commission to our distributors.

For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our five largest distributors accounted for 25.1%, 37.9%, 27.5% and 28.2% of our total sales revenue for the respective periods. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our single largest distributor accounted for 7.1%, 13.2%, 8.7% and 9.0%, respectively, of our total sales revenue for the respective periods. None of our Directors or our Shareholders, who, to the best knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest distributors.

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### *Sales*

As at the Latest Practicable Date, we have a sales team of more than 100 staff located across our distribution network in the PRC who are responsible for managing our distributors. Our sales staff act as the primary point of contact between us and our distributors in their respective designated areas and are responsible for recruiting new distributors in order to expand our distribution coverage.

Our sales staff visit our distributors on a regular basis to ensure that they have sufficient stock and that our products are sold to consumers within the preservation period. All sales are recorded in our inventory management system, which allows us to monitor the level of sales and inventory of our distributors. Our sales staff may also assist with customer service, and may carry out marketing or promotional campaigns, such as assisting our distributors in their marketing activities, at our request.

Our distributors are required to prepay the amount for placed orders. Upon receipt of prepayment for the products ordered, we will arrange for delivery of the products to the distributors. We engage contractors to transport our products to our distributors.

Generally, the distributors place orders for our products two to three times each month. The frequency in which our distributors place orders with us depends on the sales volume of our products.

The sales of our products are subject to seasonality. We typically experience higher sales in the second half of the year compared to the first half of the year. However, we believe this seasonality factor is not significant and does not have a material impact on our business operations and financial position. During the Track Record Period, we experienced a consistent increase in the sales of our products as our business continues to grow and our brand is being increasingly recognised in the PRC market. We believe this increase, however, is not a reflection of an accumulation of inventory at the distributors' level. Our distributors have incentives to prevent accumulation of inventory as we implement an advance payment system as well as a no refund or exchange of goods policy (except for defective or damaged goods). Accordingly, distributors which accumulate inventory run the risk of suffering cash flow problems or incurring losses due to products reaching its expiry date before on-selling to retail outlets. We make regular visits to distributors to monitor the volume of inventory maintained by our distributors.

We have established a customer service centre in Hunan province to deal with all enquiries and complaints made by consumers in the PRC in relation to our products. A toll free call service centre has been set up to allow consumers to contact us directly with enquiries relating to our products and services. We obtain market information and feedback on consumer preferences through our toll free call service centre. Furthermore, each distributor is required to have a designated customer service contact for its respective distribution area to deal with any consumers enquiries and complaints. We believe these combined efforts enable us to reach consumers at both a local and national level. Other ways of obtaining market information include the use of weekly and monthly business reports, as well as through conducting market surveys and visiting major supermarkets and babies and parenting specialty stores which are carried out by our marketing and sales teams.

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### BRANDING AND MARKETING

#### *Branding*

We believe that our brand recognition and reputation have been instrumental to the success and growth of our business. Through our brand, which signifies our sourcing of high quality milk powder from Australia, we distinguish ourselves from other domestic manufacturers, which source their milk powder supplies locally. This allows us to compete with other international brands in the paediatric nutrition products market in the PRC.

Since our establishment, we have sought to build the brand recognition for our “澳优” and “” trademarks as representing high quality and reliable paediatric nutrition products. The “澳优” brand was recognised as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province for dairy products in 2006 for a period of three years. The other trademark, “”, has been accredited as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province in 2008 for a period of three years. In 2006, the Allnutria Series was permitted by Dairy Australia (a dairy industry organisation in Australia) to use the “Dairy Good” logo in the PRC.

We have implemented measures to incorporate certain anti-counterfeiting features into our products, such as printing unique bar codes on our packaging for checking and verification purposes. As the scale of counterfeiting of our products has been limited and the amounts involved were minimal, we believe our anti-counterfeiting features are appropriate and sufficient to protect our brand.

#### *Marketing*

We engage in a variety of marketing and promotional activities, either directly or through our distributors, to promote brand recognition of our products. We conduct nationwide marketing campaigns through television advertising and other media, while our distributors are responsible for regional marketing efforts.

#### *Our direct marketing activities*

We develop our brand name recognition with a combination of marketing strategies. We advertise on prime-time national and regional television to allow us to reach a wider range of consumer audience. Our television advertisements are mainly in the form of television shopping advertisements, where consumer may dial a toll-free number shown in the television advertisement to order our products. These advertisements are shown on national and regional television networks including CCTV, Hunan TV and other entertainment or television shopping channels.

In addition, we market through various other media to increase our brand recognition. We advertise in print-based media, such as newspapers and magazines, including lifestyle, parenting and baby magazines.

We have also appointed an agent to allow our products to be available for sale via a website operated by an independent online shopping service provider.

Our marketing team in our headquarters conducts telephone surveys to gather market information on consumer preferences to assist us in improving our products to meet market demands and needs. We may also use telemarketing strategies to advertise our products and make promotional offers to reach a wider audience.

