

INDUSTRY OVERVIEW

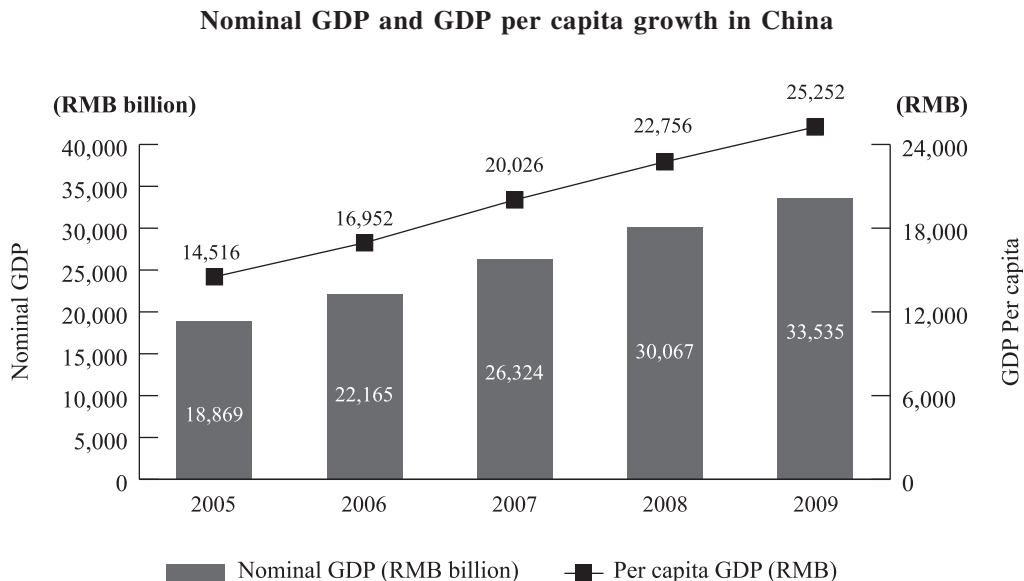
We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. Investors should also note that no independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government and non-official sources. Our Company, the Joint Sponsors, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of their respective directors and advisors or any other persons or parties involved in the Global Offering make no representation as to the accuracy of the information from official government and non-official sources, which may not be consistent with other information compiled within or outside China. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

Unless and except for otherwise specified, the market and industry information and data presented in this Industry Overview section is provided by Euromonitor International.

THE ECONOMY OF CHINA

Economic Growth in China

China is one of the world's fastest growing economies. According to Euromonitor International, China's nominal gross domestic product, or GDP, grew from RMB18,869 billion in 2005 to RMB33,535 billion in 2009, representing a CAGR of 15.5%. The GDP per capita of China also increased from RMB14,516 in 2005 to RMB25,252 in 2009, representing a CAGR of 14.8%. The following chart sets forth the nominal GDP and GDP per capita of China from 2005 to 2009:



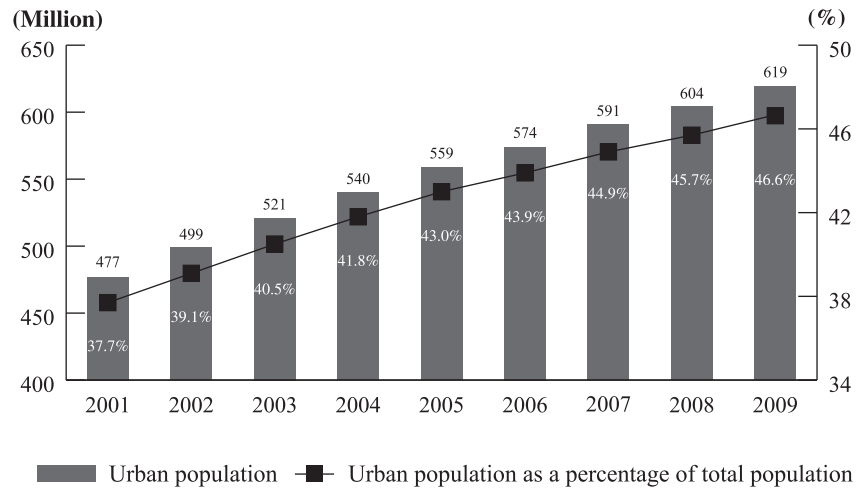
Source: Euromonitor International

INDUSTRY OVERVIEW

Growth of Urban Population

The economic growth of China has been accompanied by the phenomenon of rapid urbanization. According to Euromonitor International, the total population of China was approximately 1.3 billion at the end of 2009. From 2001 to 2009, China's total urban population increased from approximately 477 million to approximately 619 million, representing a CAGR of 3.3% and an increase of 29.8% within the nine-year period. During the same period, China's urban population as a percentage of its total population increased from approximately 37.7% to approximately 46.6%. The following chart sets forth China's total urban population and urban population as a percentage of its total population as of the end of each of the periods indicated:

