*Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares. You should be aware that our subsidiaries in China are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries.*

*If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and you may lose all or part of your investment.*

There are certain risks involved in our operations and some of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business operations; (ii) risks relating to the industry; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering and our Shares. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and operating results.

## 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.***

Our business is highly sensitive to consumers' perception of the safety and quality of our products. Actual or perceived contamination, spoilage or other adulteration, product misbranding or tampering may require us to respond to complaints or claims from our consumers or even require us to recall our products. As a manufacturer of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in any adverse reaction, illness or injury. We may also experience losses from product recalls resulting from suspected or actual defects in the development or manufacturing of our products or even the sale of counterfeit products. Adverse publicity or negative public perception regarding particular ingredients, our products, our actions relating to our products, or our industry in general could result in a substantial drop in demand for our products. This negative public perception may include publicity regarding the safety or quality of particular ingredients or products in general, of other companies, or of our products or ingredients specifically. Negative public perception may also arise from regulatory investigations or product liability claims, regardless of whether those investigations involve us or whether any product liability claim is successful against us.

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 in 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. This contamination incident has resulted in significant negative publicity for the entire domestic dairy and formula industries in China, and demand for domestically-produced dairy and milk formula products, including ours, declined significantly. 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 of the local government authorities. We also 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 of the local government authorities by March 2010. We also suspended production at our facilities in Shanxi and Guangdong Provinces, China for approximately two weeks pending government and internal investigations. Our losses arising from the melamine incident were RMB787.1 million, RMB1.3 million and RMB1.0 million for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, respectively, which was recognized as a charge to other expenses allocated in our combined income statement. As a result, we recorded a net loss of RMB614.8 million for the year ended 31 December 2008.

Two cases were filed against us and/or our retailers by consumers during the Track Record Period in which our products were suspected to cause illnesses or harms to the consumers of our products. See "Business — Legal proceedings and compliance". Although the above cases have been settled and concluded, we cannot assure you that such similar cases will not surface in the future. The PRC Government has provided medical screening, treatment, and care for consumers affected by melamine contamination in pediatric milk formula products. We have contributed RMB61.2 million to a compensation fund set up by the China Dairy Industry Association to settle existing and potential claims arising in China from families of infants affected by melamine contamination and agreed to settle their claim for compensation through such fund. We cannot assure you that the PRC Government will not seek further reimbursement from or impose further administrative sanctions or penalty on dairy and pediatric milk formula product manufacturers, including us. In addition, 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 from the discovery or the confirmation of their illness resulting from the consumption of the contaminated products. If we are subject to additional penalty or liabilities in relation to the 2008 nationwide melamine incident, our reputation and business prospects will be severely damaged, which will also lead to a material adverse effect on our business, result of operations and financial conditions.

The contamination incident has negatively impacted our brands and our reputation in China. We cannot predict what the long-term effect of the negative publicity associated with the contamination incident will be on our reputation among our customers, consumers and investors. Nor can we guarantee that contamination of our, or similar, products will not occur in the future or that we will be able to detect such contamination and deal with it effectively. Any occurrence of contamination could negatively impact our corporate and brand image or consumers' perception of our products or similar nutritional products generally, particularly if the contaminated products have caused injuries or illnesses to consumers. Furthermore, we are specifically susceptible to negative publicity such as the mere publication of information or false accusations asserting that pediatric milk formula ingredients or products may be harmful, even if these reports are not scientifically supported, and regardless of whether they concern our products or the raw materials we used. For example, we suffered from some negative publicity on the Internet and other media in June 2009 distributed by a consumer in connection with melamine contamination of the *Scient* pediatric milk formula products he purchased, which were manufactured in 2008 and subject to the voluntary recall. Such consumer wrongfully linked his claim to the "100% imported milk source" label we used for our *Scient* pediatric milk formula products manufactured after January 2009 as well as the foreign-invested structure of Scient (Guangzhou) and alleged that we misled the consumers to believe that *Scient* pediatric milk formula products were imported products. Despite our immediate actions to clarify through various media outlets, communicate with government authorities and the distributors of such negative information, resolve the claim regarding product quality through settlement with such consumer and take legal action against unlawful extortion of such customer, the sales of our *Scient* pediatric milk formula products for the year ended 31 December 2009 were significantly affected by such negative publicity. In addition, in early September 2010, there were some false allegations on the Internet and in some news articles indicating that we did not destroy melamine-contaminated products and that we repackaged or recycled such products at our Shanxi Plant. We took immediate actions by reporting such incident to the public security authority, making public clarification announcements on our website on 1 September 2010 as well as through other major media outlets and promptly responding to our customers' inquiries.

We cannot guarantee that there will not be other negative publicity in the future concerning our products and/or brands, which may have a material adverse effect on our business, financial conditions and results of operations. In addition, we believe that any adverse publicity related to pediatric milk formula products in China may also result in more stringent regulatory scrutiny of our industry. Our operating costs may therefore increase to respond to regulatory requirements, which may reduce our margins and profitability.

***We operate our businesses in an industry highly sensitive to consumers' perception and negative publicity, such as the melamine or hormone incidents.***

Pediatric nutrition, dairy and nutritional food products industries are highly dependent upon consumers' perception of the safety, quality and health benefits of relevant products. As a result, substantial and sustained negative publicity concerning pediatric nutrition, dairy or nutritional food products could lead to a loss of consumer confidence in our products, decreased demands and reduced sales and prices of our products. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

In September 2008, various brands of pediatric milk formula and other dairy products were found to be contaminated with melamine which could pose serious health issues to infants and young children. This incident had a material adverse impact on a large number of domestic dairy products manufacturers. Further details relating to this incident are set out in the section headed "Business — Quality assurance, quality control and safety — Background of the 2008 nationwide melamine incident" in this Prospectus. Furthermore, there have recently 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. China's Ministry of Health conducted a clinical investigation and found no evidence of abnormality in the hormone content of the products under question. Our Directors confirm that, as of the Latest Practicable Date, we did not add hormones into our products. Since August 2010, samples of our pediatric milk formula products have been tested by independent quality testing institutions and no abnormal hormone levels were found. Such incident, although having no direct impact on our sales and operations, may still undermine consumers' confidence in pediatric milk formula products. If the negative publicity surrounding this incident and relevant media reports cause a confidence crisis in the quality and safety of pediatric milk formula products among consumers in China, the PRC pediatric nutrition industry could face another challenge similar to the 2008 nationwide melamine incident.

We cannot guarantee that there will not be other adverse publicity in the future concerning the pediatric nutrition, dairy or nutritional food products industries or relevant products, which may have a material adverse effect on our business, financial condition or results of 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.***

Due to the 2008 nationwide melamine incident, we incurred substantial expenses in 2008 from product recalls and inventory write-down and write-off. Our losses arising from the melamine incident were RMB787.1 million in 2008, RMB1.3 million in 2009 and RMB1.0 million in the six months ended 30 June 2010, and we recorded a net loss of RMB614.8 million for the year ended 31 December 2008. We consider this to be a short-term financial challenge, which affects the comparability of our historical results of operations; however, we believe that the 2008 nationwide melamine incident has negatively impacted the pediatric milk product market generally, our brand and reputation in China and may impact our future revenues. In addition, the sales of our *Scient* pediatric milk formula product were significantly affected in 2009 due to some negative publicity on the Internet and other media. As a result of the melamine incident in 2008 and the negative publicity in June 2009, we recorded a decrease in revenue from RMB2,892.2 million in 2007, to RMB2,751.6 million in 2008 and to RMB2,586.0 million in 2009. In light of the foregoing, our results of operations during the Track Record Period showed significant volatility and may not be indicative and comparable. We may incur more expenses in the future relating to expanding our production capacity or other investments or acquisitions we may decide to pursue. If our revenue does not increase to the level we projected or if we fail to maintain our expenses at an amount less than our projected revenues, we will not be able to achieve or sustain operating profitability on a consistent basis. Our lack of profitability may have an adverse effect on the market value of our Shares as well as on our cash flow and liquidity.

