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This summary aims to give you an overview of the information contained in this Prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the Prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" of this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading player in China's pediatric milk formula industry. We manufacture, market and sell our family of products in China under two widely-recognized brands targeting different consumer groups, with *Yashily* mainly marketed to mid-end and upper-end consumers and *Scient* geared towards high-end consumers. We are committed to creating trusted nutritional brands and products which promote the healthy development of infants and children throughout China. Our comprehensive pediatric milk formula portfolio addresses a broad range of nutritional needs for infants, young children and expectant and nursing mothers. We have approximately 20 years of experience in the dairy products and nutritional food industries, during which we have developed and improved many popular products. Our business model integrates imported high-quality dairy raw materials, proprietary product formulas, a first-class manufacturing system and localized consumer marketing expertise.

Our Key Products

Leading position and distribution network

Our *Yashily* and *Scient* brands are two of China's leading brand names in the pediatric milk formula market. We are the third largest domestic pediatric milk formula producer with approximately 7.6% market share in terms of total retail sales value in China in 2009, according to AC Nielsen. In particular, we believe we have been highly successful in establishing a leading position in second- and third-tier cities, which are experiencing rapid economic growth. As of 30 June 2010, we primarily sold our products to consumers through more than 1,300 regional distributors, which further distributed our products directly and indirectly to over 80,000 retail outlets, including local grocery stores, regional retail chains, specialty stores and national retail chains across every province, municipality and autonomous region in China. Our extensive sales and distribution reach has allowed us to establish a comprehensive nationwide network effectively covering not only modern retail formats, such as retail chains, but also traditional retail formats, such as local grocery stores. We deploy more than 28,000 sales promoters in over 19,000 selected retail locations to promote the sales of our products. In addition, our extensive distribution network is supported by over 2,000 sales and marketing staff. We believe our leading position in second- and third-tier cities and our strength in traditional retail formats effectively differentiate us from multinational and domestic competitors and allow us to successfully deliver high-quality products. We further believe we are well-positioned to capitalize on the rapid growth of the domestic pediatric milk formula industry, which is driven by increased urbanization, a stable birth rate and the increases in disposable income and number of working mothers in China.

The impact of the 2008 nationwide melamine incident

On 16 September 2008, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, or the AQSIQ, announced that the products of 22 domestic pediatric milk formula producers, including ours, were found to be contaminated with melamine, a substance not

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approved for use in food and linked to the development of health problems of infants and children in China. We believe that this incident was due to some raw milk dealers who added melamine to raw milk to artificially inflate its protein level. Although we did not add melamine to the affected products nor did we have any relationship with such dealers, and despite the fact that no industry standard or government regulation existed in China for the detection of melamine at the time, we were nevertheless accountable for product liabilities as the producer of melamine-contaminated products. We immediately conducted a compulsory recall of all contaminated lots of products and further conducted voluntary recalls for all of our pediatric milk formula products and milk powder for adults and teenagers manufactured prior to 14 September 2008. We also suspended our production and cooperated with relevant government agencies on inspection and examination requests for our products and production facilities. While an administrative sanction was levied against Scient (Guangzhou) by Guangzhou Administration of Industry and Commerce on 14 April 2009 as a result of the 2008 nationwide melamine incident, it was mitigated by such authority in light of our proactive measures to perform timely product recalls. With the approval of the State Council, China Dairy Industry Association and the 22 companies, including us, set up a compensation fund in late 2008 to compensate the affected infants and families of contaminated milk powder. We have authorized China Dairy Industry Association to make such compensation and contributed RMB61.2 million to fulfill our relevant compensation responsibilities to those infants or families who registered with relevant health administrative authorities or medical institutions for compensation. We incurred losses arising from the melamine incident, primarily consisting of write-off of inventories and inventory disposal costs for the recalled products, of RMB787.1 million in 2008. We also had losses arising from the melamine incident of RMB1.3 million and RMB1.0 million for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively. For more details, please see the sections headed “— The 2008 nationwide melamine incident and our improved quality control” and “Business — Quality assurance, quality control and safety”.

Our quality assurance and strategy of imported milk source

We strive to be a premier pediatric milk formula company through our focus on quality and safety. In response to the 2008 nationwide melamine incident, we made a major strategic decision to transition from using domestically produced dairy materials to importing premium, high-quality raw materials for our pediatric milk formula products. Since the end of June 2010, we have been using and plan to continue procuring 100% imported raw milk powder from high-quality overseas dairy sources, primarily in New Zealand, for producing our pediatric milk formula products. We believe our policy of importing high-quality dairy materials enables us to distinguish ourselves from other domestic pediatric milk formula manufacturers, who generally source all or a significant portion of their dairy materials locally. In addition, our comprehensive system of quality control spans the entire value chain and consists of various measures instituted across sourcing, manufacturing and distribution. We conduct our production process in GMP-certified plants and have passed multiple certification tests for quality control measures, such as ISO9001 for quality control management, HACCP for food safety management, ISO14001 for environmental management and OHSAS 18001 for occupational health and safety management.

Our Other Products

While we are focused on our core products of pediatric milk formula, we also produce, market and sell other nutritional food products under the *Yashily* brand that offer us additional growth potential. Our products in this segment include soymilk powder, cereal, rice flour and milk powder for adults and

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teenagers. We are a leader in the soymilk powder market in China, with the second largest market share of approximately 14.9% in terms of retail sales in 2009 according to Kantar Worldpanel, an international market research company. After we started using 100% imported raw milk powder for the production of our pediatric milk formula products, all of the raw milk that we source in China has been processed to manufacture milk powder for adults and teenagers or whole milk powder sold externally for industrial food manufacturing purposes.

The combination of China's rapidly growing economy, greater awareness of pediatric nutrition options and increasing disposable income has resulted in greater demand for our products. We achieved a total revenue of RMB2,892.2 million and profit for the year of RMB469.9 million in the year ended 31 December 2007. For the year ended 31 December 2008, our revenue was RMB2,751.6 million and we had a loss for the year of RMB614.8 million, which was mainly attributable to the cost of and expenses relating to product recalls and decreased sales from the second half of September 2008 as a result of the 2008 nationwide melamine incident. For the year ended 31 December 2009, our total revenue was RMB2,586.0 million and we achieved profit for the year of RMB402.4 million. For the six months ended 30 June 2010, our revenue amounted to RMB1,375.5 million and our profit for the period was RMB241.0 million, representing an increase of 22.0% over the same period in 2009.

Due to our net loss in 2008, we were not able to satisfy the profit test requirements in Rule 8.05(1) of the Listing Rules and therefore applied for the Listing pursuant to the market capitalization/revenue/cash flow test under Rule 8.05(2) of the Listing Rules.

OUR COMPETITIVE STRENGTHS

We believe that our success is attributable to the following competitive strengths:

- We are a leading player in the pediatric milk formula market in China's fast-growing second- and third-tier cities.
- We have a nationwide and widely-recognized brand portfolio.
- We have a comprehensive nationwide sales and distribution network effectively covering not only modern retail formats but also traditional retail formats.
- We are committed to maintaining strict standards of quality control and food safety.
- We have a localized and experienced research and development team dedicated to the Chinese consumer market.
- We have a dedicated and experienced management team with strong execution abilities and global vision.