Absolute and relative growth of urban population in the PRC

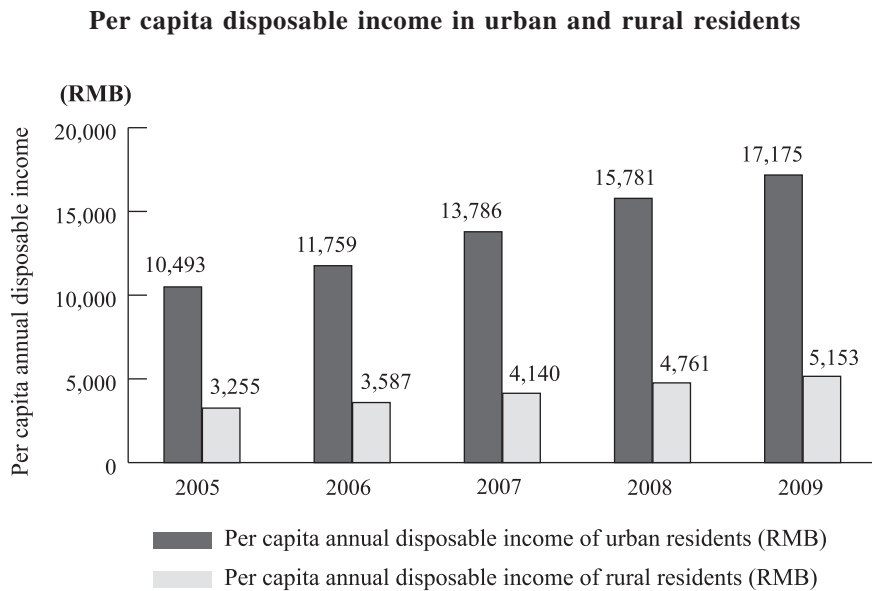


Source: Euromonitor International

INDUSTRY OVERVIEW

Growth in Disposable Income of Urban and Rural Residents in China

As a result of China's rapid economic growth, personal income from urban and rural residents in China has also been increasing. According to Euromonitor International, the per capita annual disposable income of urban residents increased from RMB10,493 in 2005 to RMB17,175 in 2009, representing a CAGR of 13.1%. The per capita annual disposable income of rural residents increased from RMB3,255 to RMB5,153 during the same period, representing a CAGR of 12.1%. These increases indicate that the purchasing power of consumers in China is continuously rising, enabling consumers in China to purchase higher quality products for their infants and children. The following chart sets forth the per capita annual disposable income of urban and rural residents in China from 2005 to 2009:



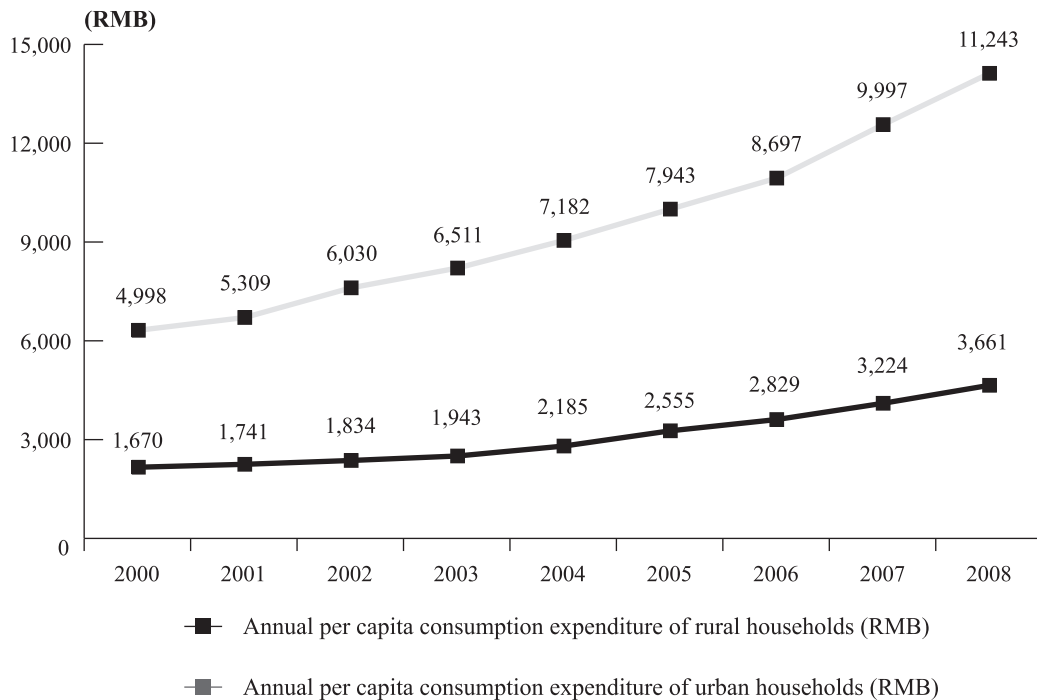
Source: Euromonitor International

INDUSTRY OVERVIEW

Growth in Consumption Expenditure of Urban and Rural Households in China

According to *the China Statistical Yearbooks 2001–2009*, the annual per capita consumption expenditure of rural households in China increased from approximately RMB1,670 in 2000 to approximately RMB3,661 in 2008, representing a CAGR of 10.3%, while the annual per capita consumption expenditure of urban households in China increased from RMB4,998 in 2000 to approximately RMB11,243 in 2008, representing a CAGR of 10.7%. The following chart sets forth the annual per capita consumption expenditure of urban and rural households in China from 2000 to 2008:

Urban and rural households per capita consumption expenditure in China



Source: *China Statistical Yearbooks 2001–2009*

THE PEDIATRIC MILK FORMULA INDUSTRY

Overview

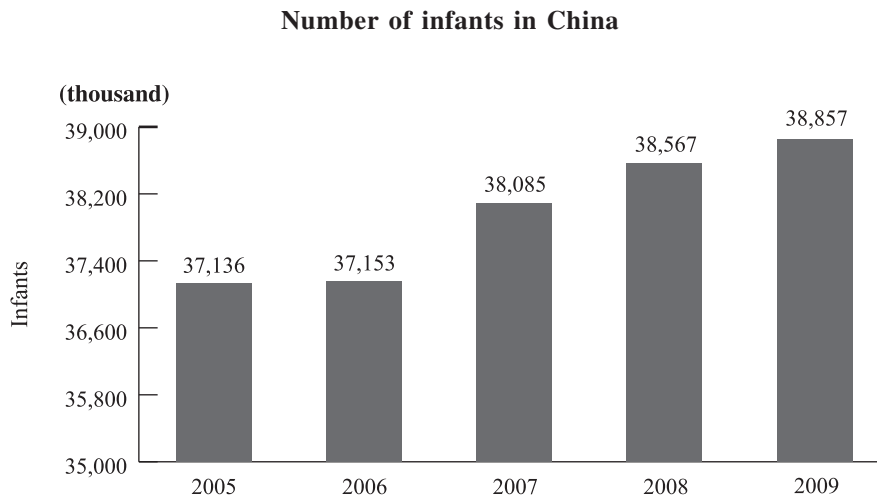
Pediatric milk formula, a primary alternative to mother's breast milk, is a type of food manufactured to support the adequate growth of infants. The composition of pediatric milk formula is mostly based on mother's breast milk at approximately one to three months postpartum with additional nutritional supplements. The ingredients found in a majority of the pediatric milk formulas available on the market include: purified cow's milk, whey, and casein as a protein source; a blend of vegetable oils as a fat source; lactose as a carbohydrate source; and a mix of vitamins, minerals, and other ingredients.

INDUSTRY OVERVIEW

According to the World Health Organization, any pediatric milk formula that is prepared in accordance with the Codex Alimentarius is considered a nutritionally adequate and safe complementary food and a suitable substitute for mother's breast milk. The Codex Alimentarius is a collection of internationally recognized standards, codes of practice, guidelines and other recommendations relating to foods, food production and food safety developed and maintained by the Codex Alimentarius Commission, a body that was established in 1963 by the Food and Agriculture Organization of the United Nations and the World Health Organization. Pediatric milk formula is a primary type of milk product that the medical community considers nutritionally acceptable for infants under the age of one year.

Although cow's milk is the basis of almost all pediatric milk formulas on the market, unprocessed plain cow's milk is unsuitable for infants under the age of twelve months due to its high casein and low whey protein content, which may cause indigestion in infants or, in more severe cases, result in diarrhea or intestinal bleeding. As a result, all cow's milk used for formula production is normally processed into pediatric milk formula. This process includes altering the whey-to-casein protein balance to achieve a ratio similar to mother's breast milk to render the cow's milk protein more easily digestible, adding a number of essential nutrients such as calcium and vitamins, and replacing dairy fat with vegetable or marine originated fats.

China's birth rate has remained at a relatively stable growth level from 2005 to 2009. According to Euromonitor International, the 0 to 36 months old baby population increased from approximately 37.1 million babies to approximately 38.9 million babies within this period, representing a year-on-year growth of 1.3% from 2007 to 2008 and 0.8% from 2008 to 2009. It is expected that the number of infants in China will continue to grow at a relatively consistent level in the coming years. The following chart sets forth the number of 0 to 36 months baby population in China from 2005 to 2009:



Source: Euromonitor International

INDUSTRY OVERVIEW

According to Euromonitor International, China's pediatric milk formula market experienced rapid growth in the past several years, recording a CAGR of 25.1% during the period from 2005 to 2009 and a total retail sales value of US\$4,359 million in 2009. It is estimated that due to the booming economy and increasing baby population in China, China may overtake USA as the world's largest pediatric milk formula market, in terms of total retail sales value, in 2010. The following chart sets forth the total retail sales value of pediatric milk formula products from 2005 to 2009, and the estimated total retail sales value of pediatric milk formula products from 2010–2014:

<i>(year, US\$ million)</i>	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	CAGR (05–09)	CAGR (10–14)
China	1,779.4	2,276.0	2,918.2	3,662.4	4,358.9	5,118.5	6,121.4	7,325.5	8,656.5	10,115.1	25.1%	18.6%
France	683.4	728.0	775.6	836.7	880.9	929.1	981.8	1,041.0	1,102.2	1,171.5	6.6%	6.0%
Germany	319.3	321.1	326.8	346.7	353.2	359.7	367.9	377.4	388.5	397.7	2.6%	2.5%
India	148.5	159.9	172.3	187.4	201.8	219.2	238.6	260.9	286.6	316.1	8.0%	9.6%
Japan	747.9	731.4	721.2	731.2	733.3	736.1	740.2	744.5	748.8	754.1	-0.5%	0.6%
South Korea	432.5	426.2	430.9	432.9	427.8	425.5	422.6	419.4	415.9	411.7	-0.3%	-0.8%
United Kingdom	370.0	385.2	403.4	455.4	476.2	492.4	507.4	520.9	532.6	541.9	6.5%	2.4%
USA	4,204.1	4,381.4	4,682.9	4,820.3	4,892.9	4,900.0	4,931.0	4,975.2	5,034.1	5,182.3	3.9%	1.4%

Source: Euromonitor International

The annual per capita consumption of pediatric milk formula in China has grown rapidly from US\$49 in 2005 to US\$112 in 2009, representing a CAGR of 23.0%. However, the per capita consumption of pediatric milk formula in China in 2009 was still behind the USA as well as South Korea and accounted for approximately 29.6% of that in the USA and 34.8% of that in South Korea. In 2009, the population of babies who are 0 to 36 months old in China was approximately 38.9 million, which was three times that of the USA and 29 times that of South Korea. The following chart sets forth the global annual per capita consumption of powder pediatric milk formula from 2005 to 2009:

<i>(year, US\$)</i>	2005	2006	2007	2008	2009	CAGR (05–09)
China	49.0	62.6	78.3	97.1	112.0	23.0%
France	299.1	317.4	335.3	359.5	377.7	6.0%
Germany	149.3	152.5	158.4	171.9	177.5	4.4%
India	2.0	2.1	2.3	2.5	2.7	7.8%
Japan	236.9	239.3	240.8	247.6	251.8	1.5%
South Korea	303.7	311.0	322.0	325.2	321.4	1.4%
United Kingdom	177.9	180.7	185.9	208.0	217.9	5.2%
USA	343.6	353.8	373.1	377.6	378.0	2.4%

Source: Euromonitor International

INDUSTRY OVERVIEW

Raw Milk Powder

Raw milk powder is one of the most essential ingredients in pediatric milk formula. Raw milk powder produced using plain cow's milk is nutritious and has a similar texture, taste and nutritional content to mother's breast milk. For example, mother's breast milk contains, on average, approximately 1.1% of protein, 4.2% of fat and 7.0% of lactose and supplies 72 kcal of energy per 100 grams, while cow's milk contains, on average, approximately 3.4% of protein, 3.6% of fat, 4.6% of lactose and 0.7% of minerals and supplies 66 kcal of energy per 100 grams. Because of the similarities between mother's breast milk and plain cow's milk in terms of nutritional content, raw milk powder that is produced using plain cow's milk is irreplaceable as a key ingredient in substantially all pediatric milk formula products.

Liquid milk is transformed into raw milk powder mainly for preservation purposes. Raw milk powder generally has a much longer shelf life than liquid milk and does not require refrigeration due to its low moisture content. Transforming liquid milk into powder form also reduces its bulk for economy of transportation.

PRC market of pediatric milk formula

Overview

China is the world's most populous country and one of the fastest growing pediatric milk formula markets in the world. The increasing trend towards double income families in China, coupled with the convenience and complete nutritional benefits offered by pediatric milk formula products, has resulted in increased acceptance by Chinese women of pediatric milk formula as a substitute for mother's breast milk for their infants. According to Euromonitor International, pediatric milk formula powder products accounted for 69.9% of the entire milk powder market in China in 2009. Furthermore, the total retail sales volume of pediatric milk formula in China was estimated to be approximately 340,300 tonnes in 2009; hence, China accounted for the largest share in the global powder pediatric milk formula market, by total retail sales volume, in 2009, according to Euromonitor International. A large number of pediatric milk formula production enterprises, both foreign and domestic, have entered into China's market in recent years to compete for a share in the nation's pediatric milk formula market.