***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.***

Prior to September 2008, domestically procured raw milk and raw milk powder were the primary raw materials we used to produce pediatric milk formula products we sold. Since late 2008, we have relied primarily on the use of imported raw milk powder in the production of our pediatric milk formula products as consumers have less confidence in domestically-produced raw milk powder after the 2008 nationwide melamine incident. Since end of June 2010, we have sourced all of our key raw materials and raw milk powder from producers in New Zealand and Australia for our pediatric milk formula products. A majority of the raw milk powder we sourced overseas is produced by three major dairy producers in New Zealand, namely Synlait Milk Limited, Fonterra Limited and Open Country Dairy Limited. For the year ended 31 December 2009 and the six months ended 30 June 2010, we sourced approximately 81.7% and 92.1% of our imported raw milk powder in terms of volume from such three major dairy producers in New Zealand, respectively. As a result, our business is heavily dependent on these New Zealand milk producers and other raw milk powder suppliers we may identify in the future. In addition, the fluctuation in purchase prices and the availability of imported raw milk powder may affect our raw material costs. Our results of operations during the Track Record Period may not be comparable after our transition to imported raw milk powder from oversea sources following the 2008 nationwide melamine incident.

There is no assurance that the supply of raw milk powder will be sufficient to meet our increasing demands associated with our growth strategy. In general, it takes approximately 75 to 90 days from our placing of orders to our suppliers to our receipt of the imported raw milk powder. We may be unable to ensure the continued supply of these raw materials in the future if the suppliers fail to keep us supplied or are unable to comply with the terms and conditions of the supply agreements with us or if any of the supply agreements are suspended, terminated or otherwise expire without renewal. Our dependence on these overseas suppliers and inability to obtain raw milk powder from alternative sources or at commercially acceptable prices in a timely manner may result in production delays or reduction, late shipments of our products to distributors and end consumers and higher raw material costs, which will have a material adverse effect on our results of operation and profitability.

In addition, our supplies of raw milk powder from Synlait Milk Limited, Fonterra Limited and Open Country Dairy Limited, or any other raw milk powder suppliers we may identify in the future, are influenced by a number of factors that are beyond our control, including:

- changes in the environmental, climatical, economic, political and social conditions in New Zealand: at present, substantially all of our raw milk powder is sourced from New Zealand, any adverse changes to the environmental, climatical, economic, political and social conditions in New Zealand may have an adverse effect on our ability to obtain sufficient supplies of raw milk powder within the required time period and/or at reasonable prices, which may consequently have a material adverse effect on our business, financial condition and results of operations; and

- seasonal factors: with cattle generally producing more milk in temperate weather as opposed to cold or hot weather, any extended or unreasonably cold weather or intense heat may potentially lead to lower than expected milk production, which as a result may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, our imported raw milk powder is subject to various PRC Government permit requirements, approval procedures and import duties, and may also, from time to time, be subject to export controls and policies as well as other legal restrictions imposed by foreign countries. If the PRC Government refuses to issue the necessary permits or approvals to us or our suppliers, or takes any administrative actions to limit or prohibit imports of raw milk powder, or changes relevant laws and regulations regarding production processes or national standards for pediatric milk formula or if we or our suppliers fail to pay any required import duties, or if governmental agencies or laws of foreign countries prevent the timely export of certain raw materials we require to China, our ability to produce and sell our products in China could be materially and adversely affected. Any import duties increase will also affect the cost of our products and may make our product less competitive.

We plan to expand into upstream operations overseas and select, acquire and operate integrated dairy companies overseas for the production of raw milk and raw milk powder in order to control the supply and quality of the dairy material used for our products. However, we may not be able to successfully identify alternative sources for the raw milk powder. Nor can we guarantee that our plan of establishing our overseas integrated dairy operation will be successful. A shortage or interruption of the supply of our raw milk powder could have a material adverse effect on our business, financial condition and results of operations.

***We rely on trading companies to import our raw milk powder and other dairy materials.***

We adopted a major strategic decision to transition from using domestically produced dairy materials to importing premium, high-quality raw materials for our pediatric milk formula in late 2008. During the Track Record Period, a substantial portion of our supplies of raw milk powder was imported through a number of trading companies, which procured raw milk powder and other dairy materials from our designated overseas sources and conducted import and customs clearance procedures on our behalf. If any of the PRC trading companies with which we conduct business ceases to provide its services to us and we cannot find suitable alternatives at similar costs, or if any of the PRC trading companies fails to perform its duties in a timely manner or at all, we may receive our imported raw milk powder and other dairy materials later than expected, in a damaged condition or not at all, each of which would have an adverse effect on our business, financial condition and results of operations.

***Increases in raw material costs and commodity prices that we are unable to pass on to our customers will reduce our profitability.***

We attempt to negotiate competitive rates for the raw materials we use for our pediatric milk formula products, such as raw milk powder, whey powder and lactose, and for nutritional food and other products, such as raw milk, soybeans and short grain rice, particularly given the bulk volume of business we do with our suppliers. For the years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010, our raw material costs accounted for 81.1%, 77.2%, 71.8% and 75.1%, respectively, of our total cost of sales. However, a shortage in the raw materials or fluctuations in world commodity prices may negatively affect the purchase price we may negotiate with independent suppliers. Commodity prices may also impact the amount we pay to produce or purchase packaging for our products, such as tin plates, paper stock, cardboard and aluminum foils. Risks such as commodity price volatility, fluctuating exchange rates, social and political unrest, and economic changes in the origins of the sources where we import our raw materials and products may also negatively and materially affect our operating costs.

We cannot guarantee that the prices we currently pay for raw materials and other commodities will remain stable. Any increase in the prices we are required to pay for materials and commodities may result in a less competitive product we can offer to the market, and compel us to locate more suitable and cost-competitive alternatives for our production. In particular, our ability to pass on part or all of our cost increases to our customers by increasing the selling prices of our products largely depends on market conditions and pricing methods employed in various markets in which we sell our products. For example, the sales volume of our soymilk powder products decreased significantly in the six months ended 30 June 2010, as compared to the same period in 2009, mainly due to our increase in the selling price of such products for higher profitability level in light of increased raw material costs. If, as a result of consumer sensitivity to pricing or otherwise, we are unable to increase our prices to offset the increased costs of commodities, we may experience lower profitability and we may be unable to maintain historical levels of productivity. Increases in raw material costs and commodity prices that we cannot effectively address through increases in prices of our products could reduce our profitability.

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

In order to further develop and strengthen our control over upstream resources, we intend to evaluate upward integration opportunities including making acquisitions of raw milk powder producers to include the production of raw milk and raw milk powder for our pediatric milk formula products, or cooperating with our existing business partners or other international institutions which produce or supply raw milk powder, and other strategic initiatives that could enhance or expand our current operations or products or that might otherwise offer us with growth opportunities. If we attempt to engage in these transactions, we expose ourselves to various inherent risks, including the following risks, which could have a material adverse effect on our business, financial condition and results of operations:

- the diversion of our management's attention from our existing business to explore and assess our investment initiatives;

- whether investment opportunities or initiatives are identified and assessed accurately in terms of the likely benefits, commercial viability and technical feasibility of such initiatives;

- the insufficiency of our experience in managing or operating such upward integration investments which may increase our need to recruit additional personnel with suitable experience and/or may cause our investments to fail to achieve the intended commercial benefits or the level of economic returns or at all.