OUR BUSINESS STRATEGIES

Our long-term goal is to reinforce our leading position in the PRC pediatric nutrition market by pursuing the following strategies:

- Continue to pursue excellence in quality.

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- Continue to expand and solidify our sales and marketing channels.
- Continue to optimize our product portfolio and enhance our research and development capabilities.
- Continue to strengthen our brand recognition.
- Expand our production facilities and continue to upgrade our manufacturing capabilities.

OUR BUSINESS MODEL

We manufacture, market and sell our family of pediatric milk formula and nutritional food products in China. Prior to September 2008, domestically procured raw milk and base milk powder were the primary raw materials we used to produce the pediatric milk formula products we sold. Following the 2008 nationwide melamine incident, we made a major strategic decision to transition from using domestically produced dairy materials to importing premium, high quality raw milk powder from well-established overseas suppliers to secure reliable and high-quality raw materials for our pediatric milk formula products. For the years ended 31 December 2008 and 2009 and for the six months ended 30 June 2010, approximately 10%, 66% and 78% of our pediatric milk formula products and approximately 7%, 76% and 40% of our milk powder products for adults and teenagers were produced using raw milk sourced from overseas. Since the end of June 2010, we have been using 100% and will continue procuring imported raw milk powder from high-quality overseas sources for the production of pediatric milk formula products in our production plants in China. The majority of our imported raw milk powder is sourced from three major milk processors in New Zealand, namely Synlait Milk Limited, Fonterra Limited and Open Country Dairy Limited. For the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, we sourced approximately 563 tonnes, 415 tonnes, 11,324 tonnes and 10,896 tonnes of our imported raw milk powder from these three major suppliers, respectively, accounting for approximately 70.3%, 16.1%, 81.7% and 92.1% of our total imported raw milk powder by volume for the same periods. As a result, our business is dependent on such major New Zealand milk processors and other raw milk powder suppliers we may identify in the future. The fluctuation in purchase prices and the availability of imported raw milk powder may affect our raw material costs and operations. Therefore, our financial results during the Track Record Period may not be comparable after our transition to importing raw milk powder from overseas sources following the 2008 nationwide melamine incident.

We have secured a one-year supply agreement with Open Country Dairy Limited, pursuant to which we are to be provided with approximately 10,800 tonnes of raw milk powder in various quantities spread over four quarters of the year from September 2010 to August 2011. Prices will be negotiated monthly and at least two months in advance in separate purchase order contracts. We reserve the right to adjust the monthly order quantity by 20% according to our production plan. The quantities to be provided are subject to price confirmation and the availability of raw milk powder upon milk flows and production capacity. We have entered into discussions with Synlait Milk Limited on entering into renewable annual supply contracts for raw milk powder and, pending successful outcome of the discussions, we expect to reach a supply agreement with the same for the year 2011 by the end of November 2010. All sales of Fonterra's products are conducted through its online platform on which customers bid for its products, and, as such, we do not enter into any periodic supply agreements with Fonterra.

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In 2009, we imported a substantial portion, or approximately 55% in terms of volume, of our raw milk powder sourced mainly from New Zealand and Australia through Victory Trading, which was not part of our Group at the time. We procured approximately 37% of our imported raw milk powder directly from overseas suppliers in 2009. A small portion, or approximately 8%, of our imported raw milk powder was purchased through other third-party suppliers engaged in the trading of raw milk powder and raw materials. We typically conclude one-year supply contracts with such third-party trading companies, stipulating the type of products to be provided, price determination mechanism, product inspection methods, delivery method and delivery cost responsibilities. We purchased over 90% of our raw milk powder directly from overseas suppliers for the six months ended 30 June 2010 through Victory Trading, which we acquired in June 2010 and is now a wholly-owned subsidiary of our Company. We purchased the remaining quantity of raw milk powder for the same period through third-party trading companies. We may continue to purchase small quantities of raw milk powder through trading companies or other trading entities designated by suppliers depending on market conditions and availability of favourable prices.

Our imported raw milk powder is manufactured into semi-finished base milk powder at our Shuozhou Plant and then processed and packaged into finished pediatric milk formula products at our Chaozhou and Guangzhou Plants for our *Yashily* and *Scient* brands of products, respectively. We also purchased one series of pediatric milk formula products for our *Scient* brand from PBM Products, an OEM supplier located in the United States. We conclude a purchase contract with PBM Products for each batch of products ordered. Our purchase contract typically sets out the quantity, purchase price, product specification, payment method and delivery location and time. The purchase contract also requires PBM Products to provide us with quality and health certificates, inspection reports for all technical parameters and melamine-free certificates for each batch of products. The first batch of products was introduced in June 2009, and we expect to launch a second batch of products on retail shelves in the fourth quarter of 2010.

We generally do not sell our products directly to end consumers but mainly through third-party distributors, who resell our products to end consumers through sub-distributors and/or retail outlets, such as local grocery stores, regional retail chains, specialty stores and national retail chains across every province, municipality and autonomous region in China. Our distributors are generally required to sign a standard distribution agreement with us for a term of one year. Our distributors shall cooperate with us with respect to the operation and maintenance of our distribution network, the suggested retail price range, the required penetration rate and our management standard for financial resources. We will also specify the duration of agreement, payment term, product delivery and logistical arrangement, the deposit amount, return policy as well as a provision forbidding cross-territory sales. For further details of our standard distribution agreement, please refer to the section headed “Business — Sales and distribution channels — Sales channels — Regional distributors”.

In addition, during the Track Record Period, we also conducted direct sales of our products to certain key customers that are major national and regional retail chains in urban and municipal areas of the eastern China region to a limited extent. We generally enter into one-year supply agreements with such retail chains, which include the order and delivery process, payment settlement procedure, quality assurance and return policy. We may also provide sales discounts to selected major retail outlets for our products to promote sales at key locations.

