



澳優乳業股份有限公司 AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1717

GLOBAL OFFERING



Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	300,000,000 Offer Shares (comprising 200,000,000 Offer Shares to be offered by the Company and 100,000,000 Sale Shares to be offered by the Selling Shareholders subject to Over-allotment Option)
Number of Hong Kong Offer Shares	:	30,000,000 Offer Shares (subject to adjustment)
Number of International Offer Shares	:	270,000,000 Offer Shares (subject to adjustment and Over-allotment Option)
Offer Price	:	Not more than HK\$5.10 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) and expected to be not less than HK\$3.60 per Offer Share
Nominal Value	:	HK\$0.10 per Share
Stock Code	:	1717

Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers



MACQUARIE



BOC INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection" in this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Price Determination Date is expected to be on or around 30 September 2009 and, in any event, not later than 6 October 2009. The Offer Price will not be more than HK\$5.10 and is currently expected to be not less than HK\$3.60. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$5.10 for each Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%.

The Joint Bookrunners, on behalf of the Underwriters, may, with the Selling Shareholders' and our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$3.60 to HK\$5.10 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.ausnutria.com.hk. **If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.**

If, for any reason, the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us are unable to reach an agreement on the Offer Price by 6 October 2009, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act.

24 September 2009

EXPECTED TIMETABLE

Date⁽¹⁾

Application lists of the Hong Kong Public Offer open⁽²⁾ 11:45 a.m. on Tuesday,
29 September 2009

Latest time to complete electronic applications
under **White Form eIPO** service
through the designated website www.eipo.com.hk⁽³⁾ 11:30 a.m. on Tuesday,
29 September 2009

Latest time to complete payment of **White Form eIPO**
applications by effecting internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Tuesday,
29 September 2009

Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on Tuesday,
29 September 2009

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Tuesday,
29 September 2009

Application lists close 12:00 noon on Tuesday,
29 September 2009

Expected Price Determination Date Wednesday, 30 September 2009

Announcement of:

- the Offer Price;
- the indication of level of interest in the International Offering;
- the level of applications under the Hong Kong Public Offer; and
- the basis of allotment of the Hong Kong Offer Shares,
to be published in the South China Morning Post (in English) and
the Hong Kong Economic Times (in Chinese) on or before Wednesday, 7 October 2009

Announcement of results of allotment in the Hong Kong Public Offer
(with successful applicants' identification document numbers, where
applicable) available through a variety of channels, including the websites
of the Stock Exchange at www.hkexnews.hk and our Company
at www.ausnutria.com.hk, as described in the paragraph headed
"IX. Publication of results; Despatch/Collection of Share Certificates
and refunds of application monies" in the section headed
"How to Apply for Hong Kong Offer Shares" in this prospectus from Wednesday,
7 October 2009

Results of allocations in the Hong Kong Public Offer will be
available at www.iporesults.com.hk with a "search by ID" function Wednesday,
7 October 2009

Despatch of Share certificates and White Form e-Refund payment
instructions/refund cheques (if applicable) on or before⁽⁵⁾ Wednesday, 7 October 2009

Dealings in Shares on the Stock Exchange expected to commence on Thursday, 8 October 2009

EXPECTED TIMETABLE

Notes:

- (1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).
- (2) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 29 September 2009, the application lists will not open on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — When May Applications Be Made — Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting application, when the application lists close.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC” in this prospectus.
- (5) Share certificates are expected to be issued on 7 October 2009.

Share certificates will only become valid certificates of title if the Hong Kong Public Offer has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement has been terminated in accordance with its terms, which is expected to be at around 8:00 a.m., on 8 October 2009. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. If you apply through the **White Form eIPO** service by paying the application monies through a single bank account, you may have e-Refund payment instructions (if any) despatched to your application payment bank account on or around 7 October 2009. If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on or around 7 October 2009, by ordinary post and at your own risk. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

EXPECTED TIMETABLE

You should read carefully the sections headed “Underwriting”, “How to Apply for Hong Kong Offer Shares”, and “Structure of the Global Offering” in this prospectus for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable including, *inter alia*, applicable conditions, the effect of bad weather, and the despatch of refund cheques and Share certificates.