***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 generally do not sell our products directly to end consumers. Instead, we primarily rely on third-party distributors and sub-distributors for the sale and distribution of our products. The performance of our distributors and the ability of our distributors to on-sell our products, uphold our brand, expand their businesses and their sales network are crucial to the future growth of our business and may directly affect our sales volume and profitability. We sell our products through an extensive nationwide sales and distribution network covering every province and municipality in China. Our distributors normally have exclusive distribution rights in their respective regions and cities but our distributors are not required to exclusively distribute our products. We typically do not enter into long-term agreements with distributors and have limited control over their everyday business activities. Consequently, our distributors may engage in activities that are prohibited under our arrangements with them, that violate PRC laws and regulations governing the dairy industry or other PRC laws and regulations in general, or that are otherwise harmful to our business or our reputation. We could be liable for sales and marketing activities of our distributors, including any violations of applicable law in connection with the advertising or promotion of our products. If our distributors engage in unlawful practices with respect to their sales or marketing of our products, we could be required to pay damages or fines, which could negatively affect our financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our Shares could be adversely affected if we become the target of any negative publicity as a result of actions taken by our distributors.

Due to our dependence on distributors for the sale and distribution of our products to retail outlets, any one of the following events could cause material fluctuations or declines in our revenue and have a material adverse effect on our financial condition and results of operations:

- reduction, delay or cancellation of orders from one or more of our distributors;
- selection or increased sales by our distributors of our competitors' products;
- our failure to renew distribution agreements and maintain relationships with our existing distributors; and
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of our distributors.

The competition for distributors is intense in our industry in China and many of our competitors are expanding their distribution networks in China. We may not be able to compete successfully against the larger and better-funded sales and marketing campaigns of some of our current or future competitors, especially if these competitors provide more favorable arrangements with their distributors. Although we are not aware of material loss of distributors to our competitors during the Track Record Period, we cannot assure you that we will not lose any of our distributors to our competitors in the future, which may cause us to lose some or all of our favorable arrangements with such distributors and may even result in the termination of our relationships with other distributors. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the sales to our top five distributor customers accounted for approximately 4.3%, 4.1%, 3.5% and 3.8% of our total revenue, respectively. While we do not believe that we are substantially dependent upon any individual distributor, finding replacement distributors could be time-consuming and any resulting delay may be disruptive and costly to our business. In addition, we may not be able to successfully manage our distributors and the cost of any consolidation or further expansion of our distribution network may exceed the revenue generated from these efforts. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore materially harm our financial condition and results of operations.

***We may not be able to maintain relationship with key retail chains or be successful in strengthening our presence in modern retail formats.***

We have developed and maintained relationships with national and regional retails chains. During the Track Record Period, certain portions of our products were sold to consumers through such modern retail formats. To further capture growth opportunities in the PRC pediatric milk formula market, we have also recruited an experienced and dedicated sales team to strengthen our presence in these modern retail formats. The success of the sales channel development strategy will depend on many factors, including the competitiveness of the price of our products, our promotional policy and sales discounts, our ability to form relationships with, and optimize our penetration into, modern retail formats.

We must also be able to anticipate and respond effectively to competition posed by other multinational and domestic pediatric milk formula companies. If we fail to expand our modern retail channels as planned or if we are unable to compete effectively with other pediatric milk formula companies, our business, financial condition and results of operations may be materially and adversely affected.

***We may experience delays in collecting trade and bills receivables from or default by our customers.***

Distributors as our direct customers are generally required to pay in advance for the supply our products. In principle, we do not allow credit purchases for orders being made by distributors. In limited direct sales made to certain major retail chains as well as in sales made to our trusted distributors with a good track record and with special approval from our senior management, we may make credit sales. If such customers' cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may delay payment or not be able to pay trade and payables owed to us. As of 31 December 2007, 2008 and 2009 and 30 June 2010, our trade and bills receivables were RMB66.6 million, RMB49.9 million, RMB79.1 million and RMB57.6 million, respectively. Of the balance of our trade and bills receivables as of 30 June 2010, RMB11.9 million was overdue trade receivables from several major retail chain operators, attributable to the transition after our acquisition of Yashili (Shanghai) and we have settled RMB6.0 million of the outstanding amount as of the Latest Practicable Date. Any substantial delay or default in trade receivables from our customer may adversely affect our financial condition and results of operations.

***Failure to effectively maintain or promote our brands may adversely affect our future success.***

We are committed to developing trusted nutritional brands and products which help improve the healthy development of infants and children in China. Our *Yashily* and *Scient* families of products are China's leading brands in pediatric milk formula products based on retail sales in China. Since our establishment, we have sought to build brand recognition for our "*Yashily*" and "*Scient*" trademarks as representing high-quality and safe pediatric milk formula products.

The willingness of consumers to purchase our products depends upon our ability to continue to offer an attractive value proposition. This in turn depends partly on consumers attributing a higher value to our products over those of our competitors. If the difference between the value attributed to our products as compared to those of our competitors narrows, or if there is a perception of such narrowing, consumers may choose not to purchase our products. If we fail to promote and maintain the brand equity of our products across each of the markets we focus, consumer perception of our products' nutritional quality may be diminished and our business, results of operation and financial conditions could be materially and adversely affected and we may not be able to sustain some of our brands and products.

***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.***

The success of our products depends, to a significant extent, on the effectiveness of our marketing activities. We market our pediatric milk formula and nutritional food products to distributors and consumers mainly through television advertising, supplemented by advertisements in newspapers and magazines, on billboards, by Internet and through other electronic media and promotional campaigns at selected retail outlets and online forums. In addition, to complement our nationwide advertising campaigns, we support our distributors to conduct regional marketing activities for our brands and products. These various marketing activities are critical to the success of our products.

However, we cannot assure you that our current and planned spending on advertising and marketing activities will be adequate. Any factors adversely affecting our ability to grow our marketing capabilities or our ability to maintain adequate spending for marketing activities, such as the availability of resources or new governmental regulations, will have an adverse effect on the market share, brand name and reputation of our products, which may result in decreased demand for our products and negatively affect our business and results of operations.

Furthermore, relevant PRC laws and regulations require prior approval of advertising content of pediatric milk formula product to be appropriate and accurate, not misleading and in full compliance with applicable laws. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to correct the misleading information in such advertisements and even criminal liabilities. According to our PRC legal advisor, Tian Yuan Law Firm, we had not been in violation of PRC advertising laws and regulations during the Track Record Period. If we are found to have violated any applicable PRC advertising laws and regulations in the future, certain of our advertising activities may be discontinued. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising. As a result, we may have to spend additional resources in defending ourselves against such actions, and these actions may damage our reputation and brand image, result in reduced revenue, and negatively affect our results of operations.

***Our revenues primarily depend on sales of pediatric milk formula products.***

We primarily engage in the production, distribution and sale of pediatric milk formulas. During the Track Record Period, sales of our pediatric milk formula products accounted for over 75% of our total annual revenue. We expect that such products will continue to account for a large portion of our revenues in the foreseeable future. Due to such revenue concentration, an investment in our Company may entail more risks than investments in other companies that are not as reliant on sales of a concentrated product line. Any factors adversely affecting the pricing of, demand for, consumer preferences for or market acceptance of our pediatric milk formula products, including increased competition or negative findings or publicity on the effects of our products, could cause our revenue to decline and our business and future operating results to suffer.

***Disruption of our manufacturing operations and supply chain could materially and adversely affect our business.***

Our ability to efficiently manufacture, market and sell products is critical to our success. The manufacturing of our pediatric milk formula products is an exact and complex process, partly due to strict quality and safety requirements. Problems may arise during the manufacturing process for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, quality and transportation of raw materials or semi-finished products, maintenance of our manufacturing environment, natural disasters, various contagious diseases and process safety issues. Other than the melamine incident, we had not experienced any suspension of production and distribution of our products, loss of licences or other governmental penalties during the Track Record Period. If problems arise during the production of a batch of products or base milk powder, the entire batch of products may have to be destroyed and may lead to increased costs, lost revenue, damage to customer relations and time and expenses being spent investigating the causes.