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We also engage in other forms of marketing so that consumers can better understand our products. For example, we will conduct informative seminars and presentations focusing on pregnancy-related, infant/toddler nutrition and child-bearing issues. We also conduct marketing activities for new product launches, participate in exhibitions (such as the Australia Lifestyle Expo), and conduct indirect marketing by hosting or sponsoring consumer caring and interactive activities such as family fun-days.

We will continue to market our brands and products through our dedicated marketing and promotional team. We plan to increase our efforts and spending on media advertisements, such as advertisements on the CCTV network and other entertainment or television shopping channels. We intend to direct our advertisement efforts to build a stronger brand image and recognition that our Australia originated products are of high and reliable quality. In order to complement the introduction of our new series of organic paediatric milk formula in the PRC market, we intend to direct specific advertisement efforts to promote this series of products. In order to complement the introduction of our products into the Hong Kong markets, we may also advertise on the television networks in Hong Kong and in lifestyle, parenting or baby magazines which are circulated in the Hong Kong market.

We also intend to increase the frequency and/or reach of our promotional activities and seminars to provide parents with information on paediatric nutrition and our products. We will provide information on our products to medical staff who work in medical institutions who will make recommendations to parents based on their own knowledge and independent judgment. We will then organise promotional activities and seminars and further introduce our products to those parents, and our products are available for sale after the activities and seminars have finished. We do not distribute any of our products in any hospitals.

### *Marketing activities by our distributors*

To complement our nationwide advertising campaigns, we have included in each of our standard distribution agreements with our distributors which require our distributors to conduct marketing activities for our brand and products. These marketing activities focus on each of the regional areas which are covered by our distributors to increase the publicity coverage within our distribution network.

Under the standard distribution agreement, distributors are required to arrange for advertising in retail outlets which sell our products. The forms of advertising which distributors are required to arrange include placing in-store displays and posters inside the retail outlets, such as babies and parenting specialty stores, department stores and supermarkets. We do not instruct our distributors to distribute any of our products in any hospitals.

Our distributors also arrange nutrition education seminars for expectant or nursing mothers focusing on pregnancy-related infant/toddler nutrition and child-bearing issues. We believe, with established consumer loyalty, our brand recognition can be further strengthened through word of mouth about the quality and associated health benefits of our products.

Our promotion and advertising expenses for the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009 were RMB14.4 million, RMB33.2 million, RMB41.0 million and RMB33.3 million respectively, representing 15.4%, 17.8%, 10.1% and 10.4% respectively of our revenue for the respective periods.

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### QUALITY CONTROL

We adhere to a strict quality control system over our operations, from the sourcing of our milk powder, production, packaging, inventory storage, to distribution of our products to distributors. We have obtained HACCP and ISO 9000 certifications for our production process.

HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical and physical standards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product. HACCP certification provides a recognised endorsement of food safety excellence and provides assurance that our production process satisfies food safety standards.

ISO, administered by accreditation and certification bodies, is a set of standards and guidelines relating to quality management systems, and represents an international consensus on good quality management practices. Our certification to ISO 9001:2000 standard is part of the ISO 9000 series and certifies that consistent business processes are being applied, and provides an objective standard against which third parties can assess the quality of our management and production processes.

HACCP and ISO 9000 certifications are subject to annual independent audits. We have completed the certification procedures for obtaining HACCP and ISO 9000 certifications and the relevant certificates were issued to us in January and February 2009 respectively. As a result, we currently do not have the need to carry out the annual audit procedures. These certifications demonstrate that our quality management system meets domestic and international standards and attest to the superior quality of our products.

The milk powder supplied by our Australian suppliers is required to comply with the requirements of AQIS in Australia and AQSIQ in the PRC for exporting and importing into the PRC respectively. In relation to our suppliers' exportation of the milk powder from Australia, AQIS will undergo export inspection of the milk powder at the Australian border and provide us with the relevant certification. Upon its arrival in China, our agent will report to the Changsha customs and CIQ in Hunan province for immediate inspection of the products. Customs officers will check whether the names and quantities of the products are consistent with the information on the form submitted to the customs department. CIQ will inspect whether the products have been damaged. If the products pass both the customs and CIQ inspections, they will then be supervised by customs officers while being transported to our plant.

A second inspection will be conducted by CIQ at the plant for the purpose of issuing a sanitary certification. If CIQ determines that any milk powder does not meet the quarantine requirements, the milk powder is immediately returned to our supplier and issued with a rejection notice.

At the same time as the CIQ inspection is being carried out, the incoming milk powder also undergoes internal analysis and inspection according to national quality standards before further processing. Milk powder which does not meet our standards will be issued with a notice for failing to comply with the required standards (along with the CIQ rejection notice above) and then returned to our suppliers. On the other hand, those which do meet our standards will be issued with a notice for storage in our plant. The different categories for inspection include product appearance, levels of protein, fat, moisture and others such as melamine and certain types of bacteria.