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Combined Income Statements

The table below sets forth our summary income statement information for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(RMB million)			(unaudited)	
Combined income statements					
Revenue	2,892.2	2,751.6	2,586.0	1,376.2	1,375.5
Cost of sales	<u>(1,637.1)</u>	<u>(1,463.7)</u>	<u>(1,095.6)</u>	<u>(628.7)</u>	<u>(563.9)</u>
Gross profit	1,255.1	1,287.9	1,490.4	747.5	811.6
Other revenue	20.2	17.0	34.7	18.4	34.9
Other net (loss)/income	(0.1)	(1.0)	0.1	0.0	(0.1)
Selling and distribution costs	(709.0)	(1,059.1)	(891.9)	(454.7)	(471.7)
Administrative expenses	(66.6)	(137.3)	(129.1)	(59.3)	(80.2)
Other expenses	<u>(8.8)</u>	<u>(795.9)</u>	<u>(14.2)</u>	<u>(9.5)</u>	<u>(6.3)</u>
Profit/(loss) from operations	<u>490.7</u>	<u>(688.4)</u>	<u>490.0</u>	<u>242.3</u>	<u>288.2</u>
Finance income	14.8	7.8	3.4	0.9	2.8
Finance costs	<u>(11.6)</u>	<u>(21.3)</u>	<u>(22.1)</u>	<u>(11.1)</u>	<u>(6.0)</u>
Net finance income/(expense)	<u>3.2</u>	<u>(13.5)</u>	<u>(18.7)</u>	<u>(10.2)</u>	<u>(3.2)</u>
Profit/(loss) before income tax	493.9	(701.9)	471.3	232.1	285.0
Income tax expense	<u>(23.5)</u>	<u>87.1</u>	<u>(68.9)</u>	<u>(34.5)</u>	<u>(44.0)</u>
Profit/(loss) from continuing operations	470.4	(614.8)	402.4	197.6	241.0
Discontinued operation					
Loss from discontinued operation (net of income tax)	<u>(0.5)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(loss) for the year/period	<u><u>469.9</u></u>	<u><u>(614.8)</u></u>	<u><u>402.4</u></u>	<u><u>197.6</u></u>	<u><u>241.0</u></u>
Profit/(loss) attributable to					
Equity holders of the Company	415.6	(563.9)	404.7	198.0	239.7
Non-controlling interests	<u>54.3</u>	<u>(50.9)</u>	<u>(2.3)</u>	<u>(0.4)</u>	<u>1.3</u>
Profit/(loss) for the year/period	<u><u>469.9</u></u>	<u><u>(614.8)</u></u>	<u><u>402.4</u></u>	<u><u>197.6</u></u>	<u><u>241.0</u></u>

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Combined Balance Sheets

The table sets forth our summary balance sheet information as of 31 December 2007, 2008 and 2009 and 30 June 2010:

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	(RMB million)			
Non-current assets	731.4	1,056.8	1,007.1	962.1
Current assets	939.3	856.1	1,216.4	1,468.6
Current liabilities	1,050.9	1,886.2	896.2	864.2
Net current (liabilities)/assets	(111.7)	(1,030.0)	320.2	604.4
Total assets less current liabilities	619.8	26.8	1,327.3	1,566.5

Combined Cash Flow Statements

The table below sets forth our summary cash flow statement information for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(RMB million)				
	(unaudited)				
As of 1 January	311.4	96.9	304.9	304.9	660.6
Net cash generated from/(used in) operating activities	450.7	246.8	(105.5)	(167.2)	(38.5)
Net cash used in investing activities	(571.3)	(69.2)	(129.3)	(92.3)	(6.8)
Net cash (used in)/generated from financing activities	(93.9)	30.4	590.6	127.6	(4.9)
Cash and cash equivalents at 31 December/30 June	96.9	304.9	660.6	172.9	610.4

Selected Historical Operating Data

Revenue and gross profit by segments

The table below sets forth a breakdown of our external segment revenue and the percentage of each segment revenue item, after elimination of inter-segment sales and excluding revenue from external sales of our discontinued operation in 2007, of our total revenue for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
External Segment Revenue										
<i>Yashily</i> pediatric milk formula	1,415.2	48.9	1,511.8	54.9	1,540.4	59.6	815.4	59.3	840.5	61.1
<i>Scient</i> pediatric milk formula	912.8	31.6	755.0	27.5	521.3	20.2	284.0	20.6	319.3	23.2
Nutritional food products	506.6	17.5	454.2	16.5	507.6	19.6	273.7	19.9	208.9	15.2
Others	57.6	2.0	30.6	1.1	16.7	0.6	3.1	0.2	6.8	0.5
Total External Revenue	2,892.2	100.0	2,751.6	100.0	2,586.0	100.0	1,376.2	100.0	1,375.5	100.0

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Sales of our *Yashily* pediatric milk formula products increased from RMB1,415.2 million for the year ended 31 December 2007, to RMB1,511.8 million for the year ended 31 December 2008 and to RMB1,540.4 million for the year ended 31 December 2009 and amounted to RMB840.5 million for the six months ended 30 June 2010. The sales volume of *Yashily* pediatric milk formula products was approximately 25,181 tonnes in 2007, 25,049 tonnes in 2008 and 23,813 tonnes in 2009, primarily reflecting the impact of our product recalls in late 2008, and was approximately 11,581 tonnes for the six months ended 30 June 2010. The average selling price of *Yashily* pediatric milk formula products increased from approximately RMB56,201 per tonne in 2007, to RMB60,355 per tonne in 2008, to RMB64,689 per tonne in 2009 and to RMB72,579 per tonne for the six months ended 30 June 2010, primarily due to the increase in sales of high-end products with higher selling prices.

Sales of our *Scient* pediatric milk formula products decreased from RMB912.8 million for the year ended 31 December 2007, to RMB755.0 million in 2008 and to RMB521.3 million in 2009 and amounted to RMB319.3 million for the six months ended 30 June 2010. The sales volume of *Scient* pediatric milk formula products was approximately 13,306 tonnes in 2007, 11,919 tonnes in 2008 and 8,084 tonnes in 2009, primarily reflecting the impact of our product recalls in late 2008 and the negative publicity of our *Scient* brand on the Internet and other media outlets distributed in June 2009. The sales volume of *Scient* pediatric milk formula products was 4,393 tonnes for the six months ended 30 June 2010, which showed a slight increase as compared to the same period in 2009. The average selling price of *Scient* pediatric milk formula products changed from approximately RMB68,600 per tonne in 2007, to RMB63,343 per tonne in 2008 and to RMB64,480 per tonne in 2009, primarily affected by the promotional policy of *Scient* brand. The average selling price of *Scient* pediatric milk formula products for the six months ended 30 June 2010 was approximately RMB72,657 per tonne, primarily reflecting the increase in sales of high-end products with higher selling prices as well as the increase in the selling price for all product lines in 2010.

Sales of our nutritional food products were RMB506.6 million in 2007, RMB454.2 million in 2008, RMB507.6 million in 2009 and RMB208.9 million for the six months ended 30 June 2010.

Sales of our other products were RMB57.6 million in 2007, RMB30.6 million in 2008, RMB16.7 million in 2009 and RMB6.8 million for the six months ended 30 June 2010.

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For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our gross profit was RMB1,255.1 million, RMB1,287.9 million, RMB1,490.4 million and RMB811.6 million and our gross profit margin was 43.4%, 46.8%, 57.6% and 59.0%, respectively. The following table sets forth our gross profit and gross profit margin by product segments for the periods indicated:

	Year ended 31 December						Six month ended 30 June			
	2007		2008		2009		2009		2010	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
	(Unaudited)									
<i>Yashily</i> pediatric milk formula	567.7	40.1	780.2	51.6	970.0	63.0	473.1	58.0	534.2	63.6
<i>Scient</i> pediatric milk formula	548.2	60.1	380.2	50.4	293.0	56.2	160.1	56.4	186.1	58.3
Nutritional food products	133.2	26.3	123.4	27.2	224.2	44.2	113.8	41.6	90.2	43.2
Others	6.1	10.6	4.1	13.4	3.2	19.3	0.5	16.1	1.1	16.2
Total gross profit/gross profit margin	1,255.1	43.4	1,287.9	46.8	1,490.4	57.6	747.5	54.3	811.6	59.0

The increase in gross profit margin of *Yashily* pediatric milk formula products during the Track Record Period was primarily attributable to: (i) the upgrade and improvement of the manufacturing technologies and equipment, which increased production efficiency and reduced cost; (ii) the change in product mix within the *Yashily* pediatric milk formula segment to focus on high-end products with higher margins; and (iii) the changes in raw material costs.