Significant disruption to the supply of our raw milk powder, raw milk or other raw materials or damage to the manufacturing facility of our suppliers due to natural or other causes, such as weather, natural disaster, fires, or other technical or mechanical difficulties, would disrupt our operations. In addition, catastrophes or circumstances beyond our control, including power outages, strikes, terrorism, wars, outbreak or epidemic and various contagious diseases among cattle or other reasons could cause delay or disruption to the operations of our suppliers or ourselves and impair our ability to sell sufficient products to the customers in a timely manner.

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

***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.***

Our future growth depends on whether we are able to expand our capacity and our ability to accommodate more consumers in different geographic markets in China. The utilization of our production and manufacturing facilities, as well as manufacturing capacity provided by third-party suppliers and packaging capacity with respect to our products, is driven by the demands for our products. Our expansion plans are subject to business, economic, and competitive contingencies and uncertainties, including the obtaining of necessary regulatory approvals, seasonality, labor disputes, and a downturn in the economy, all of which could delay the introduction of our products. If we are unable to successfully expand our production capacity and implement our expansion plans in a timely and effective manner or at all, we will be unable to continue our growth and expand within our existing markets or enter into additional geographic markets overseas, or introduce new product lines.

Further, expanding our production and manufacturing facilities requires significant investment and construction lead time. Our managerial, operational and financial resources may also be strained in our plans for expansion. We may need to integrate additional operations for the manufacture of different product lines. Our management may also be challenged to procure and allocate resources to support our expansion, including sufficient raw materials, adequate manufacturing, production, warehousing and transportation infrastructure, and increased distribution and marketing channels. Delays in or difficulties arising from the growth of our operations could result in loss of revenue, an increase in financing costs, inadequacy of working capital or a failure to meet profit and earnings projections, any of which would adversely affect our cash flow, business and results of operations.

***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 operating results depend, in part, on our ability to deliver high-quality products on a timely and cost-effective basis. In addition, we purchase substantially all of our key dairy materials from third-party producers. We may be unable to exercise the same degree of quality control over the production by these third-party producers as we can over our own facilities. If the quality of any of such raw materials or our products deteriorated, it could result in delays in shipments, cancellations of orders or customer returns and complaints, loss of goodwill, and harm to our brand and reputation.

As with other pediatric milk formula producers in China, we are also exposed to risks associated with product liability claims if the consumption of pediatric milk formula products we sell results in injury or illness. We cannot predict what impact such product liability claims or resulting negative publicity would have on our business or on our brand image. The successful assertion of product liability claims against us could result in potentially significant monetary damages and legal expenses as well as diversion of management resources. We do not have product liability insurance and have not made provisions for potential product liability claims. Therefore, we may not have adequate resources to satisfy a judgment if a successful claim is brought against us. Even if a product liability claim is not successfully pursued to judgment by a claimant, we may still incur substantial legal expenses defending against such a claim and our brand image and reputation would suffer. Finally, serious product quality concerns could result in governmental action against us, which, among others, could result in the suspension of production or distribution of our products, loss of certain licenses, or other governmental penalties.

Further, we cannot assure you that we will not be subject to future product liability claims in connection with product quality or other contamination incidents. See "— 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."

***Our profitability and market share may suffer as a result of increasing competition from both domestic and foreign companies in our markets.***

The pediatric nutrition industry is intensely competitive. We believe that the principal competitive factors in our markets are brand recognition, perceived quality, marketing, promotional activity, formulation and product innovation, packaging, distribution and availability of products and price. In most product categories, we compete not only with other widely advertised branded products, but also with private labels, store and economy brand products that are generally sold at lower prices. Our primary competitors have substantial financial, marketing and other resources. We compete against large multi-national companies, as well as regional and local companies, in each of the regions in which we operate. Many of our competitors have longer operating histories, greater brand name recognition, larger market shares, access to larger customer bases and greater economies of scale in financial, sales and marketing, production, distribution, technical and other resources than we do. Some of these competitors have used, and we expect will continue to use, greater amounts of incentives and subsidies for distributors and retailers and more advanced processes and technologies. Furthermore, consolidation among industry participants in China may result in stronger domestic competitors that are more able to compete as end-to-end suppliers as well as competitors who are more specialized in particular areas and geographic markets. This could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, as a result of the 2008 nationwide melamine incident, consumers in the PRC shifted their preference from domestically sourced pediatric milk formula to internationally sourced products. The market share in terms of retail sales of the five largest international pediatric milk formula producers in the PRC market increased from approximately 38% during the first nine months of 2008 to approximately 45% during the first nine months of 2009, according to data from AC Nielsen. The market share in terms of retail sales of the five largest domestic pediatric milk formula producers in the PRC market decreased from approximately 39% during the first nine months of 2008 to approximately

32% during the first nine months of 2009, according to data from AC Nielsen. In order to compete successfully in our markets, we will need to restore customer confidence in our brands and products through improving quality control, developing new products and enhancing our product offerings while maintaining price competitiveness. Even if we can successfully restore customer confidence, if and to the extent we fail to develop new products that differentiate us from our competitors, we may need to compete on pricing, which may cause our operating margins to decline. Our inability to compete successfully against competitors could result in a loss of customers and market share and reduced operating margins, which would adversely impact our results of operations.

***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.***

Our success depends on our ability to anticipate, identify, interpret and react to the tastes, dietary habits and nutritional needs of consumers and to offer products that appeal to those preferences. Sales of our products could be affected by nutritional and health-related concerns about our products, such as fat, cholesterol, calorie, sodium, lactose, sucrose, bacteria and other ingredients contained in the products. Consumer trends in the pediatric milk formula products industry are constantly changing and our failure to anticipate, identify, interpret and react to these changes, or our failure to generate consumer acceptance or recognition of our new products could lead to, among others, reduced demand for and/or price reductions of our products, which could materially and adversely affect our business, financial condition and results of operations.

There can be no assurance that we will be able to successfully compete in these new businesses or with these new products; that demand for these new products will grow to the extent that we expect; or that these new businesses and products will provide the returns that we expect. If we are unable to respond to rapid changes in consumer preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively or efficiently, our business, financial condition and results of operations could be materially adversely affected.

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

Our ability to develop new products and formulas depends on, among others, the maintenance of our cooperation arrangements with universities and research institutes. We have a dedicated research and development team which comprises 32 full-time researchers who hold degrees relating to food technology. The research and development process is expensive and prolonged, and entails considerable uncertainties. Due to the complexities and uncertainties associated with research and development, products that we are currently developing or that we may develop in the future may not complete the development process or obtain the regulatory approvals required for us to market and sell such products successfully. Should any of the following factors occur, the development of new products may require a longer time, cost more and be less successful than we would have anticipated:

- products that may appear promising in development but fail to reach market within the expected or optimal time frame, or fail to ever reach market, due to any number of reasons, including efficacy and the difficulty or excessive cost to manufacture;

- failure to enter into or successfully implement optimal partnerships with research institutes where appropriate for the discovery and commercialization of products, or otherwise to maintain a consistent scope and variety of promising late-stage products; or

- failure of one or more of our products to achieve or maintain commercial viability.

We cannot assure you that all of our new products including our product series and products currently in the development stages, such as milk beverage, other beverage, confectionaries and related products, will be commercially successful. If any of our products currently under development fail to become commercially successful, our business, financial condition and results of operations could be materially adversely affected.

***Delays in delivery of our products by our distributors and logistics companies may affect our sales and damage our reputation.***

We rely on our distributors and logistics companies for the distribution and transportation of our products. The services provided by these distributors and logistics companies could be suspended and could cause interruption to the supply of our products to our distributors due to unforeseen events. Delivery disruptions may occur for various reasons beyond our control, including poor handling by our distributors or logistics companies, transportation bottlenecks, natural disasters and labor strikes, and could lead to delayed or lost deliveries. If our products are not delivered on time, or are damaged during delivery, the sale of our products could be materially affected and we could lose business and our reputation could be harmed.