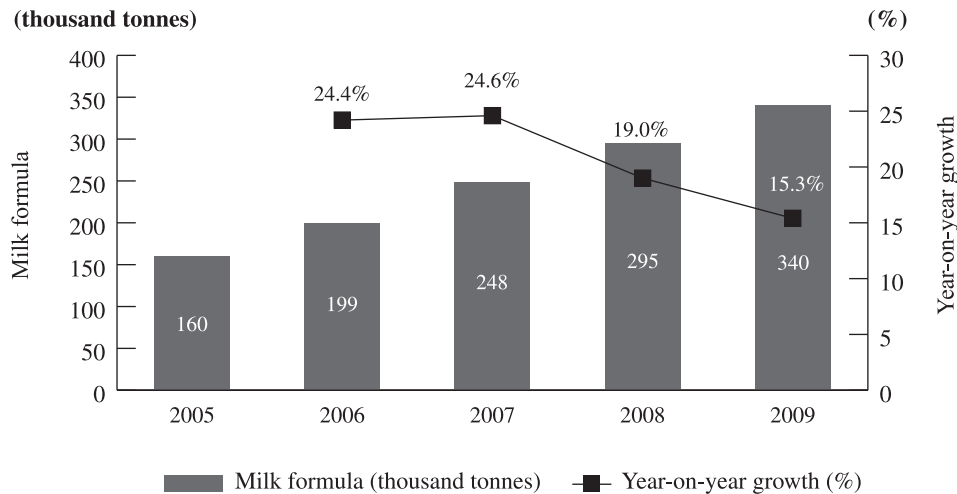
Sales

China's pediatric milk formula sector has been expanding rapidly due to its increased urbanization, its stable birth rate, the increase in disposable income and the increase in the number of working mothers. The total retail sales volume of pediatric milk formula in China has increased from

INDUSTRY OVERVIEW

approximately 160,000 tonnes in 2005 to 340,300 tonnes in 2009, representing a CAGR of 20.8%, while the total retail sales value in 2009 amounted to US\$4,359 million. The following graph sets forth the development trend of the retail sales volume of pediatric milk formula in China from 2005 to 2009:

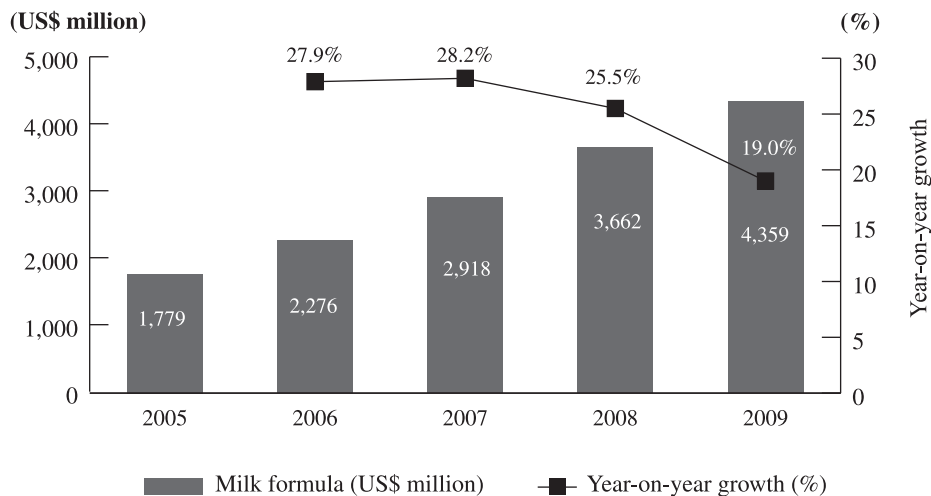
Total retail sales volume of pediatric milk formula market in China



Source: Euromonitor International

Because the growth in China's pediatric milk formula market is mainly attributable to the increase in sales of high-priced and premium-priced pediatric milk formula products, which are sold at significantly higher prices, the value of China's pediatric milk formula market is expected to increase at a higher rate than the corresponding increase in retail sales volumes of pediatric milk formula. The following graph sets forth the development trend of the retail sales value of pediatric milk formula in China from 2005 to 2009:

Total retail sales value of pediatric milk formula market in China

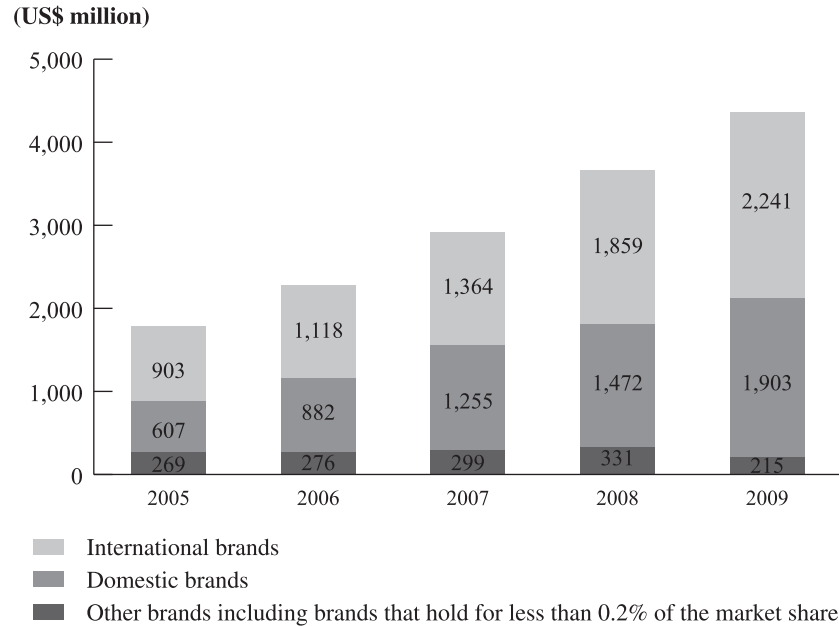


Source: Euromonitor International

INDUSTRY OVERVIEW

The graph below sets forth the breakdown of the total retail sales value of domestic and international brands, respectively, in the pediatric milk formula market in China from 2005 to 2009:

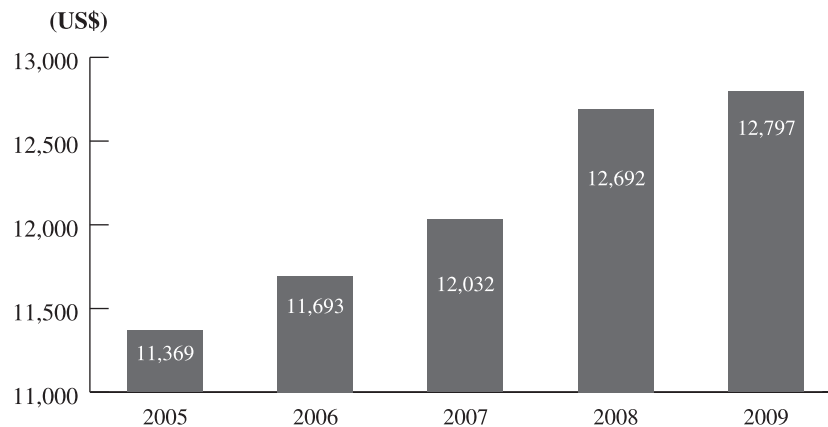
Breakdown of total retail sales value of pediatric milk formula market in China



Source: Euromonitor International

As both the total retail sales volume and the total retail sales value of the pediatric milk formula market in China experienced a rising trend from 2005 to 2009, the average indicative price of pediatric milk formula sold per tonne in China annually has also experienced an increase from US\$11,369 in 2005 to US\$12,797 in 2009, representing a CAGR of 3.0%. The following graph sets forth the development trend of the average indicative price of pediatric formula sold per tonne in China annually from 2005 to 2009:

Indicative price of pediatric formula sold per tonne annually in China



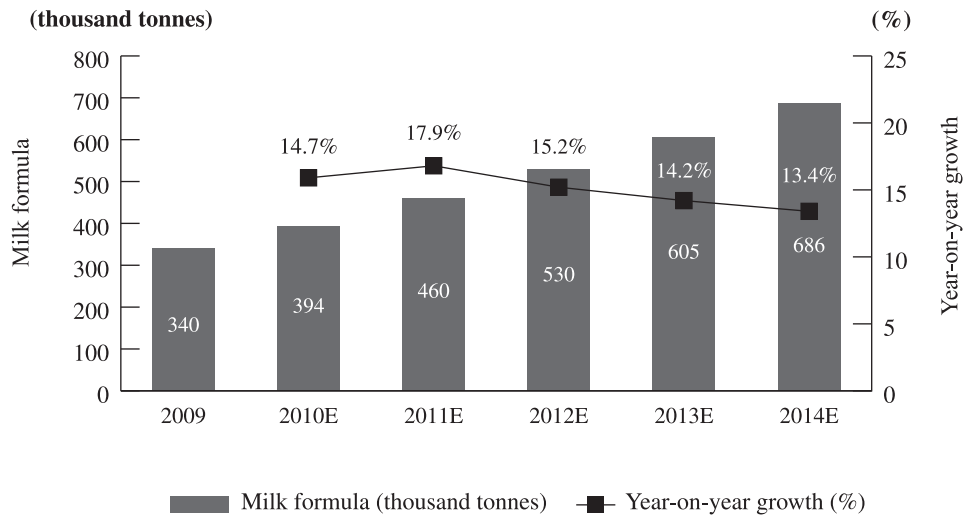
Source: Euromonitor International

INDUSTRY OVERVIEW

Growth Trends

According to Euromonitor International, China's pediatric milk formula market is expected to continue to grow due to the increasing demand for pediatric milk formula, higher average retail prices for pediatric milk formula products as well as macro-economic factors such as increasing urbanization, rising disposable income levels and the growing number of working mothers. The retail sales volume of pediatric milk formula is expected to grow by a CAGR of 14.9% from 2010 to 2014, with the retail sales volume size reaching 686,000 tonnes in 2014. The following chart sets forth the projected retail sales volume of pediatric milk formula products in China for the periods indicated:

Projected retail sales volume of pediatric milk formula products in China



Source: Euromonitor International

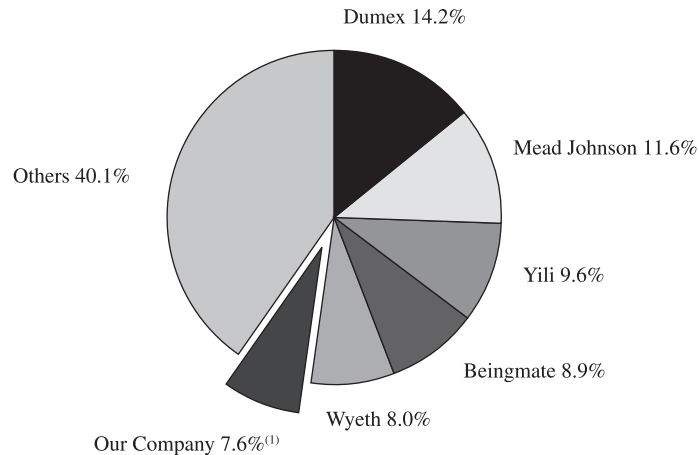
Competition in the PRC Pediatric Milk Formula Industry

