FINANCIAL INFORMATION

You should read this section in conjunction with our audited combined financial statements, including the notes thereto, as set out in the Accountants' Report included in "Appendix I — Accountants' Report" to this document. Our financial statements have been prepared in accordance with IFRS. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

Our historical results do not necessarily indicate results expected for any future periods. Our results as at, and for, the six months ended 30 June 2009 may not be indicative of our results as at, and for, the financial year ending 31 December 2009.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. For further information, see the section headed "Risk Factors" in this document.

OVERVIEW

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

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

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.

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;
- 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, 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 the owners of our Company during the same periods was RMB11.9 million, RMB22.4 million, RMB70.5 million and RMB65.2 million respectively.

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

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

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.

MAJOR FACTORS AFFECTING OUR PERFORMANCE

Our business, financial position and results of operations, as well as the period-to-period comparability of our results of operations, are significantly affected by a number of factors, some of which are beyond our control, including:

Demand for Our Products

We generate our revenue from sale of paediatric nutrition products, with high-priced and premium-priced paediatric milk formula as our major products. Demand for our products reflects demand for paediatric milk formula in China, which in turn depends on factors such as China's economic conditions, the rate of urbanisation, the rate of increase in household disposable income and the number of new borns each year in China.

The table below sets forth our sales volume and revenue of each of our major product series for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
								(unaudited)		
	Volume (tons)	Revenue RMB'000	Volume (tons)	Revenue RMB'000	Volume (tons)	Revenue RMB'000	Volume (tons)	Revenue RMB'000	Volume (tons)	Revenue RMB'000
A-choice Series	694	42,934	584	38,187	838	59,336	393	26,382	510	33,833
Best-choice Series	583	44,728	1,224	106,809	2,031	173,920	922	78,740	1,600	137,088
Allnutria Series	28	2,942	313	36,531	1,229	161,042	464	65,428	987	143,847
Others	76	3,112	98	4,999	171	10,868	78	4,084	99	6,204
Total	1,381	93,716	2,219	186,526	4,269	405,166	1,857	174,634	3,196	320,972

Product Mix

The mix of products that we sell affects our results of operations. The mix of products demanded by our customers varies depending on factors such as general economic conditions and consumer preferences. We group our paediatric milk formula products into three principal product lines, namely, A-choice Series, Best-choice Series and Allnutria Series. Our product mix affects our gross profit margins since different product series have different selling prices and cost of sales. From time to time, we vary our product mix in order to meet market demand and customers' requirements.

Pricing of our products

We price our A-choice Series, Best-choice Series and Allnutria Series products differently. Generally, our pricing is based on a combination of factors, including our marketing strategy, the retail prices of our products, cost of milk powder, consumer preferences, our multi-brand strategy and competition. The average selling prices of our products have remained relatively stable over the Track Record Period. In general, our Allnutria Series products have the highest average selling prices and highest profit margins.

Cost of Milk Powder

The cost of milk powder amounted to RMB41.1 million, RMB97.1 million, RMB240.8 million and RMB169.2 million and comprised 84.8%, 90.1%, 92.9% and 91.6% of our cost of sales respectively for the three years ended 31 December 2008 and the six months ended 30 June 2009. We have been able to meet our milk powder supply requirements by entering into a long term supply agreement with Tatura. In addition, from time to time, we also source some of our milk powder from Murray Goulburn, with whom we do not have a long term supply agreement. The average unit procurement cost of milk powder increased by 39.7% from 2006 to 2007, and further increased by 62.0% in 2008. The substantial increase in average unit procurement cost from 2006 to 2008 was mainly due to the markup costs charged by MoveUp since November 2007 and the introduction of the Allnutria Series products in the fourth quarter of 2006 which has a higher average unit procurement cost than the average unit procurement cost of milk powder for our A-choice Series and Best-choice Series products. The market price of milk powder is volatile and affected by factors beyond our control. If milk powder prices increase and the selling prices for our products do not increase in an amount sufficient to offset the effect of such increases, our profitability may be adversely affected.

Advertising and Promotion

We engage in advertising and promotion activities in order to develop consumer awareness of our products and brand as well as increase our market share. We focus in particular on television advertising, purchasing prime time advertising slots on national and local TV networks, which promote our products and brand to a wider range of potential consumers in China. In addition, we advertise our products on parental education magazines, product catalogues and brochures. Our advertising and promotion expenses represented 15.4%, 17.8%, 10.1% and 10.4% of our revenue for the three years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009.

Tax

Our profits are affected by changes in tax rates, particularly the effective tax rates payable in China. PRC enterprise income tax is calculated based on taxable income determined by PRC accounting principles. Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with the operation period over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT rate reduction holiday. In accordance with the approval from the relevant tax authority, Ausnutria Hunan was granted an EIT exemption from 2004 to 2005, and a preferential EIT rate of 15% in 2006 and 2007 and 12.5% in 2008. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1.2 million in 2008 for part of its local income tax paid in 2006 and 2007.

Seasonality

We experience seasonal fluctuations in our revenue. From 2006 to 2008, revenue generated in the first half of the year was generally lower than revenue generated in the second half of the year. We believe this pattern of seasonality is formed due to a number of factors, including changes in paediatric milk formula consumption patterns during the year due to changes in weather conditions.

	Year ended 31 December					
	2006		2007		2008	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue						
First half	37,567	40.1	80,704	43.3	174,634	43.1
Second half	56,149	59.9	105,822	56.7	230,532	56.9
Total	93,716	100.0	186,526	100.0	405,166	100.0

CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our audited combined financial statements. These accounting policies require the most difficult, subjective or complex judgments of our management, often as a result of the need to make estimates about the effect of matters which are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our audited combined financial statements. The estimates and associated assumptions are based on historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. Actual results may differ from these estimates.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that the discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	25 years
Leasehold improvements	8 years
Machinery	5–8 years
Electronic equipment and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each statement of financial position date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

BASIS OF PRESENTATION

The Financial Information which is based on the audited combined financial statement of the companies now comprising the Group includes the combined statement of comprehensive income, the combined statements of changes in equity, the combined statement of cash flows and the combined statement of financial position of the companies now comprising the Group, as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on combination.