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This prospectus is issued by Ausnutria Dairy Corporation Ltd solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any jurisdiction other than Hong Kong or in any other circumstances. No action has been taken to permit a public offer of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong.

You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus and/or the Application Forms. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by our Company, the Joint Global Coordinators, the Underwriters, the Selling Shareholders, any of their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with an investment in the Offer Shares. Some of the particular risks faced by the Company of investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

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

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

We currently sell three different series of paediatric milk formula products, namely, A-choice Series, Best-choice Series and Allnutria Series. Each of these series of products is designed to target consumers of high-priced and/or premium-priced paediatric milk formula products. Our A-choice Series of products also include specialty formula products for consumers with special needs, such as for premature or low

Notes:

- (1) According to data issued by Euromonitor International in June 2009, we ranked 13th based on sales value amongst paediatric milk formula producers in China in 2008. Euromonitor International is an Independent Third Party and we did not commission the preparation of the data which we purchased from Euromonitor International. Based on the information from the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (國家質量監督檢驗檢疫總局) as of September and October 2008, there are 109 paediatric milk formula producers in operation in China and approximately 290 standard milk formula and other milk formula producers in China respectively.
- (2) As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data. For further information, please refer to the section headed “Industry Overview — Market Segment in the PRC Paediatric Milk Formula Market” in this prospectus.

SUMMARY

birth-weight infants. All our products are marketed and sold under our own “Ausnutria” family of brands, which we believe are recognised for Australian milk powder based paediatric milk formula in the PRC market.

During the Track Record Period, our paediatric milk formula products were subject to the following processes:

- we import milk powder that is produced by Australian dairy producers according to specifications provided by us. The imported milk powder undergoes our production process which primarily involves the mixing, bacteria killing and purification and other quality control processes. The milk powder is imported in bulk-bag form and is used to produce our A-choice Series and Best-choice Series paediatric milk formula in small foil bag and can forms for retail sale;
- our Allnutria Series paediatric milk formula is produced by Tatura and we import the paediatric milk formula in can form ready for retail sale as well as in bulk-bag form. We do not undertake any further processing with respect to the Allnutria Series paediatric milk formula imported in can form, although the product does undergo our quality control process before it is sold to distributors. The milk powder imported in bulk-bag form undergoes our production process to be produced into Allnutria Series paediatric milk formula in small foil bag form for retail sale. The Allnutria Series paediatric milk formula is a product of our research and development efforts in conjunction with Tatura. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively; and
- the wholesale distribution and sale of our paediatric milk formula products (whether produced or imported by us for direct resale) to distributors through an extensive distribution network across 20 provinces, four autonomous regions and four municipalities in the PRC. These distributors further distribute and sell our products to retail outlets such as department stores, supermarkets and babies and parenting specialty stores throughout the PRC. We have also appointed an agent to distribute our products online via a website operated by an independent online shopping service provider.

During the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our total revenue was RMB93.7 million, RMB186.5 million, RMB405.2 million and RMB321.0 million respectively, and our profit attributable to owners of our Company during the same periods was RMB11.9 million, RMB22.4 million, RMB70.5 million and RMB65.2 million respectively.

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

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

SUMMARY

that we import from Australian dairy producers is recognised by AQIS in Australia and AQSIQ in the PRC to be in compliance with the relevant requirements for exporting from Australia and importing into the PRC respectively.

We seek to increase consumer awareness of our brand and products through advertising and promotional activities. We conduct nationwide marketing campaigns through television advertising and other media. Our marketing team also uses telemarketing strategies to advertise our products and make promotional offers. In addition to our marketing activities, our distributors are responsible for regional marketing efforts, including advertising in retail outlets and arranging paediatric nutrition education seminars.