Domestic and international producers of pediatric dairy products compete in the PRC pediatric milk formula industry. While the industry consists of a large number of players due to its attractive growth opportunities, according to data from AC Nielsen, the top six producers accounted for approximately 60% of the total market share of China's pediatric milk formula market based on retail sales in 2009. Among the top six market leaders, three were international producers Dumex, Mead Johnson and Wyeth with market shares of approximately 14.2%, 11.6% and 8.0%, respectively, and three were domestic producers Yili, Beingmate, and our Company captured market shares of approximately 9.6%, 8.9% and 7.6%, respectively.

The principal bases upon which pediatric milk formula producers compete in the PRC market are brand recognition, product quality, distribution networks, product pricing and offering range. Competition in the domestic market has experienced a trend towards premiumization due to consumer's increased appreciation for product quality and safety. This has led to increased significance in brand recognition and investment in quality control. Due to the significant expenditure required to build brand recognition and market scale and implement stringent quality control measures, leading players such as our Company benefit from the high barriers to market entry opportunities for industry consolidation.

INDUSTRY OVERVIEW

Our *Yashily* and *Scient* brands are two of China's leading brand names in the pediatric milk formula market. We are the third largest domestic pediatric milk formula producer with approximately 7.6% market share in terms of total retail sales value in China in 2009, according to AC Nielsen. By adopting a multi-brand strategy, we have expanded our product offerings to reach consumers across market groups. We are able to effectively compete in the market based on our high-quality products, established brands, extensive distribution network, strong marketing capability and product innovation. For further details on our competitive positioning within the domestic market, please see the section headed "Business — Competition". The following chart sets forth the market shares held by domestic and international pediatric milk formula producers in China based on retail sales in 2009:



Source: AC Nielsen

Note:

(1) Comprises the market shares of our pediatric milk formula products under the *Yashily* and *Scient* brands.

Possible Challenges that the PRC Pediatric Milk Formula Industry May Face

Imported pediatric milk formula products

As the 2008 nationwide melamine incident affected the health of a substantial number of infants and children in China, many parents have lost confidence in infant formulas that are produced domestically. Since the melamine incident, leading brands in China have devoted substantial resources towards convincing the Chinese population of the safety of their dairy products. Consumer confidence levels in China were still in recovery as the retail value size growth rate has slowed down from 25.5% in 2008 to 19.0% in 2009. The PRC pediatric milk formula industry may face challenges as a result of the increase in consumer demand for imported pediatric milk formula products, as such products may provide a higher confidence in terms of safety and quality to the consumers in China.

INDUSTRY OVERVIEW

Consumer confidence

Recently, there have been media reports linking hormone levels in the pediatric milk formula products of a domestic manufacturer with alleged premature development and sexual precocity of infants in the PRC. While China's Ministry of Health has already conducted a clinical investigation and found no evidence of abnormality in the hormone content of the said products, it is uncertain what impact, if any, these media reports will have on the PRC pediatric milk formula industry. If the negative publicity surrounding this incident causes a confidence crisis in the quality and safety of pediatric milk formula products among consumers in China, the PRC pediatric milk formula industry may face another challenge similar to the 2008 nationwide melamine incident, with adverse effects on the results of operations of the entire industry.

Furthermore, there have been recent media reports that melamine-contaminated products under the product recall in 2008 have been leaked and sold in the market. There have also been reports that victims from the 2008 nationwide melamine incident are unable to receive compensation for emergency and medical costs from the compensation fund; however, no further judicial decision was rendered on such claims quoted in relevant reports. Such negative news may continue to undermine and affect consumers' confidence and perception of the PRC pediatric milk formula industry. Currently, it is uncertain how long such repercussions of the 2008 nationwide melamine incident may last and what impact, if any, such negative publicity will have on the PRC pediatric milk formula industry going forward.

Birth rate in China

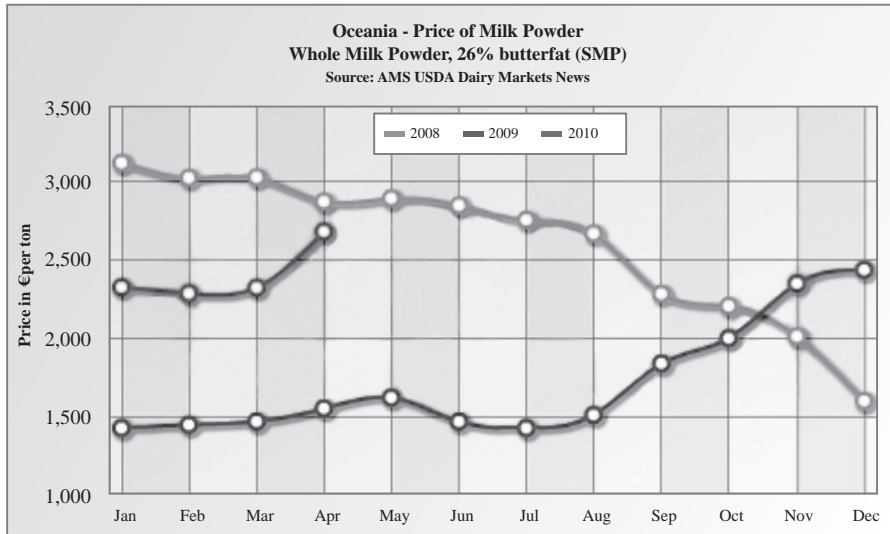
China may experience a decreasing birth rate, even though China's birth rate has remained at a relatively stable growth level from 2005 to 2009. With China's stringent one-child policy and numerous deaths caused by natural disasters every year, the birth rate in China may decrease which, in turn, leads to a decrease in demand of pediatric milk formula products. This is a possible challenge to the PRC pediatric milk formula industry.