COMBINED RESULTS OF OPERATIONS

Selected Combined Financial Information

The following table sets forth selected combined statement of comprehensive income data for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(unaudited)	
Revenue	93,716	186,526	405,166	174,634	320,972
Cost of sales	(48,443)	(107,729)	(259,163)	(108,258)	(184,711)
Gross profit	45,273	78,797	146,003	66,376	136,261
Other revenue and gain	60	1,045	836	484	4,547
Selling and distribution costs	(21,877)	(43,335)	(56,628)	(27,271)	(44,717)
Administrative expenses	(4,731)	(8,039)	(9,162)	(4,433)	(4,720)
Other expenses	(3,300)	(234)	(695)	(607)	(121)
Finance costs	(536)	(493)	(859)	—	(4,181)
Profit before tax	14,889	27,741	79,495	34,549	87,069
Tax	(3,036)	(5,368)	(8,966)	(4,370)	(21,908)
Profit for the year	11,853	22,373	70,529	30,179	65,161

Revenue

We generate revenue from sale of paediatric milk formula products, with high-priced and premium-priced paediatric milk formula as our major products. Our products are primarily organised into three product series: A-choice Series, Best-choice Series and Allnutria Series.

The following table sets forth our revenue by major product series for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
							(unaudited)			
	Value RMB'000	% of revenue	Value RMB'000	% of revenue	Value RMB'000	% of revenue	Value RMB'000	% of revenue	Value RMB'000	% of revenue
A-choice Series	42,934	45.8	38,187	20.5	59,336	14.6	26,382	15.1	33,833	10.5
Best-choice Series	44,728	47.7	106,809	57.3	173,920	42.9	78,740	45.1	137,088	42.7
Allnutria Series	2,942	3.2	36,531	19.5	161,042	39.8	65,428	37.5	143,847	44.8
Others	3,112	3.3	4,999	2.7	10,868	2.7	4,084	2.3	6,204	2.0
Total	93,716	100.0	186,526	100.0	405,166	100.0	174,634	100.0	320,972	100.0

During the Track Record Period, sales of our higher priced Allnutria Series and Best-choice Series products have experienced higher revenue growth rates than those of the lower priced A-choice Series products.

Sales of our Allnutria Series products, first introduced in late 2006, increased by a CAGR of 639.9% from RMB2.9 million in 2006 to RMB161.0 million in 2008, accounting for 39.8% of our revenue in 2008. Our Best-choice Series products accounted for over 42.9% of our total sales in 2008, with revenue increasing by a CAGR of 97.2% between 2006 and 2008. Although revenue for our A-choice Series products as percentage of overall revenue decreased from 45.8% in 2006 to 14.6% in 2008, the total revenue generated during 2006 to 2008 increased at a CAGR of 17.6%. Revenue for our other products remained between 2.7% and 3.3% of our total revenue during the same period.

Sales of our Allnutria Series, Best-choice Series and A-choice Series products increased by 119.9%, 74.1% and 28.2%, respectively, between the first half of 2008 and first half of 2009. Sales of our Allnutria Series products reached RMB143.8 million, representing 44.8% of our total revenue for the first half of 2009. Best-choice Series and A-choice Series accounted for 42.7% and 10.5% of our total revenue respectively for the first half of 2009. Revenue for our other products remained at 2.0% of our total revenue during the same period.

Sales to our top five customers during 2006, 2007 and 2008 and the first half of 2009 amounted to RMB23.5 million, RMB70.7 million, RMB111.4 million and RMB90.5 million, which accounted for approximately 25.1%, 37.9%, 27.5% and 28.2% respectively, of our overall revenue of the year. We expect that sales to our customers will vary from period to period primarily due to the performance of our customers in selling and distributing our products.

Cost of Sales

For the three year ended 31 December 2006, 2007 and 2008 and the first half of 2009, our costs of sales were RMB48.4 million, RMB107.7 million, RMB259.2 million and RMB184.7 million, respectively. Our costs of sales are comprised of the costs of procuring milk powder and include fees and commissions paid to PRC trading companies, markup paid to MoveUp, packaging materials costs and other costs.

We procure our supplies of milk powder produced by Tatura and Murray Goulburn through PRC trading companies. We believe that the PRC trading companies are more familiar with the relevant import and customs clearance procedures for our milk powder. We generally pay the PRC trading companies fees ranging from approximately 0.6% to 3.0% of the total value of goods imported by the relevant PRC trading companies. We paid aggregate fees of RMB80,000 and 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. 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.

In 2007, 2008 and through to May 2009, we also procured milk powder from MoveUp which sourced their milk powder produced by Tatura and Murray Goulburn through the PRC trading companies. We paid an average markup to MoveUp of approximately 26% to 28% during 2007 and 2008 and approximately 6% during the first 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. 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 fees charged by MoveUp. The amounts of the markup provided 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 a 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. Our PRC legal advisers advised us that, as there was no association between MoveUp and us during the period from entering into the Equity Purchase Agreement to the date of Termination Approval, the transactions between MoveUp and us during the relevant periods do not constitute transfer pricing under PRC law. A similar confirmation has been obtained from the competent local tax administration bureau. Since May 2009, however, we have ceased to procure milk powder through MoveUp. For further information in relation to MoveUp and its relationship with us, please refer to the section headed "History and Corporate Structure" in this document.