***Our continuing success depends on our ability to adequately protect our pediatric milk formula and intellectual property.***

The formula of our pediatric milk formula and nutritional food products are of fundamental importance to our business. We have not made and are not planning to make patent applications for these formulas, as we understand that many stages of our production processes and some elements of these products involve proprietary know-how, technology reformation or data that does not fall within the scope of patent protection. Trade secrets are difficult to protect and may become known to competitors or independently discovered despite our efforts to protect them. Further, as details of the ingredients of these products are required by applicable regulations to be listed on the packaging of these products, the formula and ingredients of our products are therefore already in the public domain. As such, we have limited protection against our competitors and third parties who may copy our trade secrets and formula and thereby gain a competitive advantage.

To the extent that protection is afforded under applicable trade secrets laws, we rely on such laws as well as confidentiality policies and contractual arrangements with our employees, customers, contractors and others to establish and protect the trade secrets of our pediatric milk formula and other nutrition and food products. We cannot, however, be certain that the steps we take will prevent the development and marketing of similar, competing products and services by third parties. The confidentiality agreements we rely upon with our employees, customers, contractors and others may be breached, and we may not have adequate remedies for such breach. If we fail to enforce such provisions or are unsuccessful in taking enforcement proceedings against the relevant parties for any breach of confidentiality policies and contractual arrangements, our business may be materially and adversely affected.

The brand names and trademarks under which our products are marketed and sold are also important to our business and we have invested considerable efforts in seeking trademark protection for our core brands, *Yashily* and *Scient*. As of 30 June 2010, we had 350 registered trademarks and had made 84 trademark applications of different classes for our brands and sub-brands domestically and overseas. Further details of our intellectual property portfolio are set out in the section headed "Appendix VI — Statutory and General Information — C. Further information about our business — 2. Intellectual property rights of our Group" in this Prospectus. If we fail to effectively protect our trademarks and our production processes and techniques from inappropriate or unauthorized use by third parties in ways that adversely affect our brand name, our reputation could suffer, which in turn could have a material adverse effect on our business, financial condition and results of operations.

***We may be required to defend ourselves against intellectual property claims from third parties, which could harm our business.***

Regardless of merit, there may be third-party patents or trademarks that cover our products. We had not experienced any intellectual property claim against us during the Track Record Period; however, third parties may obtain patents or register trademarks in the future and claim that our products infringe their intellectual property rights. If a third party asserts that our products are infringing upon its intellectual property, these claims could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and/or prevent us from selling our products. Even if we were to prevail against such claims, any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of an intellectual property challenge, we may find it necessary to enter into royalty licenses or other costly agreements, and we may not be able to obtain such agreements or obtain them on terms acceptable to us.

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

Insurance companies in China offer limited commercial insurance products. For example, business interruption insurance available in China offers substantially less coverage compared to that offered in many other countries. As a result, we only maintain limited insurance coverage in line with the practice of other pediatric milk formula producers in the PRC. We may have to pay for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. In addition, we do not have any product liability insurance or business interruption insurance. The occurrence of certain incidents, including earthquake, fire, severe weather, war floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from them may not be fully covered by our insurance policies. If our business operations were interrupted for a substantial period of time, we could incur substantial cost and losses. Loss incurred on payments we may be required to make may have a material adverse effect on our business, financial condition and results of operations to the extent that such losses or payments are not insured or the insured amount is not adequate to compensate the losses.

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

We have established risk management and internal control systems consisting of relevant organizational framework policies, procedures and risk management methods that we believe are appropriate for our business operations. We seek to continue to improve our risk management systems from time to time. In addition, our internal controls, accounting and reporting systems as well as cost control measures will need to be integrated and upgraded to adequately support the continued expansion of our operations. However, we cannot assure you that our risk management and internal control systems will be sufficiently effective in identifying and preventing all such risks.

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

***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.***

On 16 March 2007, the National People's Congress of the PRC promulgated the Enterprise Income Tax Law of the PRC (the "EIT Law"), which came into effect on 1 January 2008 and superseded both the *Foreign-invested Enterprise and Foreign Enterprise Income Tax Law* ("FIE Tax Law") and the *Provisional Regulations on Enterprise Income Tax* of the PRC. The EIT Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprise.

Under the EIT Law and its implementation rules, enterprises that enjoyed a preferential tax rate prior to the EIT Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the EIT Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profitability, such preferential tax treatment will commence from 1 January 2008.

Some of our subsidiaries had enjoyed preferential tax treatments of lower income tax rate during the Track Record Period. Yashili (Guangdong) is entitled to a two year income tax exemption in 2006 and 2007, followed by three years of 50% tax exemption from 2008 to 2010. As a result, the applicable income tax rate of Yashili (Guangdong) in 2008, 2009 and 2010 was 12.5%. Scient (Guangzhou) is a foreign-invested enterprise, or FIE, which engages in manufacturing and was entitled to a preferential income tax rate of 15% in 2007, 18% in 2008, 20% in 2009 and 22% in 2010. Scient (Guangzhou) was also exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward in 2004 and is entitled to a 50% tax reduction for the subsequent three years from 2006. As a result, the applicable income tax rate of Scient (Guangzhou) for the years ended 31 December 2007, 2008, 2009 and 2010 was 7.5%, 9%, 20% and 22%, respectively. In addition, Scient (Guangzhou) was also entitled to another two-year exemption and three-year tax reduction with respect to EIT for the taxable income derived from the new plant of Scient (Guangzhou), which started in 2008. Also see the section headed "Financial Information — Management's discussion and analysis of financial condition and results of operations — Factors affecting our results of operations and financial condition and comparability — Preferential tax treatments" for more details.

We expect that upon the expiry of the preferential tax treatments for enterprise income tax currently enjoyed by our subsidiaries, our Group's PRC tax obligations will increase and our financial positions and results of operations may be adversely affected.

***Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.***

After the Global Offering, Zhang's Family and Zhang International will be our Controlling Shareholders and will own approximately 52.19% of the Shares before exercise of over-allotment option. As such, Zhang's Family and Zhang International will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchased Shares in the Global Offering. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

***Our continuing success depends on our ability to retain our senior management and qualified personnel.***

Our success depends on the experience and skills of our current officers, management and key sales employees. In particular, our senior management has significant experience in the sales and production of pediatric milk formula products. For example, the members of Zhang's family, our co-founder and chairman of Yashili (Guangdong), are responsible for all managerial functions and business strategies of our Company and have been fundamental to our achievements to date. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

In addition, the concentration of management may be disadvantageous to our Shareholders with interests different from those of the members of Zhang's family. We have been hiring additional employees to diversify the background of our management team; however, we cannot assure you that we will be able to integrate new management into our existing operations in order to keep pace with the proposed growth of our business. The market for highly-skilled employees is competitive in the labor markets in which we operate. Our business could be materially adversely affected if we are unable to retain key employees or recruit qualified personnel in a timely manner, or if we are required to incur unexpected increases in compensation costs to retain key employees or meet our hiring goals. If we are unable to retain and attract the personnel that we require, or we are not able to do so on a cost-effective basis, it could be more difficult for us to sell and develop our products and services and execute our business strategies.