Milk powder which is imported in can form ready for retail sale will need to undergo export inspection at the Australian border and AQIS will issue the relevant certifications to indicate that they have complied with the relevant laws and regulations in Australia. Upon arrival in China, customs officers will check whether the names and quantities of the products are consistent with the information on the

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form submitted to the customs department. CIQ will inspect whether the products have been damaged. Upon arrival at our production plant, the milk powder will undergo our quality control procedure to ensure that the quality of the products matches the requirements when we placed our orders. The sample rate for milk powder which is imported in can form is generally 2% (i.e. we conduct quality checks for every two lots of products out of a hundred lots).

We have a dedicated team responsible for conducting regular internal reviews to ensure our compliance with the above standards. The supervisor of our quality control team, Li Sihua (李四化), is a qualified food engineer\* (食品專業工程師). Some of our technicians have the Chemist Qualification Certificate issued by the National Profession Identification Centre\* (國家職能鑒定中心) and the Internal Quality Control Qualification\* certificate issued by the Provincial Quality System Promotion Centre\* (省質量體系促進中心). Our quality control team is also responsible for submitting regular quality control reports on our self-inspection process to senior management and overseeing the quality control operations. We maintain a policy to ensure that the quality control systems at our plant conform with GMP standards.

After inspection by CIQ, all incoming milk powder undergoes further internal analysis and inspection according to national quality standards, before further processing. The quality control department of our milk powder suppliers and our plant conduct nutritional standard analysis and checks which include tests on protein, fats, moisture etc. They also conduct sanitary standard analysis and checks such as tests on bacteria contents and coliform bacteria contents. Our quality control department compares their results with those reported by the quality control department of our milk powder suppliers to ensure that the nutritional contents of imported milk powder meet our purchase order requirements. Certifications are issued after such analysis and checking are conducted. Milk powder which does not meet our standards will be returned to our suppliers.

We also have measures in place to ensure that our plant and equipment are properly sanitised. We monitor the sanitisation process carefully to minimise the risk of contamination from external sources such as daily sterilisation of the plant area, equipment and facilities, inspection of the plant infrastructure and ventilation system, and the prohibition of unauthorised personnel. Upon completion of the cleansing and sterilisation processes, quality controllers inspect the conditions to ensure that our quality requirements are met.

All of our products undergo inspection at each stage of our production process, as well as checking and final inspection by sampling based on industry and national quality standards before despatching to the distributors for sale. We examine all physical specifications as well as inspections against physicochemical and health standards. A product is only sold to distributors when all of our required standards have been met.

We have appointed Hou Yanmei (侯豔梅) as our compliance officer who is responsible to oversee the compliance status of our operations. Ms Hou, aged 28, graduated from the department of food technology and techniques in the University of Agriculture\* (湖南農業大學) in Hunan province with a bachelor of food science and engineering. Before joining us in July 2008 as the technician-in-charge in our research and development department, she was employed by Changsha You Wen Bin Lang Co. Ltd\* (長沙友文檳榔有限公司) as a technician. She monitors, with the assistance from the legal advisers of our Group from time to time, the latest developments of the applicable laws, regulations and government policies in China, and reports to the management team and the Board in order to raise awareness of the latest regulatory developments so that actions could be taken to obtain the necessary operations permits or carry out other legal registration or procedures. The compliance officer is also responsible for reporting any potential breach of the relevant laws and regulations directly to the Board. Ms. Hou is a



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member of our research and development department and directly reports to the head of our research and development, Mr. Dai Zhiyong, one of our senior management who is responsible for the overall compliance status of our production and operation activities. The Board would, after consulting with legal advisers where necessary, make decisions on any necessary remedial or preventive actions to ensure compliance.

### *The Melamine Incident*

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 in the PRC. The melamine incident undermined consumers’ confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in purchases and in turn a decrease in production volume. Consumers shifted their purchases from domestically sourced paediatric milk formula products to international brands and domestic brands which sourced milk powder overseas. This change benefited us as our products are produced from high quality milk powder imported from Australia. We recorded a substantial increase in revenue for several months immediately after the melamine incident. However, the Directors are of the view that the increase in revenue due to the melamine incident may not be sustainable as it is based on the effect of one single incident. As consumers became more cautious of product quality and reliability after the melamine incident we continued to strengthen our consumers’ confidence in our products by enhancing our quality control system over our operations, from the sourcing of our milk powder, production, packaging, inventory storage, to distribution of our products to distributors. This can be evidenced by the issuance of several awards and certificates to us in the first half of 2009. Please refer to the section headed “Business — Awards, Certificates, Accreditations, Permits and Registrations” in this document for the details of the relevant awards and certificates. We have also launched more marketing and promotional activities to advertise that our milk powder is sourced from Australia, as we believe the Australian dairy industry has a good reputation for the high quality of its dairy products, technological and product innovation and strict quality controls. These marketing activities help to promote brand recognition of our products and strengthen consumers’ confidence in our products.