The following table sets forth the components of our cost of sales for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
							(unaudited)			
	RMB'000	% of Cost of sales	RMB'000	% of Cost of sales	RMB'000	% of Cost of sales	RMB'000	% of Cost of sales	RMB'000	% of Cost of sales
Milk powder	41,080	84.8	97,064	90.1	240,763	92.9	99,597	92.0	169,195	91.6
Packaging materials	5,377	11.1	8,403	7.8	13,217	5.1	6,171	5.7	12,006	6.5
Others	1,986	4.1	2,262	2.1	5,183	2.0	2,490	2.3	3,510	1.9
Total	48,443	100.0	107,729	100.0	259,163	100.0	108,258	100.0	184,711	100.0

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising and promotion, selling and distribution staff costs, transportation and travel expenses. Selling and distribution expenses were RMB21.9 million, RMB43.3 million, RMB56.6 million and RMB44.7 million respectively during 2006, 2007 and 2008, and the first half of 2009, representing approximately 23.3%, 23.2%, 14.0% and 13.9% of our revenue during those periods. Advertising and promotion expenses were RMB14.4 million, RMB33.2 million, RMB41.0 million and RMB33.3 million respectively during 2006, 2007 and 2008, and the first half of 2009, representing approximately 65.8%, 76.5%, 72.5% and 74.5% of our selling and distribution costs during those periods.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, entertainment and related expenses for administrative personnel, travel and lease. Administrative expenses were RMB4.7 million, RMB8.0 million, RMB9.2 million and RMB4.7 million respectively during 2006, 2007 and 2008, and the first half of 2009, representing approximately 5.0%, 4.3%, 2.3% and 1.5% of our revenue during those periods.

Tax

The Company's subsidiary, Ausnutria Hunan, is subject to EIT at statutory tax rate of 33% (comprising an EIT rate of 30% and a local income tax rate of 3%) in 2006, 2007 and 25% in 2008 and thereafter under the then effective and current PRC income tax laws. Income tax was RMB3.0 million, RMB5.4 million, RMB9.0 million for the three years ended 31 December 2006, 2007 and 2008 respectively.

Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with the operation period over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT rate reduction holiday. In accordance with the approval from the relevant tax authority, Ausnutria Hunan was granted an EIT exemption from 2004 to 2005 and a preferential EIT rate of 15% in 2006 and 2007 and 12.5% in 2008. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by the local tax authority, whereby Ausnutria Hunan was refunded RMB1.2 million in 2008 for part of its local income tax paid in 2006 and 2007. The tax rates applicable to us can be found at note 11 in the section headed "Appendix I — Accountants' Report" to this document.

REVIEW OF HISTORICAL OPERATING RESULTS FIRST HALF OF 2009 COMPARED TO FIRST HALF OF 2008

Revenue

Our revenue increased by 83.8% to RMB321.0 million in the first half of 2009 from RMB174.6 million in the first half of 2008. This was primarily due to an increase in the sales volume of our products, which increased by approximately 72.1% to 3,196 tons in the first half of 2009 from 1,857 tons in the first half of 2008. This increase primarily reflects the increased sales of our Allnutria Series and Best-choice Series products as a result of an increase in consumer awareness of our brand and products. Revenue from our Allnutria Series products increased 119.9% from RMB65.4 million to RMB143.8 million and revenue from our Best-choice Series products increased 74.1% from RMB78.7 million to RMB137.1 million. The average selling prices for our products remained relatively stable.

Cost of Sales

Cost of sales increased by 70.6% to RMB184.7 million in the first half of 2009 from RMB108.3 million in the first half of 2008, which was in line with the increased revenue. As a proportion of our cost of sales, the costs of milk powder decreased from 92.0% in the first half of 2008 to 91.6% in the first half of 2009, which resulted from a decrease in milk powder prices. We procured RMB79.4 million and RMB98.1 million of milk powder from producers in Australia through MoveUp in the first half of 2008 and 2009 respectively at a cost markup of approximately 27% and 6%, respectively. The decrease in milk powder prices was primarily due to the gradual reduction in the volume of milk powder procured through MoveUp in the first half of 2009, with the arrangement ultimately terminating in May 2009.

Gross Profit

Our gross profit was RMB136.3 million in the first half of 2009 as compared with RMB66.4 million in the first half of 2008. Our gross profit margin increased from 38.0% in the first half of 2008 to 42.5% in the first half of 2009, as the increase in our revenue outpaced the increase in our cost of sales due to the decrease in milk powder costs.

Selling and Distribution Expenses

Our selling and distribution expenses increased 64.0% to RMB44.7 million in the first half of 2009 from RMB27.3 million in the first half of 2008. Advertising and promotion expenses increased 66.3% to RMB33.3 million from RMB20.0 million in the first half of 2008. The increase in our selling and distribution expenses is lower than the increase in our revenue between the first half of 2008 and first half of 2009. As a result, selling and distribution expenses as a proportion of our revenue also decreased from 15.6% to 13.9% over the same period.

Administrative Expenses

Administrative expenses increased 6.5% to RMB4.7 million in the first half of 2009 from RMB4.4 million in the first half of 2008 primarily due to an increase in administrative staff costs. The overall increase in our administrative expenses is lower than the increase in our revenue between 2007 and 2008 primarily due to economies of scale.

Profit before Tax

Profit before tax increased 152.0% to RMB87.1 million in the first half of 2009 from RMB34.5 million in the first half of 2008. As a percentage of revenue, profit before tax increased to 27.1% in the first half of 2009 from 19.8% in the first half of 2008 as a result of gross profit margin improvement and lower increases in selling and distribution costs and administrative expenses as compared to our revenue.

Tax

Income tax increased 401.3% to RMB21.9 million in the first half of 2009 from RMB4.4 million in the first half of 2008. The increase in our income tax was at a higher rate than the increase in our profit before tax of the year due to an increase in our effective tax rate from 12.6% in the first half of 2008 to 25.2% in the first half of 2009, which was a result of the expiry of tax concessions we received from the relevant government authorities.

Profit for the Year

Profit for the year increased 115.9% to RMB65.2 million in the first half of 2009 from RMB30.2 million in the first half of 2008. Our net profit margin improved from 17.3% to 20.3% over the same period primarily because the increase in our revenue outpaced the increase in our selling and distribution expenses and administrative expenses, and also because of the improvement of gross profit margin.