COMPETITIVE STRENGTHS

We believe our success to date and potential for future growth can be attributed to a combination of our competitive strengths, including the following:

- recognised brand name for high-priced and premium-priced paediatric nutrition products from Australia;
- efficient selling and distribution model;
- experienced and capable management team;
- innovative business strategies and Australian sourced products;
- our products suit the target consumers in the high-priced and premium-priced paediatric nutrition products market in the PRC; and
- maintaining stringent quality controls.

For further information, please refer to the section headed “Business — Competitive Strengths” in this prospectus.

BUSINESS STRATEGIES

Our goal is to strengthen our position as a leading paediatric milk formula company in the PRC market and expand our market share in the PRC. We plan to accomplish our goal through the following strategies:

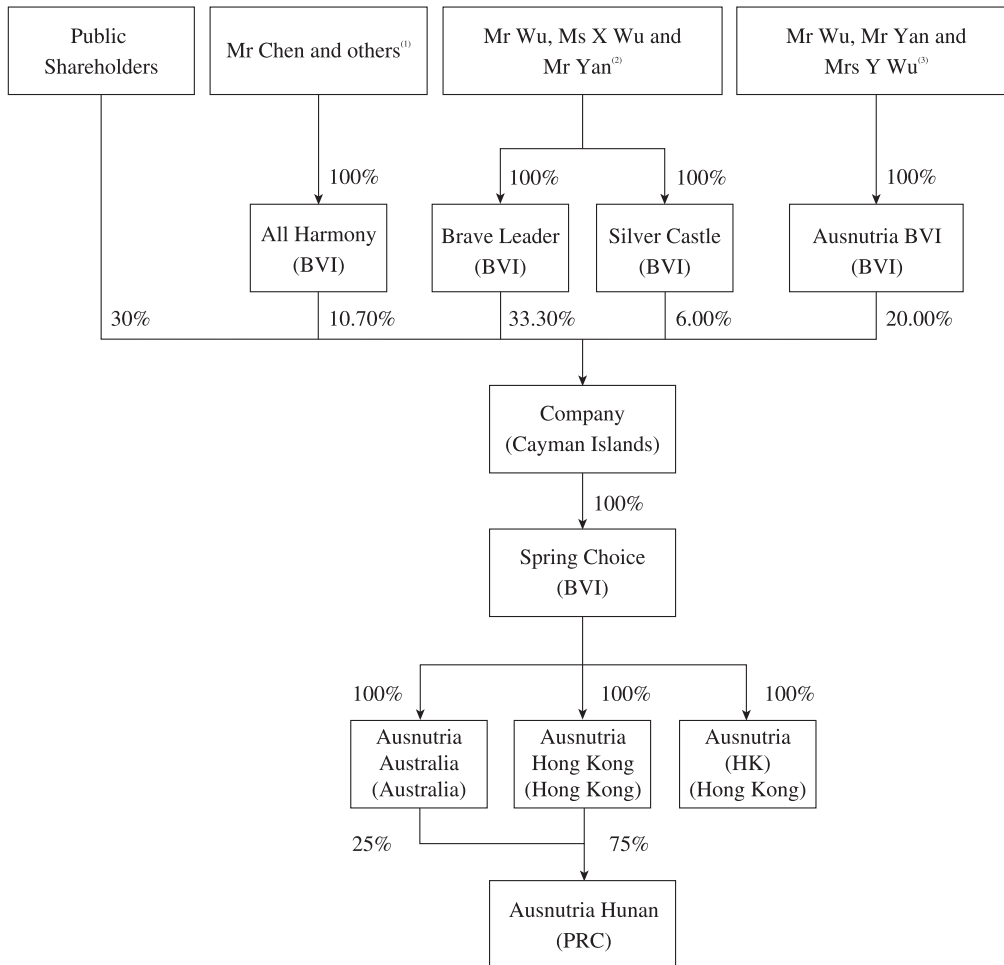
- reinforcing and strengthening our relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to support our diversification;
- increasing our competitiveness and expanding our product range in the high-priced and premium-priced paediatric milk formula products market segments;
- reinforcing and expanding our distribution network in the PRC and other regions;
- enhancing our focus and efforts on research and development;
- improving our production facilities and expanding our storage capacity; and
- evaluating the opportunities for upward integration to secure our milk powder supplies by investing in cattle farms or milk powder producers or cooperating with international institutions that produce milk powder.