### *The Enterobacter Sakazakii Incident*

In June 2008, the General Administration of Customs of the PRC examined 8.9 tons of Allnutria Series milk powder from Tatura which arrived at the PRC customs, which were found to contain enterobacter sakazakii. According to the long term supply agreement with Tatura, Tatura is responsible for the products during their transportation to our designated ports. We returned the milk powder to our supplier immediately upon such discovery. We conducted a thorough investigation into the incident and found that the milk powder packaging had been contaminated during the transportation process from our supplier to the PRC. The contaminated milk powder did not reach our plant nor was it offered for sale by us or our distributors to the public in the PRC. However, we understand that subsequent media speculation wrongfully alleged that our products sold in the PRC were contaminated with enterobacter sakazakii. As such wrongful allegations had a negative impact on our brand image, we responded instantly and robustly in objecting to the false media claims, and assured the public that our products sold in the PRC satisfied all health and quality standards and were not contaminated with enterobacter sakazakii. In support of the safety and quality of our products, AQSIQ issued two clarification announcements on this incident. There were no penalties imposed on us for this incident and our results of operations were not affected. We have communicated with Tatura and ensured that it would carefully select transportation providers thereafter to prevent similar incidents from reoccurring in the future.

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Save as disclosed above, we have not been subject to any product dispute and/or recall or return of milk powder to our suppliers which could have a material adverse effect on our financial condition or results of operations during the Track Record Period.

### COMPETITION

We encounter competition from domestic and international paediatric milk formula producers. We believe paediatric milk formula brands in the PRC market can mainly be categorised into three types: (i) international brands; (ii) domestic brands whose paediatric milk formula is produced from raw milk powder sourced from overseas and imported into the PRC (such as our Company); and (iii) domestic brands which source all or most of their raw milk powder and produce their paediatric milk formula in the PRC. We believe that our products can compete in the high-priced and premium-priced paediatric nutrition products market on the basis of our focus on brand recognition as manufacturers of high quality Australian sourced products, product quality, distribution network, and price. We believe we are well-positioned to compete with the international brands, which are currently dominating the paediatric nutrition products market in the PRC. Further details of the leading paediatric nutrition manufactures in the PRC paediatric milk formula market are set out in the section headed “Industry Overview — Competition in the PRC paediatric milk formula market” in this document.

We believe consumers in the PRC will generally consider the following factors when choosing paediatric milk formula for their infants:

**Price:** Due to the customs duty imposed on imported paediatric milk formula (accounting for approximately 30% of the sale price), paediatric milk formula produced by international brands are generally more expensive than domestic paediatric milk formula brands. However, market analysis reveals that paediatric milk formula is an inelastic demand product. Consumers are influenced by the concept of “the better the quality, the more expensive the product”. As a result, even though domestic paediatric milk formula brands are much cheaper than international paediatric milk formula brands, international paediatric milk formula brands are perceived to be of better quality than domestic paediatric milk formula brands and are more popular despite the higher price. As our paediatric milk formula products are within the high-priced and premium-priced range, our average sales price is generally higher than that of domestic paediatric milk formula brands.

**Quality:** The international paediatric nutrition products manufacturers have stringent quality control and employ advanced technologies to reduce the risk of contamination of their paediatric milk formula products during the production process. Their products are also subject to stringent quality checks by their respective exporting countries. As all of our milk powder is imported from Australia and we were not involved in the melamine incident, we believe our product quality is comparable with the product quality of international brands and is higher than many domestic brands.

**Technological innovation:** The paediatric milk formula industry is still in the early stages of development in China, whilst the industry has already matured in other foreign countries. The international paediatric nutrition product manufacturers develop their paediatric milk formulas to suit the different ages and requirements of infants and toddlers, eliminating elements in raw milk which are not suitable for infants and toddlers and adding nutritional ingredients to mirror the constituent components of mother’s breast milk in order to bring their paediatric milk formulas closer to mother’s breast milk. Due to our strong research and development capabilities, close collaboration with international research and development institutions and manufacturers, we believe the technological processes used to produce our paediatric milk formula are comparable with the processes adopted by international brands. We have

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a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. 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.

**Customer service:** The international paediatric nutrition products manufacturers have over the years established many avenues to reach out to consumers to gain customer support. For example, international paediatric nutrition producers distribute complimentary paediatric nutrition booklets, provide customer services hotline, and hold parenting seminars to provide information to consumers about the nutritional benefits of their products. All these avenues help to reinforce consumers’ confidence on the quality of paediatric milk formula products. We believe our customer service strategies are comparable with the strategies adopted by international brands.

**Distribution method:** Due to the higher profit margins of high-priced and premium-priced paediatric milk formula products, distributors are able to receive a greater profit share when compared with distributing low-priced and mid-priced paediatric milk formula products, thereby enhancing the incentives for distributors to distribute high-priced and premium-priced paediatric milk formula products. As there is a greater profit margin in selling high-priced and premium-priced paediatric milk formula products, our distributors are motivated under our distribution model to sell and distribute our products. We believe our distribution model is comparable with the models adopted by international brands.