REVIEW OF HISTORICAL OPERATING RESULTS 2008 COMPARED TO 2007

Revenue

Our revenue increased 117.2% to RMB405.2 million in 2008 from RMB186.5 million in 2007 primarily due to an increase in the sales volume of our products, which resulted from an increase in consumer awareness of our brand and products, in particular our Allnutria Series products. The average selling prices of our products remained relatively stable. The sales volume of our products increased by approximately 92.4% to 4,269 tons in 2008 from 2,219 tons in 2007, primarily as a result of increases in the sales volume of our Allnutria Series and Best-choice Series products. As a result of the increase in sales volume, revenue from the Allnutria Series products increased 340.8% from RMB36.5 million to RMB161.0 million, and revenue from our Best-choice Series products increased 62.8% from RMB106.8 million to RMB173.9 million.

Cost of Sales

Cost of sales increased 140.6% to RMB259.2 million in 2008 from RMB107.7 million in 2007, primarily reflecting the increase in sales volume and the prices of milk powder. Milk powder costs increased from 90.1% of our cost of sales in 2007 to 92.9% of our cost of sales in 2008. We procured RMB260.8 million of our milk powder from producers in Australia through MoveUp in 2008 at a cost markup of approximately 26%.

Gross Profit

Our gross profit was RMB146.0 million in 2008 as compared with RMB78.8 million in 2007. However, our gross profit margin decreased from 42.2% in 2007 to 36.0% in 2008 as the rate of increase in our cost of sales exceeded the rate of increase in our revenue due to increased milk powder prices and the cost markup charged by MoveUp discussed above.

Selling and Distribution Expenses

Our selling and distribution expenses increased 30.7% to RMB56.6 million in 2008 from RMB43.3 million in 2007. Advertising and promotion expenses increased 23.7% to RMB41.0 million from RMB33.2 million in 2006. The increase in our selling and distribution expenses is lower than the increase in our revenue between 2007 and 2008. However, selling and distribution expenses as a proportion of our revenue also decreased between 2007 and 2008, from 23.2% to 14.0%. This reflects our efforts in better managing our advertising activities and the fact that we did not introduce any new product in 2007.

Administrative Expenses

Administrative expenses increased 14.0% to RMB9.2 million in 2008 from RMB8.0 million in 2007 primarily due to an increase in administrative staff costs. The overall increase in our administrative expenses is lower than the increase in our revenue between 2007 and 2008 primarily due to economies of scale.

Profit before Tax

Profit before tax increased 186.6% to RMB79.5 million in 2008 from RMB27.7 million in 2007. As a percentage of revenue, profit before tax increased to 19.6% in 2008 from 14.9% in 2007 as a result of the lower increase in selling and distribution costs, and administrative expenses which offset the faster increase in cost of goods sold.

Tax

Income tax increased 67.0% to RMB9.0 million in 2008 from RMB5.4 million in 2007. The increase was at a lower rate than the increase in our profit before tax of the year due to a decrease in our effective tax rate. The effective tax rates for 2008 and 2007 were 11.3% and 19.4%, respectively, which reflected our lower preferential tax treatment in 2008 compared to 2007 and tax refunds from the government in the amount of RMB1.2 million.

Profit for the Year

Profit for the year increased 215.4% to RMB70.5 million in 2008 from RMB22.4 million in 2007. Our net profit margin improved from 12.0% in 2007 to 17.4% in 2008 primarily because the increase in revenue outpaced the increase in selling and distribution expenses and administrative expenses.

REVIEW OF HISTORICAL OPERATING RESULTS 2007 COMPARED TO 2006

Revenue

Our revenue increased 99.0% to RMB186.5 million in 2007 from RMB93.7 million in 2006, primarily due to an increase in the sales volume of our products. The average selling prices for our products remained relatively stable. The sales volume of our products increased approximately 60.7% to 2,219 tons in 2007 from 1,381 tons in 2006, primarily as a result of increases in the sales volume of our Allnutria Series and Best-choice Series products. This was due to the successful promotion of our Allnutria Series products which was first introduced at the end of 2006, and our Best-choice Series products. Revenue from our Allnutria Series products increased substantially from RMB2.9 million in 2006 to RMB36.5 million in 2007 reflecting a full year of sales of our Allnutria Series products following its introduction at the end of 2006. Revenue from the sales of our Best-choice Series products increased 138.8% from RMB44.7 million to RMB106.8 million.

Cost of Sales

Cost of sales increased 122.4% to RMB107.7 million in 2007 from RMB48.4 million in 2006, as a result of an increase in sales volume and increase in milk powder prices. We procured RMB15.7 million of milk powder from producers in Australia through MoveUp in 2007 at a cost markup of approximately 28%. We did not procure any milk powder through MoveUp in 2006. Consequently, our cost of sales increased at a rate higher than the increase of our revenue.

Gross Profit

Our gross profit increased 74.0% to RMB78.8 million in 2007 from RMB45.3 million in 2006. Our gross profit margin decreased from 48.3% in 2006 to 42.2% in 2007 as the rate of increase in our cost of sales exceeded the rate of increase in our revenue.

Selling and Distribution Expenses

Our selling and distribution expenses increased 98.1% to RMB43.3 million in 2007 from RMB21.9 million in 2006, which was in line with the increase of our revenue as a result of the new Allnutria Series launched at the end of 2006.

Administrative Expenses

Administrative expenses increased 69.9% to RMB8.0 million in 2007 from RMB4.7 million in 2006 primarily due to increase in administrative staff costs resulting from growth in our business which required us to employ more staff. The overall increase in our administrative expenses as a percentage of total revenue is lower than the increase in our revenue between 2006 and 2007 primarily due to economies of scale.

Profit before Tax

Profit before tax increased 86.3% to RMB27.7 million in 2007 from RMB14.9 million in 2006. As a percentage of revenue, profit before tax decreased to 14.9% in 2007 from 15.9% in 2006, primarily as a result of decrease in our gross profit margin.