For further information, please refer to the section headed “Business — Business Strategies” in this prospectus.

SUMMARY

OUR SHAREHOLDING STRUCTURE

The following chart sets out our corporate structure immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any Shares that may be issued under the Share Option Scheme):



Notes:

- (1) All Harmony is owned by Mr Chen (49.22%) and 20 former and present employees of our Group, namely Zhu Zhonghua (3.125%), Gong Jingming (3.125%), Zhu Junxiang (1.56%), Xiao Guoxiong (3.125%), Xiao Shihu (5.49%), Dai Zhiyong (3.125%), Yang Mingqing (1.56%), Li Sihua (3.125%), Cao Xi (6.25%), Liu Yuehui (3.125%), Tan Ningnan (3.125%), Wu Zhangwei (1.56%), Qu Zhishao (1.56%), Huang Yongbin (1.56%), Huang Yongcheng (3.125%), Huang Mingwen (1.56%), Yang Peihao (0.78%), Li Wei (0.78%), Liu Yubiao (1.56%) and Sun Jingang (1.56%).
- (2) Both Brave Leader and Silver Castle are owned by Mr Wu, Ms X Wu and Mr Yan in the shareholding proportion of 59.57%, 30.67% and 9.76% respectively.
- (3) Ausnutria BVI is owned by Mr Wu, Mr Yan and Mrs Y Wu in the shareholding proportion of 60%, 30% and 10% respectively.

SUMMARY

SUMMARY OF FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, the selected financial data from our combined financial information. For more information, please refer to the section headed “Appendix I — Accountants’ Report” in this prospectus.

Combined Statement of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	93,716	186,526	405,166	174,634	320,972
Cost of sales	(48,443)	(107,729)	(259,163)	(108,258)	(184,711)
Gross profit	45,273	78,797	146,003	66,376	136,261
Other revenue and gain	60	1,045	836	484	4,547
Selling and distribution costs	(21,877)	(43,335)	(56,628)	(27,271)	(44,717)
Administrative expenses	(4,731)	(8,039)	(9,162)	(4,433)	(4,720)
Other expenses	(3,300)	(234)	(695)	(607)	(121)
Finance costs	(536)	(493)	(859)	—	(4,181)
Profit before tax	14,889	27,741	79,495	34,549	87,069
Tax	(3,036)	(5,368)	(8,966)	(4,370)	(21,908)
PROFIT FOR THE YEAR/ PERIOD	11,853	22,373	70,529	30,179	65,161
Other comprehensive income:					
Exchange difference on translating foreign operations	—	(5)	25	—	(10)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD	11,853	22,368	70,554	30,179	65,151
Profit attributable to:					
Owners of the Company	11,853	22,373	70,529	30,179	65,161
Total comprehensive income attributable to:					
Owners of the Company	11,853	22,368	70,554	30,179	65,151
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY — basic (RMB)	1.48 cents	2.80 cents	8.82 cents	3.77 cents	8.15 cents