***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 have, to date, financed our working capital and capital expenditure needs primarily by managing our inventories, receivables and payables and through capital contributions from shareholder, bank loans from local banking institutions, advances and entrusted loan from our Controlling Shareholders and from operating cash flows. As of 31 December 2007, we had net current liabilities of RMB111.7 million, primarily relating to the construction of our Shuozhou Plant, which had incurred significant current liabilities such as expenses payable. As of 31 December 2008, we had net current liabilities of RMB1,030.0 million as a result of the product recalls in late 2008, which had also significantly impacted our liquidity and required us to obtain additional funding through shareholders' advances and bank borrowings. In the year ended 31 December 2009 and the six months ended 30 June 2010, we still had cash outflows from operating activities of RMB105.5 million and RMB35.5 million, respectively, primarily attributable to the deferred impact of our product recalls and sales returns in 2008, for which we were responsible for exchanging products recalled with new products subsequently. We recorded the sales amount of recalled products as advances from customers after our customers returned such products to us and such amount was deducted after we delivered new lots of products or made cash refunds to our customers subsequently, resulting in decreases in our trade and other payables and operating cash outflows. To a lesser extent, our transition from domestic to overseas sources for raw milk powder also resulted in the increase in our inventories and had a negative impact on our cash flow in the six months ended 30 June 2010. We cannot assure you that we will not experience working capital deficiency or net cash outflows in the future. Although we believe that our current cash and cash equivalents, and cash flow from operations will be sufficient to meet our present and reasonably anticipated cash needs, we may, in the future, require additional cash resources as we continue to expand our business operations and production facilities and implement other strategies. If our own financial resources are insufficient to satisfy our working capital requirements, we may seek to obtain additional credit facilities or sell additional private or public equity or debt securities.

Our ability to raise additional capital will depend on the financial success of our business and the successful implementation of our key strategic initiatives, economic and financial market conditions and other factors. No assurance can be given that we will be successful in raising the required capital at favorable terms and the required times, or at all. Further equity financings may have a further dilutive effect on our Shareholders. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocations. If we are unsuccessful in meeting our working capital requirements or obtaining additional financing, we may not be able to continue our business operations and advance our development programs, which could harm our overall business prospects.

***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.***

As we rely on labor resources for our production, a shortage of labor will adversely affect our results of operations. Labor costs in China have increased in the past few years and if it continues, our labor costs may increase, which will have an adverse effect on our business and results of operations. There is no assurance that we will not experience a shortage of labor, increased labor costs or labor disputes against us. Any such negative incidents may cause us to incur additional costs and result in delays or disruptions of our production.

***We have not obtained the building ownership certificates for some of our properties.***

As of the Latest Practicable Date, we have not obtained building ownership rights to some of our facilities used for office, production and ancillary purposes. For further details, please see the section headed "Business — Properties — Owned property". As we carry out certain operating activities in some of those facilities, our operation in connection with such facilities may be adversely affected if any third-party claims that it is the legal or beneficial owner of any of those facilities, or land underlying the facilities. We cannot give any assurance that any such ownership dispute or claim will not occur. If any such dispute or claim occurs, our business operations and our financial condition could be materially and adversely affected. In addition, there is no assurance that we will not be subject to any claims, including lawsuits, for compensation in respect of any illegal or unauthorized use of land owned by third parties.

In addition, we lease properties in Chaozhou, Guangdong Province, Shanghai and Chengdu, Sichuan Province for production and office purposes. For further details, please see the section headed "Business — Properties — Leased property" in this Prospectus. We cannot assure that we will be able to renew our leases on terms acceptable to us upon their expiration. If any of our leases are terminated as a result of challenges by third parties or failures of the lessors to renew the leases upon expiration, we may be forced to seek alternative premises for these properties and incur additional costs relating to such relocation. In such events, our rights as owner or lessee and/or occupier of the properties may be adversely affected and we may be subject to penalties or other actions taken against us and/or lose our right to continue to operate on these properties.

***Our business could be harmed by a failure of our information technology and administrative systems.***

We rely on our information technology and administrative systems, particularly the Enterprise Resource Planning system and the Customer Resource Management system, to effectively manage our business data, communications, supply chain, order entry and fulfillment and other business processes. The failure of our information technology or administrative systems to perform could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business to suffer. In addition, our information technology and administrative systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches and viruses. We had not encountered any material failure of information technology and administrative system during the Track Record Period. However, we cannot assure you that there will be no interruption or damage to our information technology and administrative system in the future. Any such damage or interruption could have a material adverse effect on our business and prevent us from paying our suppliers or employees, receiving payments from our customers or performing other information technology or administrative services on a timely basis.

## 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.***

The PRC pediatric milk formula industry has undergone substantial growth in recent years. According to data issued by Euromonitor International in June 2009, the size of PRC pediatric milk formula market has grown from approximately US$1.5 billion in 2004 to approximately US$4.4 billion in 2009. However, there is no guarantee that the PRC pediatric milk formula industry will continue to grow at a similar rate in the future or at all. The PRC dairy industry including the PRC pediatric milk formula industry may experience slower growth in the future due to market saturation as well as competition from alternative products, which may impact the size and growth of the market for dairy products in general. Growth in the PRC market for pediatric milk formula products may also be affected by changes in the purchasing behavior of consumers.

Our growth plan may be impacted by favorable demographic, consumer and economic trends of the Chinese market, including: (i) rising disposable incomes of urban and rural residents; (ii) increasing number of working mothers; and (iii) increasing number of Chinese women willing to accept pediatric milk formula or other products in place of breast milk for their infants. If these demographic trends change in an adverse way, our business could be materially and adversely affected. In addition, it is possible that new research may result in different findings or an adverse change in scientific opinion regarding the beneficial effects of our products, such as the health benefits of DHA and ARA, could materially and adversely affect our business and results of operations.

***More mothers may breastfeed their babies rather than use our products, resulting in reduced demand for pediatric milk formula products.***

The growth of the pediatric milk formula industry and the operation of pediatric milk formula manufacturers are affected by the number of mothers who choose to use pediatric milk formula rather than breastfeeding their babies. Much publicly available data suggests that breastfeeding has many health benefits for the baby that cannot be replicated by dairy-based infant formula products. Additionally, popular literature, cultural pressure, government policies and medical advice in China generally promote the benefits of breastfeeding. For example, on 1 August 2007, China's Ministry of Health issued an Infant Feeding Strategy, which promoted breastfeeding and requested all relevant local departments to publicize the benefits of breastfeeding through radio broadcasting, television and newspapers during World Breastfeeding Week, which took place in early August 2007. Thus, to the extent that private, public and government sources increasingly promote the benefits of breastfeeding, there could be a reduced demand for pediatric milk formula products and our revenues could be adversely affected.

In addition, the 2008 nationwide melamine incident has deteriorated customer confidence in the safety and quality of pediatric formula products made in China and the number of mothers (and future mothers) who choose to breastfeed their babies may significantly increase. The growth of the overall market demand for pediatric formula products has slowed down and may decline in the future and as a result, reduced demand for our products could negatively impact our revenues and growth prospects.

***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.***

Domestic supplies of raw milk are used to produce a variety of dairy products. Any concern with the quality of domestic supplies of raw milk, or illegal tampering with the content of raw milk such as the addition of unknown or unauthorized elements by third-party agents or suppliers, may render dairy products susceptible to suspicions of contaminated quality from use of adulterated raw milk. This may negatively impact consumer perception of our industry and demand for dairy products including ours. In addition, any adverse publicity about quality concerns related to domestic sources of raw milk, whether valid or not, may discourage consumers from purchasing dairy products and negatively impact our business.

***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.***

Our operations are subject to extensive laws and regulations promulgated by the State Council, the Ministry of Health, the AQSIQ, the Ministry of Agriculture of the PRC, the State Food and Drug Administration, and other national or local regulatory authorities in the countries where our products are produced or sold, regarding the production, additive, packaging, storage, safety and environmental controls, distribution, sales, export and labeling of our pediatric milk formula, nutritional food and other products. Our production facilities and products are subject to periodic inspection by national and local authorities of the PRC. There can be no assurance that we are capable of fully complying with future laws and regulations. Any failure by our Company to comply with relevant governmental laws and regulations may have a material adverse effect on our business and results of operations.