Tax

Income tax increased 76.8% to RMB5.4 million in 2007 from RMB3.0 million in 2006. Effective tax rate decreased to 19.4% in 2007 from 20.4% in 2006, as a result of a decrease in expenses not deductible for tax between 2006 and 2007.

Profit for the Year

Profit for the year increased 88.8% to RMB22.4 million in 2007 from RMB11.9 million in 2006. Our net profit margin decreased from 12.6% in 2006 to 12.0% in 2007 primarily because the increase in cost of sales outpaced the increase in revenue.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations principally through cash generated from our operations. Our principal liquidity and capital requirements relate to the following: costs and expenses related to the operation of our business and the operation of our production facilities; and capital expenditures for the upgrade of existing facilities and construction of new production facilities.

Our Directors are of the opinion that after taking into account the existing financial resources available to us and the expected internally-generated funds, we have sufficient working capital for at least the next 12 months from the date of this document.

Cash Flows

The following table sets forth the selected cash flows from our combined statement of cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000				
				(unaudited)	
Net cash inflow from operating activities	17,669	5,123	45,554	2,548	75,297
Net cash outflow from investing activities	(680)	(6,715)	(24,074)	(19,052)	16,151
Net cash (outflow)/inflow from financing activities .	(964)	5,088	31,215	(18)	(30,254)
Cash and cash equivalents .	21,448	24,939	77,659	8,417	138,843

Cash flows from Operating Activities

During the Track Record Period, we generally used our net cash inflow generated from operating activities to make payments for our purchase of raw materials. We also used part of such cash inflow to purchase equipment for the building of additional production lines.

Net cash inflow generated from operating activities for the six months ended 30 June 2009 was RMB75.3 million, while our profit before tax for the same period was RMB87.1 million. The difference of RMB11.8 million was primarily attributable to a decrease in inventories of RMB31.8 million which was offset by the increase of prepayments, deposits and other receivables of RMB31.8 million and the increase of trade and bills receivables of RMB18.1 million. The decrease in the inventories was primarily due to the increase in sales volume in the first half of 2009. The increase in our prepayments, deposits and other receivables was primarily due to the increase of prepayments to suppliers from RMB13.7 million as at 31 December 2008 to RMB43.0 million as at 30 June 2009. The increase in our trade receivables was primarily attributable to our business expansion during the six months ended 30 June 2009.

Net cash inflow generated from operating activities in 2008 was RMB45.6 million, while our profit before tax for the same period was RMB79.5 million. The difference of RMB33.9 million was primarily attributable to an increase in inventories of RMB51.1 million which was offset by the decrease of prepayments, deposits and other receivables of RMB18.2 million and the increase of bills payable and trade payable of RMB12.2 million. The increase in the inventories was primarily related to increases in our business volume, which required us to accumulate a larger quantity of inventory to ensure stable supply to our distributors. The decrease in our prepayments, deposits and other receivables was primarily due to the decrease of prepayment to suppliers from RMB30.0 million to RMB13.7 million between 2007 and 2008. The increase in our trade payables was primarily attributable to our business expansion in 2008.

Net cash inflow generated from operating activities in 2007 was RMB5.1 million, while our profit before tax for the same period was RMB27.7 million. The difference of RMB22.6 million was primarily attributable to an increase in inventories of RMB20.3 million and increase in prepayments, deposits and other receivables of RMB21.6 million, offset by the increase of other payables and accruals of RMB21.4

million. The increase in the inventories and prepayments, deposits and other receivable were related to increases in our business volume and scale. The increase in other payables was primarily attributable to our business expansion in 2007.

Net cash inflow generated from operating activities in 2006 was RMB17.7 million, while our profit before tax for the same period was RMB14.9 million. The difference of RMB2.8 million was primarily attributable to an increase in inventories of RMB5.3 million, trade receivables of RMB5.3 million and prepayments, deposits and other receivables of RMB7.8 million, offsetted by the increase of other payables and accruals of RMB19.3 million. The increase in the inventories, trade receivables, and prepayments, deposits and other receivables were primarily related to increases in our business volume and scale. The increase in other payables was attributable to our business expansion in 2006.

Cash flows from Investing Activities

Net cash generated from investing activities for the six months ended 30 June 2009 was RMB16.2 million. The cash inflows related primarily to decrease in amounts due from related parties included in prepayments, deposits and other receivables in the amount of RMB18.0 million and offset by the purchase of property, plant and equipment to increase our manufacturing capacity in the amount of RMB1.9 million.

Net cash used in investing activities in 2008 was RMB24.1 million. The cash outflows related primarily to the purchase of property, plant and equipment to increase our manufacturing capacity in the amount of RMB6.1 million and increase in amount due from related parties included in prepayments, deposits and other receivables in the amount of RMB18.0 million. This amount has been fully settled.

Net cash used in investing activities in 2007 was RMB6.7 million. The cash outflows related primarily to the purchase of property, plant and equipment to increase our manufacturing capacity in the amount of RMB7.1 million.

Net cash used in investing activities in 2006 was RMB0.7 million. The cash outflows related primarily to the increase in amounts due from related parties included in prepayments, deposits and other receivables in the amount of RMB0.5 million.

Cash flows from Financing Activities

Our net cash used in financing activities for the six month ended 30 June 2009 was RMB30.3 million, comprising primarily the repayment of the RMB30.0 million bank loan we obtained from the Bank of Changsha in 2008.

Our net cash generated from financing activities in 2008 was RMB31.2 million, comprising primarily the proceeds of the RMB30.0 million bank loan we obtained from the Bank of Changsha.

Our net cash inflow from financing activities in 2007 was RMB5.1 million, comprising primarily the increase in amounts due to related parties.

Our net cash used in financing activities in 2006 was RMB0.96 million which resulted primarily from the decrease in amounts due to related parties included in other payables and accruals.

Inventories, Receivables and Payables

The following table sets forth certain financial ratios for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2006	**2007**	**2008**	**2009**
Inventory days[(1)]	64	98	113	47
Trade receivable days[(2)]	22	9	6	14
Trade payable days[(3)]	21	8	20	13

Notes:

(1) Calculated as the ending inventory balances for the period, divided by the cost of sales for the period, multiplied by 365 days, in respect of year periods, or 182 days for the six-month period in 2009.