SUMMARY

Combined Statement of Financial Position

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	2,237	22,369	26,434	27,045
Lease prepayments for land use rights	—	2,427	2,370	2,342
Intangible assets	453	460	393	359
Total non-current assets	<u>2,690</u>	<u>25,256</u>	<u>29,197</u>	<u>29,746</u>
CURRENT ASSETS				
Inventories	8,531	28,824	79,965	48,119
Trade and bills receivables	5,702	4,544	6,355	24,470
Prepayments, deposits and other receivables	11,886	33,084	33,865	46,768
Cash and cash equivalents	<u>21,448</u>	<u>24,939</u>	<u>77,659</u>	<u>138,843</u>
Total current assets	<u>47,567</u>	<u>91,391</u>	<u>197,844</u>	<u>258,200</u>
CURRENT LIABILITIES				
Trade payables	2,755	2,267	14,480	12,868
Other payables and accruals	45,344	71,680	69,889	188,738
Interest-bearing bank loan	—	—	30,000	—
Tax payable	<u>2,930</u>	<u>7,706</u>	<u>7,124</u>	<u>18,120</u>
Total current liabilities and total liabilities	<u>51,029</u>	<u>81,653</u>	<u>121,493</u>	<u>219,726</u>
NET CURRENT ASSETS/ (LIABILITIES)	<u>(3,462)</u>	<u>9,738</u>	<u>76,351</u>	<u>38,474</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
NET ASSETS/(LIABILITIES)	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
EQUITY				
Equity attributable to the owners of the Company and total equity				
Issued capital	—	—	—	—
Retained earnings/(accumulated losses)	(11,161)	10,091	73,567	138,728
Other components of equity	<u>10,389</u>	<u>24,903</u>	<u>31,981</u>	<u>(70,508)</u>
Total equity	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

The following profit forecast is based on the principal assumptions set out in the section headed “Appendix III — Profit Forecast” in this prospectus, including:

- there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which we carry on our business or from which it buys or to which we sell the products or source our materials;
- there will be no changes in government policies, legislation, regulations or rules in the PRC or any other country or territory where we carry on our business or with which we have arrangements or agreements, which may have a material adverse effect on our business;
- there will be no material changes in the bases or rates of taxation or duties in the PRC or any other country or territory where we carry on our business, except as otherwise disclosed in this prospectus; and
- there will be no material changes in inflation rate, interest rates or foreign currency exchanges rates from those prevailing as at the last audited balance sheet date.

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

Based on the profit forecast set out above, our forecast earnings per Share information is as follows:

Pro forma forecast earnings per Share (*Note*). not less than RMB18.0 cents
(approximately HK\$20.4 cents)

Note: The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecasted combined net profit attributable to owners of our Company for the year ending 31 December 2009, assuming that our Company had been listed since 1 January 2009 and a total of 1,000,000,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Shares to be issued pursuant to the Global Offering were issued on 1 January 2009.

GLOBAL OFFERING STATISTICS

	<u>Based on an Offer Price of HK\$3.60 per Share</u>	<u>Based on an Offer Price of HK\$5.10 per Share</u>
Market capitalisation of the Shares ⁽¹⁾	HK\$3,600 million	HK\$5,100 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$0.76	HK\$1.06

Notes:

- (1) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised).
- (2) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after adjustments referred to in the section headed “Appendix II — Unaudited Pro Forma Financial Information” in this prospectus.

SUMMARY

DIVIDEND AND DIVIDEND POLICY

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

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

Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders. Please refer to the section headed “Appendix V — Summary of the Constitution of the Company and Cayman Companies Law” in this prospectus.

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

We have not entered into any agreement under which future dividends are waived or agreed to be waived.

USE OF PROCEEDS

Based on an Offer Price of HK\$4.35 per Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of approximately HK\$833.5 million from the 200,000,000 Offer Shares to be offered by the Company, after deducting underwriting fees and expenses payable by us and assuming the Over-allotment Option is not exercised. We intend to use these net proceeds for the following purposes:

- approximately 30% of the net proceeds (approximately HK\$250.0 million) to explore and undertake potential investment opportunities for investing in or acquiring upstream milk powder related assets and/or operations, including potential investments in overseas cattle farms and/or milk powder producers; and to explore and undertake potential cooperation with milk powder producers in order to increase the number of our suppliers, which will in turn help to diversify our risk profile to ensure a stable supply of milk powder and provide us with more opportunities to source different kinds of paediatric milk formula or nutrition products. As at the Latest Practicable Date, we have not entered into any legally binding agreement or arrangement with respect to these upward integration opportunities. However, we have identified an investment opportunity and are currently in discussions with an organisation in Australia about our potential investment in its milk powder production operations. Please refer to the section headed “Business — Business Strategies” in this prospectus for further information;