The changes in gross profit margin of *Scient* pediatric milk formula products during the Track Record Period were primarily attributable to the fluctuation in raw material costs and the promotion policy to provide complimentary small packages of pediatric milk formula.

The changes in gross profit margin of our nutritional food products during the Track Record Period were primarily attributable to the changes of revenue composition from different products within the nutritional food products segment and the changes in raw material costs.

Revenue by geographical region

The following table sets forth a geographical breakdown of the revenue derived from the sales of our *Yashily* pediatric milk formula and nutritional food products for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
	(Unaudited)									
Eastern China I ⁽¹⁾	432.3	22.5	397.9	20.2	430.3	21.0	233.1	21.4	209.0	19.9
Eastern China II ⁽²⁾	286.8	14.9	278.7	14.2	325.0	15.9	176.6	16.2	154.9	14.8
Southern China I ⁽³⁾	395.0	20.6	316.0	16.1	278.3	13.6	137.2	12.6	153.8	14.6
Southern China II ⁽⁴⁾	289.7	15.1	402.2	20.5	408.8	20.0	221.1	20.3	230.5	22.0
Northern China ⁽⁵⁾	263.7	13.7	271.9	13.8	304.3	14.9	160.8	14.8	153.0	14.6
Western China ⁽⁶⁾	254.3	13.2	299.3	15.2	301.3	14.7	160.3	14.7	148.2	14.1
Total	1,921.8	100.0	1,966.0	100.0	2,048.0	100.0	1,089.1	100.0	1,049.4	100.0

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- (1) Includes Shandong, Jiangsu and Henan provinces
- (2) Includes Anhui, Hubei and Zhejiang provinces and Shanghai municipality
- (3) Includes Fujian, Hainan and Guangdong provinces
- (4) Includes Guangxi, Guizhou, Hunan and Jiangxi provinces
- (5) Includes Beijing and Tianjin municipalities, Hebei, Jilin, Liaoning, Heilongjiang and Shanxi provinces and Inner Mongolia autonomous region
- (6) Includes Sichuan, Shaanxi, Gansu, Qinghai, Yunnan and Xinjiang provinces, Chongqing municipality and Ningxia and Tibet autonomous regions

The following table sets forth a geographical breakdown of the revenue derived from the sales of our *Scient* pediatric milk formula products for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
	(Unaudited)									
Southern China ⁽¹⁾	391.6	42.9	282.6	37.4	148.5	28.5	77.2	27.2	96.8	30.3
Eastern China ⁽²⁾	271.5	29.7	228.3	30.2	150.8	28.9	87.3	30.7	91.5	28.7
Northern China ⁽³⁾	106.1	11.6	114.0	15.1	117.4	22.5	63.7	22.4	70.1	22.0
Western China ⁽⁴⁾	143.6	15.7	130.1	17.2	104.6	20.2	55.8	19.6	60.9	19.0
Total	<u>912.8</u>	<u>100.0</u>	<u>755.0</u>	<u>100.0</u>	<u>521.3</u>	<u>100.0</u>	<u>284.0</u>	<u>100.0</u>	<u>319.3</u>	<u>100.0</u>

- (1) Includes Guangdong, Fujian, Hainan and Jiangxi provinces
- (2) Includes Hunan, Hubei, Anhui, Zhejiang and Jiangsu provinces and Shanghai municipality
- (3) Includes Shandong, Henan, Hebei, Liaoning, Heilongjiang and Jilin provinces and Beijing and Tianjin municipalities
- (4) Includes Guangxi, Guizhou, Yunnan, Shaanxi, Shanxi, Sichuan, Gansu and Xinjiang provinces and Chongqing municipality

THE 2008 NATIONWIDE MELAMINE INCIDENT AND OUR IMPROVED QUALITY CONTROL

Background of the 2008 Nationwide Melamine Incident

On 16 September 2008, the AQSIQ announced that the products of 22 domestic pediatric milk formula producers, including ours, were found to be contaminated with melamine, a substance not approved for use in food and linked to the development of health problems of infants and children in China. Based on the currently available public information, approximately 300,000 infants and children had suffered kidney-related illnesses due to the consumption of contaminated pediatric milk formulas, according to China's Ministry of Health. Prior to the 2008 nationwide melamine incident, the predominant source of China's raw milk supplies came from individual dairy farmers. Due to the scattered nature of the supply market, domestic pediatric milk formula producers were unable to efficiently manage supply sources. This led to the market entry of raw milk dealers, who were middle men that purchased raw milk from individual dairy farmers and resold it to domestic pediatric milk

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formula producers. Some of these raw milk dealers added melamine to the raw milk they sold in order to artificially inflate protein level. Given the high concentration of the domestic pediatric milk formula market, and that the 22 domestic producers whose products were found to be contaminated were large companies comprising the majority of the domestic industry, the incident became an industry-wide crisis. This incident also undermined consumers' confidence in pediatric milk formula produced using milk sources from the PRC, resulting in a significant drop in the purchase of such products and in turn a decrease in sales and production volume of domestic dairy companies, including ours.

Measures Implemented by the Government

After the 2008 nationwide melamine incident, the PRC Government promulgated a series of regulations aimed at improving the industry's quality control mechanism and framework, including but not limited to the *Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products* (乳品質量安全監督管理條例) implemented by the State Council of the PRC. For more details, see the section headed "Regulations — Regulatory system relating to the infant food industry — Food safety system".

Relevant government authorities also adopted strict measures to inspect all dairy products, especially pediatric milk formula products. Such measures include on-site inspection by the provincial authorities for quality and technology supervision as well as sampling inspection on raw materials and products, inspection of production facilities and product quality at manufacturing plants for pediatric milk formula products, and requirement of dairy manufacturers whose products have been found with quality problems to suspend production and recall those products. According to the *Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products*, which is still in effect as of the Latest Practicable Date, it is prohibited to distribute the products of dairy manufacturers, including ours, before such products are inspected by batch by such manufacturers for quality assurance.

At the same time, pediatric milk formula manufacturers are required to establish good manufacturing practices in raw material inspection, food additives management, and products inspection, aiming to achieve GMP, GB/T22000-2006 or HACCP certifications gradually.