Our Directors are of the view that our competitive strengths, including high product quality, recognised brand name, extensive distribution network and our market position in the paediatric nutrition products market increase our competitiveness in the PRC high-priced and premium-priced paediatric nutrition products market and allow us to effectively target consumers who are seeking to buy quality paediatric nutrition products for their children.

## RESEARCH AND DEVELOPMENT

We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. Our researchers have relevant experience in food technology research and development. We also employ outside consultants from time to time to assist with our research and development projects. For example, we entered into a consultancy agreement with a professor of The University of Melbourne, Australia in 2006 to make recommendations on technological advancement of our products and policies that would affect us in Australia.

One of the key focus of our research and development department is to conduct ongoing research into paediatric nutrition, including the constituents of mother’s breast milk, in order to improve our existing products and develop new products that can be regarded as the best substitute for mother’s breast milk. Also, we conduct market analysis to assist our development of paediatric milk formulas that can be distinguished from competing paediatric milk formulas available in the market and to ensure our paediatric milk formulas meet nutritional standards and optimise the infant or toddler’s growth and development. Our focus on research and development for the near future will be on the development of new product lines of paediatric nutrition products to meet changing market demands and consumer preferences, such as the introduction of organic paediatric nutrition products and other baby food.

We have entered into cooperation arrangements with various institutions and manufacturers to enhance our research as well as to jointly develop new products and improve the quality of our existing product lines. For example, we cooperated with Murray Goulburn in the development of the A-choice Series and

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Best-choice Series in 2003 and 2004, respectively. Under this cooperation, we were responsible for conducting research and surveys in the PRC and formulating the paediatric milk formulas which would suit the consumers and market demand in the PRC. We then discussed the paediatric milk formulas with Murray Goulburn and made certain adjustments to their ingredients to improve their nutritional value and to ensure compliance with the relevant laws and regulations in Australia and the PRC. Both parties were responsible for their own costs on the research and development and the paediatric milk formulas developed are jointly owned by Murray Goulburn and us. We also cooperated with Tatura in the joint development of the Allnutria Series paediatric milk formula and the Allnutria Series specialty formula for expectant and nursing mothers in 2006 and 2007 respectively using a similar model as that for the cooperation with Murray Goulburn.

We are currently engaged in the following research and development projects:

- cooperation with Tatura to conduct research into the components of mother’s breast milk according to Australian and Chinese organic industry standards to develop a new line of organic paediatric milk powder using only organic ingredients. We have signed a cooperation agreement with Tatura in which we are responsible for conducting market research and surveys and for formulating an organic paediatric milk formula. Tatura is responsible for ensuring that the organic paediatric milk formula is in compliance with the relevant laws and regulations in Australia. The organic paediatric milk formula is in the process of production and is expected to be rolled out in late September 2009;
- cooperation with The Second Xiangya Hospital of Central South University\* (中南大學湘雅二醫院) (“Xiangya”) to study the effects of paediatric milk formula using different nutritional ingredients on infant growth, research on the optimal paediatric milk formula to encourage regular feeding patterns, and the development of specialty formulas for special infants (e.g. premature or low birth-weight infants, infants with allergies to particular ingredients such as lactose). We have signed an agreement with Xiangya and the cooperation has a duration of two years during which we shall provide a total subsidy of RMB50,000; and
- cooperation with Nutribio, specialists in infant nutrition and adult dietetic products, to research and develop organic supplemental foods for infants aged more than four months. Nutribio engages in the conception, formulation, production and packaging of dietary and infants products. We have not signed any written agreement with Nutribio.

We need to obtain industry recognised certifications for our new organic paediatric nutrition products series prior to their launch. Our products need to go through a series of laboratory tests before they can be labelled and sold as “organic” products. These industry recognised certifications include NASAA Organic Standard issued by the National Association for Sustainable Agriculture Australia Limited. Our organic product series also need to pass examinations in the PRC according to the PRC National Standards for Organic Product (《中華人民共和國國家標準 有機產品》) and the Regulations of Organic Product Certification (《有機產品認證管理辦法》). The certifications for our organic paediatric nutrition products which we target to launch in the PRC market in late September 2009 have already been granted. We intend to apply for the certifications for our other new organic paediatric nutrition products in stages for the next three years until 2012.

We continuously seek and retain dairy and paediatric nutrition experts and talented researchers to assist our research and development team, and we place great emphasis on building a successful and loyal research and development team.

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With an increase in the number and costs of our research and development projects in recent years, we expect to place an increasing amount of resources on research and development. 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 0.73%, 0.45%, 0.25% and 0.12% of our total revenue respectively.