(2) Calculated as the ending trade and bills receivables balances for the period, divided by revenue for the period, multiplied by 365, in respect of year periods, or 182 days for the six-month period in 2009.

(3) Calculated as the ending trade payables balances for the period, divided by the cost of sales in the period, multiplied by 365, in respect of year periods, or 182 days for the six-month period in 2009.

Inventories

Our inventories decreased 39.9% from RMB80.0 million as of 31 December 2008 to RMB48.1 million as of 30 June 2009. The inventory days decreased to 47 days for the six months ended 30 June 2009 compared with 113 days for the year ended 31 December 2008. The decrease of inventory days was primarily due to our improved inventory management which focused on reducing our inventory level of finished goods and shortening the delivery period to our distributors in the first half of 2009. As at 31 August 2009, RMB34.6 million out of the RMB48.1 million inventories as at 30 June 2009 were sold or utilised.

Our inventories increased 177.4% from RMB28.8 million as of 31 December 2007 to RMB80.0 million as of 31 December 2008. The inventory days increased to 113 days in the year ended 31 December 2008 compared with the year ended 31 December 2007 at 98 days. The increase of inventory days was due to our adoption of a more conservative inventory management approach under which we accumulated a larger quantity of inventory so as to ensure stable and uninterrupted supply to our distributors. In particular, towards the end of 2008, we decided to accumulate more inventory due to expected sales increase after the melamine incident. All the inventories as of 31 December 2008 were sold during the three months ended by 31 March 2009.

Our inventories increased 237.9% from RMB8.5 million as of 31 December 2006 to RMB28.8 million as of 31 December 2007. The inventory days increased to 98 days in the year ended 31 December 2007 compared with the year ended 31 December 2006 at 64 days. The increase of inventory days was due to our adoption of a more conservative inventory management approach under which we accumulated a larger quantity of inventory so as to ensure stable and uninterrupted supply to our distributors.

The following table sets forth, as of the balance sheet dates indicated, our inventory positions.

	As of 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000			
Raw materials	4,856	14,893	29,929	35,606
Finished goods	1,421	9,778	43,891	8,512
Others	2,254	4,153	6,145	4,001
Total	8,531	28,824	79,965	48,119

Receivables

Our distributors are generally required to make payments in advance of receiving supplies of our products. We therefore generally invoice our customers with each transportation of goods after receiving cash or bank notes from our customers. As such, no trade and bills receivables are generally generated and we are therefore are not exposed to material risk of bad or doubtful debts of our customers. However, we occasionally grant credit for not more than 90 days to some of our customers with longstanding relationships with us and with good track records. As a result, we generate trade and bills receivables in relation to sales to these customers. Our trade and bills receivables decreased from RMB5.7 million as of 31 December 2006 to RMB4.5 million as of 31 December 2007, increased to RMB6.4 million as of 31 December 2008 and increased to RMB24.5 million as of 30 June 2009. The trade receivable days decreased from 22 days in 2006 to nine days in 2007 and six days in 2008. The continuing decrease in trade receivable days during 2006, 2007 and 2008 was primarily due to the tightening of our credit policy. The trade receivable days increased from six days in 2008 to 14 days for the six months ended 30 June 2009 primarily due to the increase of bills receivables by an amount of RMB16.3 million. This amount was granted by us to promote business as we have sufficient working capital for our daily operations. As at 30 June 2009, RMB6.3 million out of the RMB6.4 million receivables as at 31 December 2008 were settled. As at 31 August 2009, RMB20.2 million of the RMB24.5 million trade and bills receivables as at 30 June 2009 were settled. There had been no material deterioration in our customer credit quality leading to our tightening of credit policy over the Track Record Period.

The following table sets forth, as of the balance sheet dates indicated, the aged analysis of the trade and bills receivables:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB'000			
Within 3 months	4,737	3,521	6,267	8,079
3 to 6 months	965	1,023	—	16,372
Over 6 months	1,560	—	88	19
	7,262	4,544	6,355	24,470
Less: impairment	(1,560)	—	—	—
Total	5,702	4,544	6,355	24,470

Payables

Our trade payables as recorded on our balance sheet are generated from the purchase from our suppliers of raw materials and other supplies.

Our trade payables decreased from RMB2.8 million as of 31 December 2006 to RMB2.3 million as of 31 December 2007, increased to RMB14.5 million as of 31 December 2008, and decreased to RMB12.9 million as at 30 June 2009. The trade payable days decreased from 21 days in 2006 to eight days in 2007 as a result of decrease in trade payables and increase in cost of sales. The trade payable days subsequently increased to 20 days in 2008. The increase was primarily due to unsettled payment of certain purchases of raw materials which we did not settle payment as at 31 December 2008. The trade payable days decreased from 20 days in 2008 to 13 days for the six months ended 30 June 2009, which was primarily due to settlement of payment for purchases of raw materials. All the trade payables as at 31 December 2008 were settled as at 30 June 2009, and RMB12.2 million out of the RMB12.9 million of trade payables as at 30 June 2009 were settled by 31 August 2009.

The following table sets forth, as the end of the periods indicated, the aged analysis of the trade payables:

	As of 31 December			Six months ended 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000			
Within 2 months	2,635	2,267	14,463	12,009
Over 2 months	120	—	17	859
Total	2,755	2,267	14,480	12,868

Prepayments, Deposits and other Receivables

Our prepayment, deposits and other receivables primarily included prepayments to suppliers and amount due from related parties. As at 31 December 2006, 2007 and 2008 and 30 June 2009, our prepayment to suppliers were RMB10.9 million, RMB30.0 million, RMB13.7 million and RMB43.0 million respectively. The balance of prepayments to suppliers included advances to our packaging supplier of RMB5.0 million and RMB10.0 million as at 31 December 2007 and 2008, respectively. The amounts were advanced to our suppliers in order to secure a stable supply of packaging materials which is important for our business operations. The advances bore the interest rates ranging from 2% to 5% per annum and had no fixed term of repayment. Since 1 January 2009, we no longer charge any interest.