Our Product Recalls and Other Immediate Actions after the 2008 Nationwide Melamine Incident

Immediately following the government announcement, we conducted a compulsory recall on 17 September 2008 of all contaminated lots of our products, which were completely destroyed by May 2009 under the supervision and verification of local government authorities. The contaminated lots were those finished products discovered to be contaminated with melamine by the AQSIQ and provincial administrative authorities of quality and technology supervision, which designated the contaminated lots to be destroyed under government supervision. We also suspended our production and cooperated with relevant government agencies on inspections and examination requests for our products and production facilities and swiftly moved to resolve complaints and issues raised by consumers of our products. Furthermore, beginning on 18 October 2008, we conducted voluntary recalls of all pediatric milk formula products and milk powder for adults and teenagers manufactured prior to 14 September 2008, which were subsequently destroyed under the supervision and verification of local government authorities by March 2010. Voluntarily recalled products comprised the majority of our total recalled products since contaminated products under the compulsory recall were of a relatively small quantity.

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Due to the extensive nationwide media coverage of the 2008 nationwide melamine incident at the time, we believe that consumer awareness about the relevant government measures and dairy product manufacturers' actions, including product recalls, was widespread. We believe our compulsory and voluntary recalls had been effective based on the series of measures we adopted, the verified records from the relevant government quality control agencies confirming the dates, product types and quantities of successfully destroyed recalled products and the limited number of consumer lawsuits we received in relation to our melamine-contaminated products discussed under the section headed "Business — Legal proceedings and compliance". For more details on our product recalls, please see the section headed "Business — Quality assurance, quality control and safety — Our product recalls and other immediate actions after the 2008 nationwide melamine incident".

An administrative sanction had been levied against Scient (Guangzhou) by Guangzhou Administration of Industry and Commerce on 14 April 2009 for failure to comply with national regulations on production and quality inspection as a result of the 2008 nationwide melamine incident. After Scient (Guangzhou) complied with the corrective measure ordered by the agency, namely the timely recall of contaminated products from the market through distributors, the agency rendered a mitigated administrative sanction in view of our proactive measures.

In response to the 2008 nationwide melamine incident, the Ministry of Health, the AQSIQ and other national government authorities led efforts to publicize the policies and procedures in place for the treatment and compensation of affected families through various forms of media and announcements. With the approval of the State Council, China Dairy Industry Association and the 22 companies that carried contaminated products set up a compensation fund in late 2008 to compensate the infants and families affected by the contaminated milk powder. Any victim or his/her family is eligible to claim compensation under the fund if the infant: (i) has been diagnosed that his/her health problems are caused by the consumption of melamine-contaminated milk formula products; (ii) duly registered with relevant health administrative authorities; and (iii) accepted and signed a settlement letter jointly issued by the 22 companies.

As of the Latest Practicable Date, the total amount contributed to the compensation fund by the 22 companies to settle existing and potential claims arising in China from families of infants affected by melamine contamination was approximately RMB1.1 billion. We have authorized China Dairy Industry Association to make such compensation and contributed RMB61.2 million. China Dairy Industry Association has confirmed that by contributing the requested amount to the compensation fund, we have fulfilled our relevant compensation responsibilities to those infants or his/her families who had registered with relevant health administrative authorities or medical institutions for compensation as a result of the 2008 nationwide melamine incident.

However, according to our PRC legal advisor, Tian Yuan Law Firm, for those consumers and their families affected by melamine contamination but have not registered with relevant health administrative authorities for their existing and potential claims in relation to the 2008 nationwide melamine incident, they may still bring claims against the manufacturers of contaminated dairy products within the statute of limitations of two years, which shall run from when the plaintiff is aware or should have been aware of the damages or illness he/she suffers and the confirmation of diagnosis of his/her illness resulting from the consumption of the contaminated products. Our Controlling Shareholders have agreed to indemnify us for liabilities arising from any final judicial or arbitration decision for the claims brought by the consumers affected by the incident but have not registered with relevant health administrative

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authorities for compensation. Our Controlling Shareholders have also undertaken to indemnify us for any payment made pursuant to the settlement we enter into with such consumers as long as the Controlling Shareholders maintain their controlling stakes in us.

For more details regarding the background and operation of the compensation fund, please refer to the section headed “Business — Legal proceedings and compliance — The background and operation of the compensation fund”.

The 2008 nationwide melamine incident, though caused by illegal acts of dealers of raw milk, severely damaged our reputation and our business suffered losses from product recalls, inventories write-down/write-off and subsequent loss of sales. We had losses arising from the melamine incident for the year ended 31 December 2008 of RMB787.1 million, which consisted of RMB456.9 million for write-down of inventory, RMB159.7 million for inventory disposal loss, RMB108.1 million for input VAT transfer out and RMB62.5 million of other expenses primarily relating to payment of RMB61.2 million to the compensation fund set up by the China Dairy Industry Association. Due to the impact of the 2008 nationwide melamine incident and the product recalls, we had a net loss of RMB614.8 million in 2008 and, as a consequence, our financial results during the Track Record Period showed significant volatility and may not be indicative and comparable. We also had losses arising from the melamine incident of RMB1.3 million and RMB1.0 million for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively. Please also refer to relevant disclosure under the section headed “Risk Factors — Risks relating to our business operations — We have recently incurred operating losses and decrease in revenue, therefore our results of operations during the Track Record Period may not be indicative and comparable and we may not be able to achieve and sustain the historical level of revenue and profitability.”

Since the 2008 nationwide melamine incident, we have made significant investments and efforts in strengthening our quality control, with particular emphasis on stringent control over high-quality milk sources to guarantee the safety of our raw material supplies. For more details, please refer to the section headed “— Our quality control system” below. We believe our commitment to improving and establishing a comprehensive quality assurance program has allowed us to regain the trust of consumers and substantially recover from the 2008 nationwide melamine incident.

Our Quality Control System

Quality control is essential for pediatric milk formula products, since all of these products are designed for consumption by infants and young children. We believe that the only way to achieve and maintain high quality standards is to establish a comprehensive and effective quality control system with clearly established procedural guidelines for every step of the production process, multiple points of crosschecks and testings, and efficient systems of detecting and dealing with defective products to ensure full compliance with China’s food safety and health regulations. To that end, we have instituted a group-wide quality assurance program to ensure the production of high-quality products.

As consumer awareness regarding the safety and quality of pediatric milk formula products escalated in China following the 2008 nationwide melamine incident, we have continuously sought to enhance the entire quality control system of our operations. With the assistance and contribution from our strategic investors, Carlyle and Fosun, we conceived in late 2009 the establishment of the Food Quality and Safety Advisory Committee consisting of experts from diverse scientific, professional and geographical backgrounds, who will seek to implement industry-leading quality control practices with

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the stated intention of maintaining the safety and quality of our products. The Committee, established in August 2010, will provide strategic guidance on our policies and procedures for ensuring product safety and quality, introduce industry best practices and advise on the compliance of our operations with relevant laws and regulations. With the establishment of the Committee, we aim to be a pioneer in product safety and quality in the PRC pediatric milk formula industry to further solidify consumer confidence.