There can also be no assurance that the PRC Government will not change the existing laws or regulations or adopt additional or more stringent laws or regulations applicable to us and our business operations. Although we are in compliance with current PRC food hygiene and safety laws and regulations, in the event that such laws and regulations become more stringent or wide in scope, we may fail to comply with such laws. Even if we can comply with such laws, our production and distribution costs may increase. For example, the PRC State Council abolished the regulations on inspection exemptions for food on 18 September 2008 so that every batch of our products was subject to internal inspection going forward. In addition, the PRC State Council promulgated with immediate effect the *Regulation on Supervision and Administration of Quality and Safety of Dairy Products* on 9 October 2008 which, among other things, imposes more stringent requirements for inspection, production, packaging, labeling and product recalls on dairy product producers. Furthermore, on 16 September 2010, the Office of the State Council promulgated the *Notice regarding the Further Strengthening of Measures regarding the Quality and Safety of Dairy Products* (the "Notice") (關於進一步加強乳品質量安全工作的通知) (國辦發[2010]42號), requiring the strengthening of measures regarding the quality and safety of dairy products, rigorous regulations on the quality and safety of dairy products, and raise the standard of quality and safety of dairy products. All these new measures are likely to increase our compliance costs. To the extent that new laws and regulations are adopted, we will be required to conform our activities and operations in order to comply with such laws and regulations. We cannot predict the nature of such future laws, regulations, interpretations, or applications, nor can we predict the impact of additional laws, regulations or administrative orders, when and if promulgated, on our business in the future. Such laws and regulations may require the re-configuration of other methods for sourcing raw materials, production, processing and transportation, including, but not limited to, more onerous food safety, labeling and packaging requirements, more stringent compliance requirements for waste management, increase in transportation costs, and greater uncertainty in production and sourcing estimates. The costs of compliance with current or future legislation or regulatory requirements and obtaining and maintaining regulatory approvals may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our financial condition, results of operations or cash flows. Also, our failure to comply with any applicable laws and regulations could subject us to civil remedies, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

***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.***

A major outbreak of any illness or disease among cattle in China, New Zealand, the United States, the EU or any country from which we may source raw milk powder in the future or where we may make investments in or undertake cooperation with dairy product operations and raw milk powder producers in the future could lead to a serious loss of consumer confidence in, and demand for, our pediatric milk formula products. A major outbreak of mad cow disease, bovine tuberculosis or other serious diseases in the regions from which we source raw milk powder for our pediatric milk formula products could result in the widespread destruction of the affected cattle and consequently lead to significant shortfalls in the supply of raw milk powder or affect the continuity and quality of the supply of raw milk powder. Furthermore, adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying dairy products or cause production and delivery disruptions. If consumers were to avoid or reduce consumption of our products, our sales may decline substantially and we could suffer substantial losses.

## 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.***

China's economy differs from the economies of most developed countries in many respects, including:

- socialist market economic structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

China's economy has been transitioning from a planned economy towards a more market-oriented economy. In addition, the PRC Government continues to play a significant role in regulating industrial development by imposing industrial policies. For the past three decades, the PRC Government has implemented economic reform measures to emphasize the utilization of market forces in economic development. These measures have brought about marked economic growth and social progress in the PRC. However, we cannot predict the extent of economic reforms pursued by the PRC Government and the economic system in the future. In addition, while the PRC economy has experienced significant growth in the last two decades, its growth has been uneven, both geographically and across various sectors of the economy. Concerned that such growth rates and distributions of growth are not sustainable, the PRC Government has in recent years implemented a series of measures, including but not limited to macroeconomic control measures, export policies and elimination or adjustment of VAT refund for exported goods, to curb the rapid growth of the economy in relation to certain industries.

An economic downturn in China may result in decreased demand for our products and services. All of our revenue during the Track Record Period was attributable to sales within China. As such, our future success is, to some extent, dependent on the economic conditions in China, and any significant downturn in market conditions, particularly in the Chinese pediatric products market, may adversely affect our business prospects, financial condition and results of operations. Moreover, we cannot assure you that the demand for pediatric products in China will not be adversely affected by further macro-economic measures implemented by the PRC Government and result in a material adverse effect on our business and financial condition.

***The PRC Government's recent measures to curb inflation rates could adversely affect our future results of operations.***

In recent years, the PRC economy has experienced periods of rapid expansion and high rates of inflation. Rapid economic growth can lead to growth in the money supply and rising inflation. In April 2008, the change in China's Consumer Price Index increased to 8.5% according to the National Bureau of Statistics of China.

If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on our profitability. These factors have led to the adoption by the PRC Government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and constrain inflation. High inflation may in the future cause the PRC Government to impose controls on credit and/or prices, or to take other actions, which could inhibit economic activity in China, and thereby harm the market for our products. Recently, the PRC Government undertook various measures to alleviate the effects of inflation, particularly on key commodities. On 16 January 2008, the PRC National Development and Reform Commission imposed national price controls on various products, including milk. Similarly, the PRC Government may conclude that the prices of our infant formula or our other products are too high and may institute price controls that would limit our ability to set prices for our products. The PRC Government has also encouraged local governments to institute price controls on similar products. Such price controls could adversely affect our future results of operations and the price of our common stock.

***Restrictions by the PRC Government on foreign exchange may limit the liquidity of our Company.***

At present, the Renminbi is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions.

Under our current corporate structure, our source of funds will primarily consist of dividend payments and repayment of inter-company loans by our subsidiaries in China denominated in Renminbi. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If the subsidiaries are unable to obtain SAFE approval to repay loans to our Company, or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third-party payment obligations, and its ability to distribute dividends in respect of the Shares, could be materially and adversely affected.

***Movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations.***

The value of the Renminbi against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under the past unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including HK dollars and US dollars, had been based on rates set by the PBOC, which had generally been stable. However, the PRC Government reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi appreciated against the HK dollars and US dollars by approximately 2.0% on the same day. On 23 September 2006, the PRC Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

There has been pressure from foreign countries on China to adopt a more flexible currency system that could lead to further appreciation of the Renminbi. The PBOC recently announced that it will proceed with further reform of the Renminbi exchange rate regime and will enhance the Renminbi exchange rate flexibility. The Renminbi may be revalued further against the HK dollars, US dollars or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. It is uncertain if the exchange rates of HK dollars and US dollars against the Renminbi will further fluctuate.

Any appreciation of the Renminbi may subject us to increased competition from imported pediatric products. Meanwhile, as we purchase a significant proportion of dairy materials from overseas suppliers, any depreciation of Renminbi could possibly increase the cost of importing these products, and if we are unable to pass on the increased cost to our distributors by selling our products at higher prices, our results of operations may be adversely affected. In addition, we plan to deposit the unused proceeds from the Global Offering in bank accounts outside of China without remitting those funds into China and converting them into Renminbi assets. In the event that the appreciation of Renminbi against the HK dollar continues, we may incur foreign exchange losses. Furthermore, since our revenues and profits are denominated in Renminbi, any depreciation of Renminbi would materially and adversely affect our financial position and the value of, and any dividends payable on, our Shares in foreign currency terms, as well as our ability to service our foreign currency obligations.

***We are a holding company that relies heavily on dividend payments from our subsidiaries in China for funding.***

Our Company is a holding company incorporated in the Cayman Islands and operates our core businesses through our subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS and IFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

In addition, we are incorporated in the Cayman Islands and hold interests in our subsidiaries in China directly. Under the existing EIT Law, if a foreign entity is deemed to be a "non-resident enterprise" as defined under the EIT Law and its implementation rules, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since 1 January 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between China and Hong Kong, dividends paid by a PRC foreign-invested enterprise, such as Yashili (Guangdong), in China to its shareholder(s) incorporated in Hong Kong, such as Yashili (HK), will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. The SAT issued the *Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties* (關於如何理解和認定稅收協定中「受益所有人」的通知) (the "Circular 601") on 27 October 2009, which addresses which entities are treated as "beneficial owners" under the treaty articles on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a "beneficial owner" on a case-by-case basis based on the "substance over form" principle. It is possible, based on these principles, that the PRC tax authorities would not consider our Hong Kong subsidiary, Yashili (HK), as the "beneficial owner" of any dividends paid from our PRC subsidiaries and would deny the claim for the reduced rate of withholding tax. Under current PRC tax law, this would result in dividends from Yashili (Guangdong) to Yashili (HK) being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

***We may be deemed as a PRC resident enterprise under the EIT Law and be subject to Chinese taxation on our worldwide income.***

Under the EIT Law, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate as to their global incomes. Under the implementation rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

In April 2009, the SAT specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in China and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in China; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in China; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents, as is our case. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. However, as substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes.