SUMMARY

- approximately in aggregate 30% of the net proceeds (approximately HK\$250.0 million) to expand our distribution network and strengthen our brand building, marketing and promotional initiatives, in which approximately 12% of the net proceeds (approximately HK\$100.0 million) for efforts in expanding our distribution network, as well as approximately 18% of the net proceeds (approximately HK\$150.0 million) to finance our brand building, marketing and promotional initiatives. Please refer to the sections headed “Business — Business Strategies” and “Business — Branding and Marketing” for further details on our strategies in expanding our distribution network and increasing investment in our brand building, marketing and promotional initiatives;
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for enhancing our research and development efforts. We intend to build a stronger and larger team and enhance our technological capability by recruiting more qualified research personnel and by purchasing newer and more advanced laboratory equipment. We believe this will increase our ability to develop and produce a wider range of higher quality paediatric milk formula products, with a main focus on bringing our paediatric milk formula products closer to the attributes of mother’s breast milk. Please refer to the sections headed “Business — Business Strategies” and “Business — Research and Development” in this prospectus for further information;
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for complementing our efforts in introducing our new series of organic paediatric nutrition products (including organic paediatric milk formula and organic infant supplements) and new products, and further expanding the range and quality of this series of products. We intend to make investments to ensure our organic paediatric milk formula products satisfy the requirements to obtain the necessary industry certifications and to cooperate with international organic products producers for the developments of other organic paediatric nutrition products and quality enhancement. Please refer to the sections headed “Business — Business Strategies” and “Business — Research and Development” in this prospectus for further information;
- approximately 10% of the net proceeds (approximately HK\$83.3 million) to establish two new production lines for the production of our paediatric milk formula products and to construct a new storage warehouse adjacent to our existing production plant to cater for our anticipated business expansion, as well as other supporting facilities. Please refer to the section headed “Business — Business Strategies” in this prospectus for further information; and
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for general working capital purposes.

The proceeds from the Global Offering are proposed to be invested in the PRC by ways of, including but not limited to, the following means: (i) increasing the registered capital of Ausnutria Hunan, the existing foreign-invested enterprise of our Group; and (ii) establishing new foreign-invested enterprises in the PRC principally engaged in the production of paediatric milk formula or other paediatric nutrition products.

Our PRC legal advisers have advised that, upon the compliance of the relevant approval and registration procedures in the PRC, there will be no legal impediments for the making of the abovementioned increase in capital and establishment of new enterprises in the PRC by using proceeds from the Global Offering.

SUMMARY

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$5.10 per Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$145.5 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$3.60 per Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$145.5 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of approximately HK\$855.5 million at the lower-end of the Offer Price range of HK\$3.60 per Offer Share and HK\$1,212.0 million at the higher-end of the Offer Price range of HK\$5.10 per Offer Share, after deducting the estimated underwriting fees and expenses payable by us. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

RISK FACTORS

We believe that an investment in our Shares involves certain risks, some of which are beyond our control. These risks can be broadly categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. Set out below is a summary of the risks referred to above. For further information, please refer to the section headed “Risk Factors” in this prospectus.

Risks Relating to our Business

- We rely on two Australian dairy producers, namely Tatura and Murray Goulburn, as our main suppliers of milk powder, and any shortage or suspension of milk powder from such suppliers could result in reduced production and revenue for us.
- Disruption of our operations could adversely affect our business in material respects.
- Increases in milk powder prices that we are unable to pass on to our distributors will reduce our profit margins and profitability.
- Any major outbreak of illness or disease relating to cattle could lead to significant shortfalls in the supply of milk and milk powder and could cause consumers to avoid or reduce consumption of paediatric nutrition products, resulting in substantial declines in our sales and possible serious losses.
- We rely on paediatric milk formula as our primary type of product.
- We rely on distributors to distribute and market our products.
- We rely on PRC trading companies to import our milk powder.
- 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 develop and offer new products in a timely manner.
- We may face difficulties as we expand our distribution network to new regions or as we introduce new product series.