Overseas milk source

Prior to September 2008, domestically produced raw milk and raw milk powder were the primary raw materials we used to produce pediatric milk formula and milk powder for adults and teenagers. Following the 2008 nationwide melamine incident, we made a major strategic decision to transition from sourcing domestically produced dairy materials to importing premium high-quality raw milk powder from established suppliers overseas. Since the end of June 2010, we have been using and plan to continue procuring 100% imported raw milk powder for our pediatric milk formula products. We import raw milk powder from New Zealand and Australia, with the majority from New Zealand, which is a major exporter of dairy products with a well-known reputation for natural open-range dairy farms, high-quality dairy products and world-leading processing capabilities. The raw milk powder for our pediatric milk formula products has complied with all the relevant food safety and hygiene regulation in its origins, including but not limited to New Zealand and Australia. Sample testing is also performed for every batch of order of our imported raw milk powder to confirm quality compliance. In addition, our management team conducts regular site visits abroad at suppliers' plants to inspect factory conditions and quality control measures.

Quality assurance of domestically sourced milk

During our transition from sourcing domestic milk to importing raw milk powder, we have implemented a series of procedures to ensure the quality of our domestically sourced milk. We only source raw milk directly from milk collection stations with whom we have exclusive agreements and which are supervised by our trained personnel. At each milk collection station, we staff professional personnel trained by us to manage the collection process and enforce our strict standards for handling and conducting quality checks. We also dispatch our own inspection staff to examine sanitary conditions and overall maintenance at each milk collection station on a daily basis. This prevents any unknown substance from tampering with the raw milk collection process. After each batch of raw milk is checked for quality compliance, the raw milk is checked again upon arrival at our production plants, and once more just prior to use in our production.

Quality testing

Prior to the 2008 nationwide melamine incident

Prior to the 2008 nationwide melamine incident, we had implemented multiple checkpoints throughout the production chain with comprehensive testing procedures to ensure the quality of our raw materials, semi-finished products and finished products. We also submitted samples of our finished products to relevant authorities for inspection on a quarterly basis. Throughout our operating history, we have performed testing in line with applicable PRC rules, regulations and accepted practices at the time, and have broadened the scope of our tests performed pursuant to developments of relevant PRC laws and regulations.

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Since the 2008 nationwide melamine incident

Following the 2008 nationwide melamine incident, we increased the sample size of testing at quality checkpoints throughout the supply and production chain and further reinforced our quality control system. Suppliers of our imported raw milk powder and imported *Scient* pediatric milk formula must submit inspection records prepared by them detailing the contents and levels measured for each batch of supply. When our imported raw milk powder and *Scient* pediatric milk formula products pass through PRC customs, each batch must be inspected by the relevant Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) for compliance with applicable PRC food safety laws and regulations. Upon receipt of the imported raw milk powder, our production plants will inspect each batch of supply for quality check. We also request the suppliers of other ingredients and nutrients used in our products, such as whey protein powder, lactose and vitamins, to provide requisite food safety and hygiene certification from their respective origins as well as in the PRC and conduct sample quality checks before acceptance. Once the approved raw milk powder supplies and other ingredients are used to manufacture base milk powder, the semi-finished product is subject to quality checks before being transported to and processed at our Chaozhou Plant and Guangzhou Plant. Each batch of finished products will also go through our internal random testing and the quality inspection of relevant provincial administrative authorities of quality and technology supervision before distribution. As of the Latest Practicable Date, all samples of our products submitted for inspection have been determined to meet the prescribed standards and no non-compliance was found during the inspections by the relevant authorities.

We have imported advanced testing equipment, which we utilize to measure and detect over 60 chemical compounds and microorganisms, including all contents stipulated in national regulatory standards as well as other groups of specific nutrients and contents. Our testing apparatuses include an advanced liquid chromatography mass spectrometer, which is able to detect minute traces of melamine, harmful pesticides and heavy metal at a high-precision level of 0.001 mg/kg, a gas chromatographic analyzer, which can inspect iodine, DHA, ARA and linolenic acid, and a graphite furnace atomic absorption spectrophotometer, which can inspect mineral elements and heavy metals. The use of this testing equipment ensures that any minute trace of melamine, harmful pesticides and heavy metal will be immediately detected in our raw materials, semi-finished and finished products. We perform testing in line with the current applicable PRC rules, regulations and accepted practices at the time, and will broaden the scope of our tests performed pursuant to developments in relevant PRC laws and regulations.

Production process

Apart from assuring the quality of raw materials, we also recognize the importance of quality control of semi-finished products, finished products and the production process. Our production process is conducted in GMP-certified plants to meet applicable national quality standards. We received GB/T 22000-2006 certification for food safety management in 2007 and GMP certification for the manufacturing of dairy products as well as HACCP certification for food safety management in March 2010. In addition, we have passed multiple certification tests for quality control measures such as ISO9001 for quality control management, ISO14001 for environmental management, and OHSAS 18001 for occupational health and safety management. Our inspection laboratories obtained national certification in 2005 by the China National Accreditation Service for Conformity Assessment. We strive

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to achieve our aim of “zero tolerance for failure” and require all personnel involved in every stage of our operations, including procurement, production, packaging, sales, storage and transportation to strictly observe relevant quality control and safety measures.

In addition, our product tracking system, in which a unique two-dimensional code is marked on each product packaging, serves as an effective anti-counterfeiting measure by assuring that only our genuine, high-quality products reach end-consumers. Any defective or contaminated product will be strictly dealt with according to our control procedures for failed and potentially unsafe products.

Quality assurance of imported finished products

We also stringently monitor the quality of our imported pediatric milk formula products under the *Scient* brand supplied by PBM Products. We verify the quality of these products in small scale before placing bulk purchase orders. PBM Products performs internal quality inspection of the raw materials before full production. It also inspects and provides us with certificates of quality and health, inspection reports for all technical parameters and melamine-free certificates for each batch of finished products. The finished products are inspected by the relevant Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) as well as by us for quality assurance.

Recent incident regarding hormone level in pediatric milk formula products

There have been media reports linking hormone levels in pediatric milk formula products of a domestic manufacturer with alleged premature development and precocity of infants in the PRC in the summer of 2010. In response to such incident, China’s Ministry of Health conducted a clinical investigation and found no evidence of abnormality in the hormone content of the products under question. Under relevant PRC laws and regulations, it is prohibited to purchase, produce and sell dairy products made from raw milk with veterinary medicine residue, including hormones; however, there is no specific requirement for inspection of the hormone levels in milk powder products. In addition, the origins of all our raw milk powder and dairy materials have strict legislations prohibiting the use of hormonal growth promotants on milking cattle and our suppliers represented that they have strictly complied with such requirements of their respective jurisdictions. Going forward, our suppliers may also conduct hormone tests on every batch of the raw milk powder before exportation at our request. Our Directors confirm that, as of the Latest Practicable Date, we did not add any hormones into our products. Although our products were not directly related to the incident, we have proactively submitted samples of every batch of our pediatric milk formula products to Guangzhou Quality Monitoring and Inspection Institute, an independent institution for quality testing and inspection established by the Administration of Quality and Technology Supervision of Guangdong Province, for hormone tests since August 2010. Our PRC legal advisor, Tian Yuan Law Firm, has advised that there is currently no applicable PRC laws and regulations governing the level of hormones in milk powder products. Accordingly, while Guangzhou Quality Monitoring and Inspection Institute conducts testing on hormone level upon our request, it will not publish any accredited reports on the testing results and such results are only used for internal reference as part of our continuously improving quality control system. As of the Latest Practicable Date, our product samples had not been found to contain any exogenous hormone.