In the near future, we intend to increase our levels of investment in research and development in order to develop new lines of products and sources of suitable raw material supply. Please refer to section “Business — Business Strategies” in this document for further details in relation to research and development expenses. We will seek to further enhance and strengthen our cooperative relationships with Tatura and Nutribio and to also improve our investment, evaluation, incentive, training and performance review systems, and cultivate the innovative skills of our managerial, research and development and technical personnel. From time to time, we will adjust our research and development focus in response to industry trends and market demand to maintain and advance our market position in the paediatric nutrition products industry.

### INTELLECTUAL PROPERTY RIGHTS

Our paediatric milk formulas and intellectual property rights are of fundamental importance to our business as we rely on our paediatric milk formulas to produce unique paediatric milk formula products, and we rely on our intellectual property rights, namely the trademarks, to distinguish our products from other producers which have similar paediatric milk formulas. Our paediatric milk formulas are jointly developed with other parties. We have not made patent applications for our paediatric milk formulas, as we understand that many stages of our production process 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 the paediatric milk formula products, the information is accessible by the general public.

#### *Brand names and trademarks*

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 China, Hong Kong and Australia for our brands and sub-brands. We believe that these trademark registrations and applications will strengthen our brand name and are consistent with our business strategy to expand our future product portfolio. We market our major products under the “**澳优**” and “**澳优**” trademarks. The “**澳优**” trademark was recognised as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province for dairy products in December 2006 for a period of three years. The other trademark, “**澳优**”, has been recognised as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province in 2008 for a period of three years. 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.

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Through our trademark registrations, we undertake a pro-active approach to the management of our intellectual property rights. We also undertake defensive registrations of our trademarks in additional categories where we reasonably foresee that the trademark may be used in our products in the future. As at the Latest Practicable Date, we have not been engaged in any litigation or legal proceedings for violation of intellectual property rights and there was no material violation of the same.

### *Paediatric milk formulas jointly developed by Tatura and us — Allnutria Series*

In our long term supply agreement with Tatura, we have incorporated provisions to protect the paediatric milk formulas jointly developed by Tatura and us. According to these provisions, the proprietary rights concerning the composition, nutritional details, microbiological and functional characteristics of the Allnutria Series paediatric milk formula and any new products jointly developed by Tatura and us shall remain the joint property of both Tatura and us, and cannot be disclosed to any third party without the prior consent of the other party. Such confidentiality obligation also applies to other confidential information provided by us to Tatura. We believe such requirements reduce the risk of misuse or abuse of our jointly developed paediatric milk formulas and the confidential information in connection with any other paediatric milk formulas for producing other milk formula products we provide to Tatura.

According to the agreement, we shall enter into good faith negotiations to resolve any disputes arising from the agreement. If we cannot resolve the dispute within the prescribed time period, we shall submit the dispute to arbitration and the arbitral award shall be final and binding on us. We can seek interlocutory relief or commence legal proceedings to sue for damages if the dispute resolution procedures are unsuccessful. In addition, we can terminate the agreement if the other party breaches the agreement and has not remedied the same within the prescribed time period.

We can only place orders to Tatura for the production of the Allnutria Series paediatric milk formula, save and except if Tatura provides written consent to us to disclose the Allnutria Series paediatric milk formula which is regarded as confidential information to other parties or if Tatura cannot ensure the supply of the Allnutria Series paediatric milk formula meets our requirements within 30 days, we can seek a third party to produce the same for us. During the Track Record Period, we have not placed any order to Murray Goulburn for the production of the Allnutria Series products.

### *Paediatric milk formula jointly developed by Murray Goulburn and us — A-choice Series and Best-choice Series*

We have not entered into any kind of agreement with Murray Goulburn when we jointly developed the paediatric milk formulas of the A-choice Series and Best-choice Series products. This is because, as a newcomer to the industry at that time, we had a weaker bargaining power as compared with Murray Goulburn, which was already an established milk powder industry player. Please see the section headed “Risk Factors — We may not be able to adequately protect our paediatric milk formulas and intellectual property rights” in this document. Therefore, there is no contractual obligation restricting the ability of either party to use information concerning the paediatric milk formulas of the A-choice Series and Best-choice Series products and their production processes.

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We believe that an agreement specifying the requirements on, among others, intellectual property rights, restrictive use of proprietary information and confidentiality obligations such as the agreement we have with Tatura can provide certain protection against misuse or abuse of our trade secrets concerning production processes, know-how and other propriety rights which are not provided under general law. We will strive to ensure that, in future, an agreement providing for similar protection of our rights is entered into with our suppliers.

To the best knowledge of our Directors, as at the Latest Practicable Date, Tatura has not breached the long term supply agreement and Murray Goulburn has not disclosed the confidential information in relation to the A-choice Series and Best-choice Series products to any third parties.

### INSURANCE

We have obtained insurance coverage for our plant and equipment, as well as vehicles owned by us. We also carry employee social insurance in accordance with relevant PRC laws and regulations. We have not maintained any product liability insurance and business interruption insurance as we believe it is not the general industry practice in the PRC to carry out such insurance.