As at 30 June 2009, RMB8.3 million out of the RMB13.7 million of prepayment to suppliers as at 31 December 2008 were utilised. RMB28.2 million out of the RMB43.0 million of prepayment to suppliers as at 30 June 2009 were utilised by 31 August 2009.

Our PRC legal advisers have advised us that PRC companies are not allowed to extend loans to one another except by way of entrusted loan or fiduciary loan arrangements through a financial institution as intermediary. Accordingly, our PRC legal advisers advised that our direct advances made to our suppliers and certain of our then shareholders during the Track Record Period and the interests generated from the advances may be in violation of the requirements under General Principles of Loans of the People's Bank of China and the potential maximum penalty that could be imposed by the relevant PRC governmental authorities was a fine of an amount up to five times the interest income received. On the basis of the relevant interest income derived by us during the three financial years ended 2006, 2007 and 2008, and the six months ended 30 June 2009 which were approximately nil, RMB0.32 million, RMB0.5 million and RMB3.29 million, the potential maximum penalty applicable is approximately RMB20.5 million. Our Directors confirmed that most of the advances have been utilised to settle payment required in respect of our procurement of materials from the suppliers and no penalty has been imposed by relevant PRC government authorities in respect of such advances as of the Latest Practicable Date. Mr Wu as the Controlling Shareholder, has agreed to indemnify and keep our Group indemnified against the aforementioned potential penalty in the event that the relevant PRC government authorities impose such penalty on us. Our Directors confirmed that we have not made such advances to third parties since the end of 2008 and will not make such advances in the future.

Amount due from related parties increased to RMB18.1 million as of 31 December 2008 from RMB90 thousand as of 31 December 2007. The increase is due to a loan of RMB18.0 million to Xin Da Xin. The loan was fully settled in April 2009.

Other Payables and Accruals

Other payables and accruals primarily consist of advances from customers, customer deposits, amounts due to related parties and accrued salary and welfare. As at 31 December 2006, 2007 and 2008 and 30 June 2009, advances from customers were RMB20.2 million, RMB38.8 million, RMB31.8 million and RMB36.1 million, respectively. By 30 June 2009, RMB31.6 million out of the RMB31.8 million of the advances from customers as of 31 December 2008 have been used as payments for products sold to our customers. In addition, by 31 August 2009, RMB35.6 million out of the balance of advances from customers of RMB36.1 million as of 30 June 2009 have been applied towards payments for products sold to our customers.

Customer deposits remained stable, and as of 31 December 2006, 2007 and 2008 and 30 June 2009 amounted to RMB9.1 million, RMB9.8 million, RMB8.5 million and RMB8.3 million, respectively. The amount remained stable during 2006, 2007 and 2008 and the first half of 2009 despite the growth in our sales as we generally kept the initial deposit amount payable by new distributors wishing to sell and distribute our products fixed and we refunded certain deposit amounts to our existing distributors with whom we have an established relationship.

The amount of accrued salary and welfare increased at a CAGR of 60.4% from RMB2.6 million as of 31 December 2006 to RMB6.7 million as of 31 December 2008. This increase was primarily due to the growth in our business operations which required us employing more staff. The amount of accrued salary and welfare decreased to RMB5.1 million as we settled the accruals prior to 30 June 2009.

Amount to related parties as of 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB7.8 million, RMB12.9 million, RMB14.1 million and RMB116.3 million, respectively. The significant increase of the amount to related parties was primarily due to other payables and accruals to Xin Da Xin and Chen Yuanrong in the amounts of RMB80.6 million and RMB21.9 million, respectively, as a result of the Reorganisation. These payables and accruals were fully settled in July 2009. Details can by found in Appendix I — Accountants' Report Note 22 and Note 28 of this document.

CAPITAL EXPENDITURES

Our capital expenditures amounted to RMB0.14 million, RMB7.2 million, RMB6.1 million and RMB1.9 million in 2006, 2007 and 2008 and for the first half of 2009, respectively. These expenditures primarily related to expansion of our production facilities located at No. 2 East Wangwang Road, Changsha and purchasing of computer software.

In respect of our future plans and developments, since we have not entered into any contractual commitment to make capital expenditures, we do not have any commitments for capital or other major expenditures in this regard as at the Latest Practicable Date.

INDEBTEDNESS

Bank and Other Borrowings

As at 31 December 2006, we obtained loans of RMB6.5 million from Xin Da Xin. The loans bore interest at rates ranging from 5.58% to 7.00% per annum and had no fixed terms of repayment. The loans were fully repaid in November 2007.

In August 2008, we were granted by Bank of Changsha, previously known as Changsha Commercial Bank, a short-term loan facility in an aggregate amount of RMB30 million. Such loan facility was secured by our properties and production facilities. The proceeds of the short term loan facility was intended to be used to finance the purchase of inventory as we expected milk powder prices to increase. However, due to the unexpected global financial crisis, in anticipation of a drop in milk powder costs, we cancelled the procurement orders. As a result, although we drew down the facility granted by Bank of Changsha, the facility was not utilised and was placed as a deposit with Bank of Changsha. The loan bore market interest rate and the monthly interest rate was 0.6225%. The loan was repaid on 22 June 2009 and the facility remains available to us till 25 July 2011.

In June 2009, we were granted by the Hunan branch of Bank of China a letter of credit facility in an aggregate amount of US$4.0 million. Such credit facility was guaranteed by Xin Da Xin and Xin Da Xin did not in turn obtain any security from our Group. We intend to utilise the credit facility to guarantee payment for raw materials that we purchase. The facility will enable us to settle the cash payment obligation upon the delivery of purchased raw materials instead of making an advance payment upon making the purchase order.