If we are deemed as a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rates of 25% on our worldwide income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

***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.***

Under the PRC EIT Law and its implementation rules, our Company may in the future be recognized as a PRC tax resident enterprise by the PRC tax authorities. As such, we may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to Shareholders, as such income may be regarded as income from "sources within China". In this case, our foreign corporate Shareholders may become subject to a 10% withholding income tax under the PRC EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty.

If the PRC tax authorities recognize the Company as a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with *the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties* (關於印發非居民企業享受稅收協定待遇管理辦法(試行) 的通知) ("Circular 124"), issued by the SAT on 24 August 2009. Further, according to Circular 124, which became effective on 1 October 2009, the 5% tax rate does not automatically apply. It is likely that eligibility will be based on a substantive analysis of the Shareholder's tax residency and economic substance. With respect to dividends, the beneficial ownership tests under Circular 601 will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares.

In such circumstances, the value of such Foreign Shareholders' investment in our Offer Shares may be materially and adversely affected.

Similarly, the *Circular of State Administration of Taxation on Strengthening Corporate Income Tax Management on Non-resident Enterprises Equity Transfer Income* (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (the "Circular 698"), which issued by the SAT and became effective on 10 December 2009, provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company ("Indirect Transfer") located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC enterprise income tax.

***Our business could be adversely affected by changes and uncertainties in the Chinese legal system.***

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

***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.***

The legal framework in China that our Directors and senior management members and substantially all our assets are subject to is materially different in certain areas from that of other jurisdictions, including Hong Kong and the United States, particularly with respect to the protection of minority shareholders. While the PRC Company Law was amended in 2005 to allow shareholders to commence actions against directors, supervisors, officers or any third party on behalf of a company under certain limited circumstances, the mechanism for enforcement of rights under the corporate governance framework in China is still relatively underdeveloped and untested.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Japan, and therefore enforcement in China of judgments of a court in these jurisdictions may be difficult or impossible.

***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.***

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

***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.***

Pursuant to *the Implementation Rules of the Administration Measure for Individual Foreign Exchange* (個人外匯管理辦法實施細則) (the "Individual Foreign Exchange Rules"), issued on 5 January 2007 by SAFE and *the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Pre-IPO Share Option Scheme and the Share Option Schemes of Overseas Listed Companies* (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued on 28 March 2007 by SAFE (the "Circular

78"), PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain approval from SAFE or its local branches and complete certain other procedures related to the share option or other share incentive plan.

In order to comply with the requirements of the Individual Foreign Exchange Rules and the Circular 78, we will require our domestic employees to obtain approval from SAFE or its local branches when they participate in the Pre-IPO Share Option Scheme and the Share Option Scheme. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into China. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, as well as open foreign currency accounts to handle transactions relating to the share option or other share incentive plan. We and our PRC citizen employees who have been granted share options, or PRC option holders, will be subject to these rules upon the Listing of our Shares. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and 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.***

On 8 August 2006, the MOFCOM, the State Administrations for Industry and Commerce (the "SAIC"), the SAT, the SAFE, the State-owned Assets Supervision and Administration Commission (the "SASAC") and the CSRC jointly promulgated the *Rules on Foreign Investor's Acquisition of Domestic Enterprise* (關於外國投資者併購境內企業的規定) (the "M&A Rules"). These rules became effective on 8 September 2006 and were revised and reissued by the MOFCOM in June 2009. The M&A Rules established additional procedures and requirements, including but not limited to, the requirement that foreign investors must obtain MOFCOM's approval when they acquire equity or assets of a PRC domestic enterprise through a cross-border share swap. It is generally expected that compliance with the regulations will be more time consuming and costly than in the past and will result in a more extensive evaluation by the PRC Government and result in increased control over the terms of the transaction. Therefore, acquisitions in China by non-PRC entities may face difficulties in completion because the terms of the transaction may not satisfy terms required by regulatory authorities in the approval process. If we decide to acquire a PRC domestic company, the execution of our acquisition plan may become more time-consuming, complex and uncertain, and as a result, our growth prospects could be adversely affected.

***New labor laws in China may adversely affect our results of operations.***

The Standing Committee of the National People's Congress adopted PRC Labor Contract Law on 29 June 2007 which became effective on 1 January 2008. PRC Labor Contract Law imposes requirements relating to, among others, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labor contract if this requirement is not satisfied.

Pursuant to this new law, our subsidiaries in China are required to enter into non-fixed term employment contracts with employees who have worked for them for more than ten years or, unless otherwise provided under the new law, for whom a fixed term employment contract has been concluded for two consecutive terms since 1 January 2008. We may not be able to efficiently terminate non-fixed term employment contracts under the new law without cause. In addition, we are also required to make severance payments to employees under the fixed term contracts upon the expiration of their employment contracts, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is calculated based on the monthly wage of the employee multiplied by the number of full years that the employee was employed by the employer, unless the employee's monthly wage is three times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years.

Compliance with the relevant laws and regulations may substantially increase our Group's operating costs and may have a material adverse effect on the results of operations of our Group. In particular, an increase in the labor costs in China will increase our production costs and we may not be able to pass these increases on to our customers due to competitive pricing pressures. We cannot assure you that any employment disputes or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could adversely affect the business, financial condition or results of operations of our Group.

***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.***

An outbreak in the future of SARS, H5N1, H1N1 or other epidemic, if protracted and uncontrolled, may result in the contraction of such diseases amongst our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. In addition, if there is an outbreak of SARS, H5N1, H1N1 or other epidemic, there is no guarantee that the World Health Organization or the PRC Government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of SARS, H5N1, H1N1 or other epidemic could cause significant interruption to our business and have a significant impact upon our revenue and profitability.

## RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

***There has been no prior public market for our Shares.***

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Global Coordinator on behalf of the Underwriter(s) and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which our Shares will be traded.

***The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.***

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the pediatric products industry and companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

***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.***

Potential investors will pay a price per Share that substantially exceeds the per Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

***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.***

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 3,500,000,000 Shares outstanding immediately after the Global Offering, assuming the Underwriters do not exercise their Over-allotment Option and no outstanding stock options were exercised prior to the Latest Practicable Date. Although we and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up with the Underwriters until six months after the date of this Prospectus, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up represent approximately 18.40% of the total issued share capital immediately after the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately after the Global Offering.

***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.***

Facts, forecasts and other statistics in this Prospectus relating to China, the Chinese economy and the Chinese pediatric nutrition, dairy and nutritional food products industries have been derived from official government publications and we can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by us, and the Underwriter(s) or any of its or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

***You should not rely on any information contained in press articles or other media regarding our Company and the Global Offering.***

Prior to the publication of this Prospectus, there has been certain press and media coverage (including but not limited to the Ming Pao Daily News on 21 August 2010, Apple Daily on 8 October 2010, and Ta Kung Pao, Hong Kong Economic Journal, Headline Daily and Hong Kong Economic Times on 11 October 2010) regarding our Company and the Global Offering which included certain information about our Company and the Global Offering that does not appear in this Prospectus. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this Prospectus in making any decision as to whether to subscribe for the Offer Shares.