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OUR PRODUCTION CAPACITY AND FUTURE EXPANSION

As of the Latest Practicable Date, we owned and operated four production plants in: (i) Chaozhou, Guangdong Province; (ii) Guangzhou, Guangdong Province; (iii) Qiqihaer, Heilongjiang Province; and (iv) Shuozhou, Shanxi Province.

The following table sets forth the designed capacity and actual production volume of main production lines at our production facilities in the six months ended 30 June 2010:

<u>Production line</u>	<u>Designed capacity</u>	<u>Actual production volume</u>	<u>Utilization rate⁽³⁾</u>
Chaozhou Plant⁽¹⁾			
Pediatric milk formula and milk powder for adults and teenagers and packaging	16,878 tonnes/six months	13,261 tonnes/six months	79%
Guangzhou Plant⁽¹⁾			
Pediatric milk formula and packaging	5,962 tonnes/six months	4,465 tonnes/six months	75%
Qiqihaer Plant⁽²⁾			
Base milk powder for milk powder products for adults and teenagers	10,224 tonnes/six months	3,335 tonnes/six months	33%
Shuozhou Plant⁽²⁾			
Base milk powder for pediatric milk formula	17,280 tonnes/six months	17,167 tonnes/six months	99%

(1) Designed capacity is calculated based on the assumption that there are two eight-hour shifts per day and five days off per month for maintenance.

(2) Designed capacity is calculated based on the assumption that production continues for 24 hours per day, with six days off per month for maintenance.

(3) Utilization rate is derived from dividing our actual production for the six-month period by semi-annual designed capacity.

For more details, please also see the section headed “Business — Manufacturing — Our existing production facilities”.

We plan to invest in the construction of a new production facility in Chaozhou, Guangdong Province, and resume construction of our plant in Zhengzhou, Henan Province, which will increase our manufacturing capacity to meet the demands arising from our future growth. While complying with the relevant PRC laws and regulations, we will also upgrade our existing manufacturing facilities in Chaozhou in attempt to meet the US FDA certification guidelines for pediatric milk formula production lines, even though we currently do not have or intend to conduct any manufacturing or sales operations in the United States. Total estimated capital expenditures for the resumed construction of and equipment purchase for the Zhengzhou Plant, the upgrade of existing facilities of the Chaozhou Plant and the construction of our new production plant in Chaozhou are expected to amount to approximately RMB450 million, RMB91 million and RMB340 million, respectively. We anticipate that the capital expenditures in connection with the upgrade and expansion of our production facilities will be financed by cash generated from our operations and the net proceeds from the Global Offering. For more details, please see the section headed “Financial Information — Management’s discussion and analysis of financial condition and results of operations — Financial position, liquidity and capital resources — Capital expenditures”.

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PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

Forecast consolidated profit attributable to equity holders of the Company ⁽¹⁾⁽³⁾	Not less than RMB496 million (approximately HK\$574 million)
Unaudited pro forma forecast earnings per share ⁽²⁾⁽³⁾	Not less than RMB0.142 (approximately HK\$0.164)

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- (1) The bases and assumptions on which the profit forecast has been prepared are summarized in Appendix III to this Prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2010 based on the audited combined results for the six months ended 30 June 2010, the unaudited consolidated results of the Group for the two months ended 31 August 2010 and a forecast of the consolidated results for the remaining four months ending 31 December 2010.
 - (2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2010, assuming that a total of 3,500,000,000 shares had been in issue during the entire year. The calculation of the unaudited pro forma forecast earnings per share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme or the options that may be granted under the Share Option Scheme.
 - (3) The forecast consolidated profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per share are converted into HK\$ at the rate of HK\$1.00 = RMB0.8635 prevailing on 30 September 2010.

GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering.

The Global Offering consists of (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offer of 64,400,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “Structure of the Global Offering — The Hong Kong Public Offer”; and
- the International Offer of 579,600,000 Shares (subject to adjustment and reallocation as mentioned below) (a) in the United States to QIBs in reliance on Rule 144A or another exemption under the US Securities Act; and (b) outside the United States in accordance with Regulation S.

Merrill Lynch International, UBS AG, Hong Kong Branch and CITIC Securities Corporate Finance (HK) Limited are the Joint Global Coordinators and Joint Bookrunners of the Global Offering.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Offer, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offer will involve selective marketing of the

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Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the US Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offer. Prospective investors will be required to specify the number of Offer Shares under the International Offer they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Offer respectively may be subject to reallocation as described in “Structure of the Global Offering — Reallocation of the Offer Shares between the Hong Kong Public Offer and the International Offer”.

OFFER STATISTICS

	<u>Based on an Offer Price of HK\$3.55 per Share</u>	<u>Based on an Offer Price of HK\$4.80 per Share</u>
Market capitalization of our Shares ⁽¹⁾	HK\$12,425 million	HK\$16,800 million
Prospective price/earnings multiple on a pro forma basis ⁽²⁾	21.6 times	29.2 times
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$1.055	HK\$1.255

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 3,500,000,000 Shares expected to be in issue and outstanding following the Global Offering.

(2) The calculation of the prospective price/earnings multiple on a pro forma basis is based on the unaudited pro forma forecast earnings per Share for the year ending 31 December 2010 and the respective Offer Prices of HK\$3.55 and HK\$4.80.

(3) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and based on 3,500,000,000 Shares expected to be issued and outstanding following the Global Offering.

DIVIDEND POLICY

After completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board of Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. Our Board of Directors will review our Company’s dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our financial results;
- shareholders’ interests;
- general business conditions, strategies and future expansion needs;
- our Company’s capital requirements;

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- the payments by subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors the Board of Directors may deem relevant.