At of 31 August 2009, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, our total banking facilities comprise of an unutilised short term loan facility of RMB30 million and an available letter of credit facility for an amount of up to US$4.0 million. We did not have outstanding bank loans as of 31 August 2009. The following table sets forth, as of the balance sheet dates indicated, the borrowings of our Group:

	Year ended 31 December			As at 30 June	As at 31 August
	2006	2007	2008	2009	2009
	RMB'000				
					(unaudited)
Borrowing from a related party-unsecured and repayable within one year	6,500	—	—	—	—
Bank loan-secured and repayable within one year	—	—	30,000	—	—
Total borrowings	6,500	—	30,000	—	—

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have the following future minimum lease payments under non-cancellable operating leases falling due as follows for locating our head office which we lease from Xin Da Xin:

	Year ended 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000			
Within one year	—	420	420	210

NET CURRENT ASSETS/LIABILITIES

The following table sets forth the net current assets as of the balance sheet dates indicated:

	As at 31 December			As of 30 June	As of 31 August
	2006	2007	2008	2009	2009
	RMB'000				
					(unaudited)
CURRENT ASSETS					
Inventories	8,531	28,824	79,965	48,119	77,809
Trade and bills receivables	5,702	4,544	6,355	24,470	29,703
Prepayments, deposits and other receivables	11,886	33,084	33,865	46,768	36,161
Cash and cash equivalents	21,448	24,939	77,659	138,843	95,998
Total current assets	47,567	91,391	197,844	258,200	239,671
CURRENT LIABILITIES					
Trade payables	2,755	2,267	14,480	12,868	13,849
Other payables and accruals	45,344	71,680	69,889	188,738	43,215
Interest-bearing bank loans	—	—	30,000	—	—
Tax payable	2,930	7,706	7,124	18,120	18,635
Total current liabilities and total liabilities	51,029	81,653	121,493	219,726	75,699
NET CURRENT ASSETS/ (LIABILITIES)	(3,462)	9,738	76,351	38,474	163,972

Our financial position changed from a net current liability position of RMB3.5 million to a net current asset position of RMB9.7 million as at 31 December 2007. Our net current asset position increased to RMB76.4 million as at 31 December 2008. The improvement was primarily due to the increases in inventories and prepayments, deposits and other receivables. Our net current assets position subsequently decreased to RMB38.5 million as at 30 June 2009, which was due to the aforementioned significant increase in our other payables and accruals. As at 31 August 2009 which is the latest practicable date such information was available to us, our net current assets amounted to RMB164.0 million.

Except for the contractual obligations set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our audited combined financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an uncombined entity that serves ascredit, liquidity or market risk support to such entity. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us. Our Directors are of the view that since 31 August 2009, there has been no material change in our indebtedness and contingent liabilities 31 August 2009, being the latest practicable date prior to the printing of this document.

MAJOR FINANCIAL RATIOS

Gearing ratio

Gearing ratio is calculated by dividing total interest-bearing bank loan by total assets as at each balance sheet date. Our gearing ratios as at 31 December 2006, 2007 and 2008 and 30 June 2009 were nil, nil, 13.2% and nil respectively.

Return on equity

Return on equity is calculated by dividing net profit for the period by total equity amounts as at the end of such period. Our return on equity increased from 63.9% in 2007 to 66.8% in 2008. Our return on equity for 2006 is not meaningful as our equity amount was a negative amount of RMB0.78 million.

Return on assets

Return on assets is calculated by dividing net profit for the period by total assets amounts at the end of the period. Our return on assets decreased from 23.6% to 19.2% between 2006 and 2007. The decrease was due to assets being transferred into our Company by our then shareholders, which led to the higher rate of increase in our total assets than growth in our net profit. The return on assets subsequently increased to 31.1% in 2008.

Current ratio

Current ratio is calculated by dividing the total current assets by the total current liabilities. As at 31 December 2006, 2007 and 2008 and 30 June 2009, our current ratio was approximately 0.9, 1.1, 1.6 and 1.2, respectively. The increase in our current ratio between 2006 and 2008 was primarily because our inventories, cash and cash equivalents increased at a relatively higher rate than the increase in our current liabilities. The decrease in the current ratio as of 30 June 2009 was primarily due to the aforementioned significant increase in our other payables and accruals.

DIVIDEND AND DIVIDEND POLICY

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

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

Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Companies Law, including the approval of the shareholders of the Company.

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

MARKET RISKS

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to our debt obligations with floating interest rates. The effective interest rates and terms of repayment of the amounts due to related parties and the interest-bearing bank borrowings of the Group are set out in note 23 and note 24 respectively to this report in the Appendix I in this document.

Credit Risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of cash and bank balances, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

At the end of each of the relevant periods, there was no significant concentration of credit risk.

Foreign Exchange Risk

The Group's businesses are principally located in the PRC and the Group's sales and purchases were mainly settled in RMB, even though the purchase prices of the milk powders are determined by reference to the prevailing prices of the global market at the prevailing currency of US dollars. As at the balance sheet date, all the Group's assets and liabilities were denominated in RMB, except for cash and bank balances amounting to RMB2,000, RMB8,000, RMB6,000 and RMB14,000 denominated in foreign currencies as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. Accordingly, there would be no material impact on the Group's profit or loss and there would be no material impact on the Group's equity from changes in exchange rates.

PROFIT FORECAST

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

OWNED PROPERTIES AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests of our Group, comprising our Operations, as at 31 July 2009. Texts of its letters, summary of valuation and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in "Appendix IV — Property Valuation" in this document.

The total valuation of our property interests as at 31 July 2009 as stated in "Appendix IV — Property Valuation" in this document is RMB54.1 million (approximately HK$61.4 million).

The table below set forth the reconciliation of the valuation figures of our Group's properties:

	RMB'000
Net book value of property interests of the Group as at 30 June 2009	18,608
Movements for the 1 month ended 31 July 2009	(69)
Net book value as at 31 July 2009	18,539
Valuation surplus	35,559
Valuation at 31 July 2009 per Appendix IV	54,098

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2009, which is the date at which our latest audited financial statements were prepared.