### PROPERTIES

As at the Latest Practicable Date, we own one parcel of land (with a site area of approximately 44,334 sq.m.) and eight buildings (with an aggregate gross floor area of approximately 21,936.41 sq.m.) located in Wangcheng County, Hunan province, China for use as processing facilities, offices, staff quarters and ancillary facilities. We have obtained all the required land use rights and building ownership certificates for all our properties.

We also lease an office unit at 9th Floor, Xindaxin Building, No.168 Huangxing Road Middle, Changsha, China (with aggregate lettable area of approximately 1,200 sq.m.) from Xin Da Xin Real Estate as our office. Further details of the lease is set out in the section headed “Business — Connected Transactions” in this document.

The summary of valuation and the valuation certificates for the property rights to these properties issued by Jones Lang LaSalle Sallmanns are set out in the section headed “Appendix IV — Property Valuation” in this document.

### ENVIRONMENTAL AND PRODUCTION SAFETY MATTERS

#### *Environmental matters*

Our operations are subject to various PRC environmental laws and regulations stipulated by the PRC national, provincial and local environmental protection authorities. We are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing production facilities. We have obtained such environmental impact assessment report. We believe that our operations do not generate material levels of noise, water, gas or other hazardous waste that violate the applicable environmental standards and measures in the PRC. Only small amounts of solid wastage (i.e. cardboards, foil bags, cans and plastic, being packaging materials for our products) are generated during our production process, and these are disposed of in industrial waste disposal bins. We also provide training to our employees on the different ways of handling wastes which are generated during the production process. Our operations are also subject to periodic monitoring by local environmental

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protection authorities. Based on the confirmation issued by the local Environmental Protection Bureau, we have not violated any national, provincial or municipal environmental laws and regulations during the Track Record Period.

### *Production safety matters*

Our operations are subject to various PRC safety laws and regulations, which set out the legal standards for health and safety measures that we must comply with. We have dedicated staff within our research and development team as well as our quality control team who are responsible for reporting to and keeping our senior management informed of any updates in the legal standards under various PRC production safety laws and regulations applicable to our business operations. We regularly review and, where appropriate, make changes to our occupational health and safety procedures and measures to ensure they comply with all relevant legal standards. We have adopted and implemented the following occupational health and safety procedures and measures for our operations:

- providing guidelines and manuals on occupational safety, such as production safety measures and procedures for handling certain emergency situations which are in accordance with ISO, HACCP and GMP standards, to all employees;
- inspecting all equipment and facilities and arranging necessary maintenance on a routine basis; and
- providing relevant training to all employees on a regular basis to increase their safety awareness.

As at the Latest Practicable Date, we have not been involved in any accident causing death or serious bodily injury in the course of our operations.

## LEGAL PROCEEDINGS

We may from time to time be involved in contractual disputes or legal proceedings arising from the ordinary course of business. As at the Latest Practicable Date, neither our Company nor any of its subsidiaries has been a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations and we are not aware of any material threatened litigation, arbitration or claim against us nor any of our subsidiaries.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

### *Independence from our controlling shareholder*

Our Directors believe that our Group is capable of carrying on its business independently from our Controlling Shareholder (other than the Group) because there is no competing business between our Controlling Shareholder and our Group, and the Controlling Shareholder has entered into the deed of non-competition in favour of our Company.

As confirmed by our Directors, none of the Controlling Shareholder, our Directors or the directors of any of our subsidiaries, has any interest in a business, other than our business, which competes or is likely to compete, either directly or indirectly, with our business. As at the Latest Practicable Date, we do not have any intention to acquire any business from the Controlling Shareholder.



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We have entered into a lease agreement with Xin Da Xin Real Estate. Xin Da Xin Real Estate is wholly-owned by Xin Da Xin. Details of the lease agreement are as follows:

**Lease of 9th Floor, Xindaxin Building, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, China (the “Premises”)**

Pursuant to an agreement entered into between Xin Da Xin Real Estate and Ausnutria Hunan dated 1 December 2008, Ausnutria Hunan agreed to lease the Premises from Xin Da Xin Real Estate with an aggregate floor area of approximately 1,200 sq.m. for a term of two years commencing from 1 December 2008 to 30 November 2010 at an annual rental income of RMB420,000 for office use inclusive of property management, drinking water, lift maintenance, electricity and water charges. The annual rental was determined with reference to the market rental price of similar premises in Changsha.

The above transaction was made on normal commercial terms.

***Related party transactions***

Certain transactions, that are continuing or discontinuing in nature, have occurred during the Track Record Period, which constitute or constituted related party transactions of the Company pursuant to International Accounting Standard 24 “Related Party Disclosures”. Please refer to note 28 of the Accountants’ Report as set out in Appendix I to this document for details of the significant related party transactions.