Prices of Raw Materials

As all of our pediatric milk formula products use high-quality imported milk sources from New Zealand and Australia, spot prices of Oceania whole milk powder reflect the imported prices of the raw milk powder that the Group imports from New Zealand and Australia. According to *the United States Department of Agriculture*, export dairy commodity prices rose to record levels in 2007 due to

INDUSTRY OVERVIEW

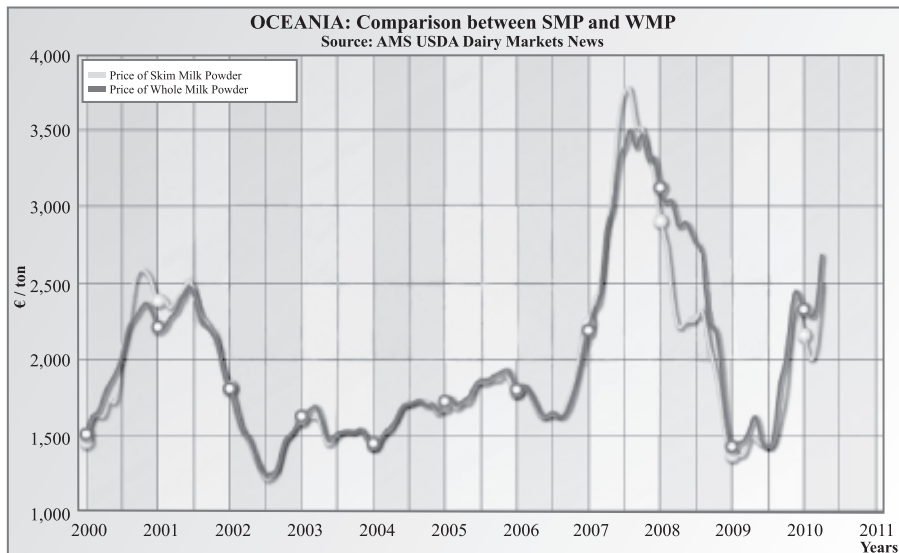
consistently strong demand and tight supplies. Prices suffered a minor contraction from 2008 to the end of 2009 due to the increased availability of products. The following chart sets forth the spot prices of Oceania whole milk powder from January 2008 to April 2010:



¹ Source: United States Department of Agriculture

² Oceania comprises Australia, New Zealand and the Malay Archipelago.

The following chart sets forth the skim milk powder and whole milk powder export spot prices from 2000 to 2010 of Oceania. The price trends of skim milk powder and whole milk powder are directly correlated to the price of milk powder obtained from our Oceania suppliers.



¹ Source: United States Department of Agriculture

² Oceania comprises Australia, New Zealand and the Malay Archipelago.

INDUSTRY OVERVIEW

According to *Dairy Australia* and the *Ministry of Agriculture and Forestry of New Zealand*, the dairy industry of Australia and New Zealand faced a crisis in 2009 with the global economic downturn cutting milk prices. With the higher milk production prices in Australia and New Zealand and with the European Union and the United States stimulating the milk production of the two countries by introducing intervention measures such as intervention buying and export subsidies, the export supply has outpaced demand and therefore import prices of milk powder from Australia and New Zealand fell in 2009 although they picked up in 2010.

According to *Global Dairy Trade*, the average import price of whole milk powder from Australia and New Zealand is estimated to decrease from US\$3,521 per tonne as of October 2010, to US\$3,484 per tonne in March 2011 and to increase to US\$3,565 per tonne in June 2011.

We believe that no public information regarding domestic raw milk price trends published by relevant industry associations or competent government agencies are available.

SOURCE OF INFORMATION

The information and statistics set out in this section have been extracted or derived from public and private publications of information providers, including Euromonitor International and AC Nielsen. All of these information providers are independent third parties and the reports and sources used by these information providers have not been commissioned by us. We paid RMB18,965 for purchasing the information and statistics disclosed in the Prospectus from Euromonitor International. We paid RMB720,900 to AC Nielsen in 2009 for providing the information, statistics and market analysis of the pediatric nutrition, dairy and nutritional food products industries in its database, including but not limited to those disclosed in the Prospectus.