Subject to the factors described above, our Board of Directors currently intends to recommend at the relevant Shareholders meetings of the Company an annual dividend of no less than 25% of our profits available for distribution after the Listing and available for distribution to our Shareholders in the foreseeable future.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$2,296 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$4.18 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$394 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$4.18 per Share, being the mid-point of the indicative Offer Price range.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 25%, or HK\$574 million, is expected to be primarily used to expand our production capacity for pediatric milk formula and nutritional food products, including approximately HK\$287 million, or 12.5% to fund the construction of a new production plant at Chaozhou, Guangdong Province and approximately HK\$230 million, or 10% to fund the resumption of construction for a production plant at Zhengzhou, Henan Province, as well as approximately HK\$57 million, or 2.5% to fund the upgrade of our existing manufacturing facilities in Chaozhou, Guangdong Province;
- approximately 25%, or HK\$574 million, is expected to be used to acquire integrated dairy companies engaged in the production of raw milk and raw milk powder and establish vertically-integrated production facilities overseas, as of the Latest Practicable Date, we had no specific acquisition targets, see the section headed “Business — Our business strategies — Continue to pursue excellence in quality” for more details;
- approximately 25%, or HK\$574 million, is expected to be used to further enhance our existing brand equity and promote awareness of our new sub-brands through increased advertising on major television networks and popular baby forum websites, as well as in leading magazines, newsletters and other print media, in the following three years;
- approximately 7.5%, or HK\$172 million, is expected to be primarily used to enhance our research and development capabilities, including utilizing approximately HK\$150 million to set up a new food research institute in Shantou, Guangdong Province and procure state-of-the-art technologies and laboratory equipment, as well as utilizing the remaining proceeds for

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hiring additional skilled engineers, expert nutritionists and research staff, and for funding research projects with major universities, biotechnology companies and reputable third-party research institutes in China;

- approximately 7.5%, or HK\$172 million, is expected to be used to develop and promote sales of our existing and new products, including imported pediatric milk formula products, milk formula and other nutrition products for adults and the elderly, as well as to continuously expand and optimize our distribution network to fund relevant expenses for (i) maintaining and optimizing our distribution network; (ii) increasing our penetration of sales channels and expanding geographical coverage; (iii) integration of our inventory and sales management system with those of our distributors; and (iv) increasing our sales staff and onsite sales promoters in the following three years; and
- up to 10%, or HK\$230 million, to fund our working capital and general corporate purposes.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$1,944 million. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$2,643 million. In this event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

RISK FACTORS

Risks Relating to Our Business Operations

- We are highly dependent upon consumers' perception of the safety and quality of our products and particularly susceptible to any ill effects, product liability claims, recalls, adverse publicity or negative public perception regarding particular ingredients or products or our industry in general.
- We operate our businesses in an industry highly sensitive to consumers' perception and negative publicity, such as the melamine or hormone incidents.
- We have recently incurred operating losses and decrease in revenue, therefore our results of operations during the Track Record Period may not be indicative and comparable and we may not be able to achieve and sustain the historical level of revenue and profitability.
- We rely on several overseas independent dairy producers as our main suppliers of raw milk powder and any shortage or interruption of raw milk powder from such suppliers could result in reduced production and revenue for us.
- We rely on trading companies to import our raw milk powder and other dairy materials.
- Increases in raw material costs and commodity prices that we are unable to pass on to our customers will reduce our profitability.

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- We intend to evaluate upward integration opportunities, investments, cooperation and other strategic initiatives, any of which could have a negative effect on our business.
- We rely primarily on third-party distributors and cannot assure you that their marketing and distribution of our products will be effective or will not harm our brand and reputation.
- We may not be able to maintain relationship with key retail chains or be successful in strengthening our presence in modern retail formats.
- We may experience delays in collecting trade and bills receivables from or default by our customers.
- Failure to effectively maintain or promote our brands may adversely affect our future success.
- Our marketing activities are critical to the success of our products, and if we fail to grow our marketing capabilities, the market share, brand name and reputation of our products could be materially and adversely affected.
- Our revenues primarily depend on sales of pediatric milk formula products.
- Disruption of our manufacturing operations and supply chain could materially and adversely affect our business.
- If we fail to increase our production and manufacturing capacity as planned, our ability to produce new products, expand within our existing markets and enter into new markets will be limited.
- We may experience problems with product quality and product liability claims against us that could result in adverse publicity and potentially significant monetary damages.
- Our profitability and market share may suffer as a result of increasing competition from both domestic and foreign companies in our markets.
- Sales of our products are subject to changing consumer preferences, and our success depends on our ability to anticipate, identify, interpret and react to changes in consumer preferences and introduce new products in a timely manner.
- Resources devoted to research and development may not yield new products that achieve commercial success.
- Delays in delivery of our products by our distributors and logistics companies may affect our sales and damage our reputation.
- Our continuing success depends on our ability to adequately protect our pediatric milk formula and intellectual property.
- We may be required to defend ourselves against intellectual property claims from third parties, which could harm our business.

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- We have limited insurance coverage which may not be sufficient to cover all of our potential losses.
- Our risk management and internal control systems improvement may not be adequate or effective.
- Any change in our tax treatment, including an unfavorable change in preferential corporate tax rates in China, may have a negative impact on our operating results.
- Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.
- Our continuing success depends on our ability to retain our senior management and qualified personnel.
- Our ability to meet our working capital requirements or obtain additional financing may be limited, which could delay or prevent the completion of our strategies.
- We may experience a shortage of labor or an increase in labor costs, which would have an adverse effect on our business and results of operations.
- We have not obtained the building ownership certificates for some of our properties.
- Our business could be harmed by a failure of our information technology and administrative systems.

Risks Relating to the Industry

- The PRC pediatric milk formula industry could face slower growth, and an adverse change in favorable demographic, consumer and economic trends as well as a change in scientific opinion regarding our products could materially and adversely affect our business and reduce our profitability.
- More mothers may breastfeed their babies rather than use our products, resulting in reduced demand for pediatric milk formula products.
- Illegal tampering or any quality concerns with domestic supplies of raw milk may adversely impact consumer perception of our industry and consumer demand for dairy products.
- Changes in public health and food safety laws and regulations may adversely affect our business and it can be costly to comply with current and future regulatory requirements.
- Any major outbreak of illness or disease relating to cattle could lead to significant shortfalls in the supply of raw milk and raw milk powder and could cause consumers to avoid or reduce consumption of pediatric milk formula products, resulting in substantial declines in our sales and possible substantial losses.

SUMMARY

Risks Relating to Conducting Business in China

- Adverse changes in China's economic, political and social conditions as well as governmental policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect our financial condition and results of operations.
- The PRC government's recent measures to curb inflation rates could adversely affect our future results of operations.
- Restrictions by the PRC Government on foreign exchange may limit the liquidity of our Company.
- Movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations.
- We are a holding company that relies heavily on dividend payments from our subsidiaries in China for funding.
- We may be deemed as a PRC resident enterprise under the EIT Law and be subject to Chinese taxation on our worldwide income.
- Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.
- Our business could be adversely affected by changes and uncertainties in the Chinese legal system.
- It may be difficult to enforce any judgments obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China.
- Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.
- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.
- As a foreign company, our acquisitions of PRC domestic companies may require a longer period of time and be subject to higher levels of scrutiny by the PRC Government.
- New labor laws in China may adversely affect our results of operations.
- An outbreak of severe acute respiratory syndrome ("SARS"), avian influenza A ("H5N1"), influenza A virus subtype H1N1 ("H1N1") or other epidemic if uncontrolled could have a negative impact on our production, sales and distribution operations.

SUMMARY

Risks Relating to the Global Offering and Our Shares

- There has been no prior public market for our Shares.
- The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.
- Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future equity financings.
- Sales of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our Offer Shares.
- We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and the Chinese pediatric nutrition, dairy and nutritional food products industries contained in this Prospectus.
- You should not rely on any information contained in press articles or other media regarding our Company and the Global Offering.