### NON-COMPETITION UNDERTAKING

All the Directors and senior management of our Group, Xin Da Xin, MoveUp, Mornring and Aubrand (each, a “**Covenantor**”), have each confirmed that he is not engaged in, or interested in, any business which directly or indirectly competes with our business. In accordance with the non-competition undertakings set out in the deed of non-competition (the “**Deed of Non-Competition**”), each Covenantor has agreed, undertaken and covenanted with us (for itself and on behalf of its subsidiaries) that during the period commencing from [●] and ending on the occurrence of the earliest of (i) [●]; (ii) the day on which the Covenantor ceases to be interested in 30% or more of our entire issued share capital or ceases to be a Director or senior management of our Group; or (iii) the day on which the Covenantor beneficially owns or is interested in our entire issued share capital:

- he will not and he will procure that none of his spouse and children under the age of 18 and persons to whom the Covenantor provides financial assistance to set up and operate any business (the “**Controlled Persons**”) or any companies controlled, whether directly or indirectly, by him (the “**Controlled Companies**”) will,

except through his/her/its/their interests in us, whether as principal or agent and whether undertaken directly or indirectly through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interests or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with our business as described in this document (the “**Restricted Business**”) within any of the territories within the PRC, Hong Kong, Macau and south-east Asia where any member of our Group carries on business from time to time (the “**Restricted Territories**”);

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- if he and/or any of the Controlled Persons and/or any of the Controlled Companies (except MoveUp) is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Business in any of the Restricted Territories, he/she/it/they:
  - will promptly notify us in writing and refer such business opportunity to us for consideration and provide such information as reasonably required by us in order to come to an informed assessment of such business opportunity; and
  - will not and procure his/her/its/their Controlled Persons and/or Controlled Companies will not invest or participate in any project or business opportunity unless such project or business opportunity will have been rejected by us and the principal terms on which the Covenantor or his/her/its/their Controlled Persons and/or Controlled Companies invest or participate are no more favourable than those made available to us.

The Covenantor has irrevocably agreed, undertaken and covenanted with us (for itself and on behalf of its subsidiaries) that they will not and they will procure that none of the Controlled Persons and/or Controlled Companies will:

- at any time induce or attempt to induce any of our directors, managers or employees or consultants to terminate his or her employment or consultancy (as applicable) with us, whether or not such act of that person would constitute a breach of that person’s contract of employment or consultancy (if applicable); or
- at any time employ any person who has been our director, manager, employee or consultant who is or may likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with us, canvass, or solicit or accept orders from or do business with any person with whom we have done business or solicit or persuade any person who has dealt with us or is in the process of negotiating with us in relation to the Restricted Business to cease to deal with us or reduce the amount of business which the person would normally do with us or seek to improve their terms of trade with us.

The Covenantor has further irrevocably agreed, undertaken to and covenanted with us (for itself and on behalf of its subsidiaries) that, with effect from [●]:

- the Covenantor will procure that none of the Controlled Persons or the Controlled Companies will sell any paediatric nutrition products to our existing distributors or customers; and
- the Covenantor, the Controlled Persons and the Controlled Companies may only enter into an agreement to sell paediatric nutrition products to a person if we have first decided that it will not enter into an agreement to sell such paediatric nutrition products to that person.

If we make a decision pursuant to the above paragraphs not to enter into an agreement to sell paediatric nutrition products to a person but later decide that we intend to sell such paediatric nutrition products to that person, the Covenantor has irrevocably agreed, undertaken to and covenanted with us (for itself and on behalf of its subsidiaries) to use all commercially reasonable endeavours to procure that the person enters into an agreement to purchase such paediatric nutrition products from us.

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If a potential distributor or customer approaches the Covenantor, a Controlled Person or a Controlled Company proposing a new business opportunity which falls within the scope of the Restricted Business, the Covenantor has irrevocably agreed, undertaken to and covenanted with us (for itself and on behalf of its subsidiaries) to use all commercially reasonable endeavours to procure that the person approaches us regarding the proposed new business opportunity to offer us the opportunity to undertake the proposed new business opportunity.

If there is any new business opportunity offered to any of the Covenantors, they shall first contact our Group for possible cooperation.

In the event that we make a decision referred to in the paragraphs above not to enter into an agreement to sell paediatric nutrition products to a person or not to undertake a proposed new business opportunity and the Covenantor or his/her/its/their Controlled Persons and/or Controlled Companies decide to proceed to enter into an agreement to sell paediatric nutrition products to the person or to undertake the proposed new business opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not entering into the agreement to sell paediatric nutrition products to the person or not undertaking the proposed new opportunity.

The decision-making process in relation to the Deed of Non-Competition will be governed and monitored as follows:

- our [●] Directors will be responsible for deciding, without attendance of any [●] Director (except as invited by our [●] Directors to assist them), whether or not to take up a new business opportunity referred to us under the terms of the Deed of Non-Competition;
- the Covenantors will undertake to keep us informed of new business opportunities and to provide all information reasonably required by the [●] Directors to assist them in their consideration of any new business opportunity; and
- our [●] Directors will also review, on an annual basis, any decisions in relation to new business opportunities referred to us and state their views with basis.