SUMMARY

- Our growth strategy may not prove to be successful and we may be unable to manage our expansion of operation effectively.
- We intend to evaluate upward integration opportunities, investment, cooperation and other strategic initiatives, any of which could distract our management or otherwise have a negative effect on our business.
- Our profitability may suffer as a result of competition in our markets.
- Sales of our products are subject to seasonality.
- The risk of product contamination resulting in product liability which may materially adversely affect our business.
- Resources devoted to research and development may not yield new products that achieve commercial success.
- We may not be able to adequately protect our paediatric milk formulas and intellectual property rights.
- We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations.
- Our risk management and internal control systems improvement may not be adequate or effective.
- We have limited insurance coverage which may not be sufficient to cover all of our potential losses.
- Our Controlling Shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders.
- The global financial markets have experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy and may adversely affect our financial condition and results of operations.
- We may not be able to continue to enjoy the benefits from the effects of the melamine incident.

Risks Relating to our Industry

- Adverse publicity concerning paediatric nutrition or dairy products may affect our profitability.
- An adverse change in favourable demographic, consumer and economic trends as well as a change in scientific opinion regarding our products could materially adversely affect our business and reduce our profitability.
- The PRC paediatric nutrition products industry, including the PRC paediatric milk formula industry, could face slower growth.
- Changes in public health and food safety laws and regulations may adversely affect our business.

Risks Relating to Conducting Business in the PRC

- Our business, financial condition, results of operations and prospects could be negatively affected by political, economic and legal developments and changes in government policies in the PRC.

SUMMARY

- An outbreak of severe acute respiratory syndrome, avian influenza A, influenza A virus subtype H₁N₁ or other epidemic if uncontrolled could have a negative impact on our production, sales and distribution operations.
- Our business could be adversely affected by changes and uncertainties in the PRC legal system.
- Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, results of operations and our ability to pay dividends.
- The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders, as well as increase our enterprise income tax rate.
- PRC regulations relating to loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of the Global Offering to contribute additional capital or make loans to our PRC subsidiary.
- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiary to liabilities or penalties, limit our ability to inject capital into our PRC subsidiary or limit the ability of our PRC subsidiary to distribute profits to us.
- 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.

Risks Relating to the Global Offering

- There has been no prior public market for our Shares.
- Investors should not place undue reliance on industry and market information and statistics derived from official government publications contained in this prospectus.
- Investors will experience dilution in the pro forma net tangible assets value because the Offer Price is higher than the net tangible assets per Share
- Future issuances or sales, or perceived issuances or sales, of substantial amounts of our Shares in the public market could materially adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.
- The market price of our Shares could be lower than the Offer Price.
- You should read this entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us.

On the basis that we do not have a substantial amount of bank borrowings and have during the Track Record Period relied, and will continue to rely, largely on cashflows generated from operating activities to support and finance our operations and expansion needs, we are of the view that the recent credit crunch in Hong Kong and the PRC has not affected our operations, business or financial condition in any material respects.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“A\$”	Australian dollars, the lawful currency of Australia
“ADY”	American Dairy, Inc., a company incorporated in Utah, U.S. whose shares are listed on the New York Stock Exchange under the trading symbol “ADY”. ADY is principally engaged in producing and distributing milk powder, soya bean milk powder and related dairy products in the PRC. ADY is an Independent Third Party
“All Harmony”	All Harmony International Limited, a company incorporated in BVI on 9 April 2009 with limited liability. All Harmony is an investment holding company which is owned by Mr Chen and 20 other former and present employees of our Group
“American Functional Foodstuff”	American Functional Foodstuff Research Institute LLC, a company incorporated in Texas, U.S. on 1 July 2003 and a former shareholder of Ausnutria Hunan. It is an investment holding company and is owned by Mr Wu and Mr Yan in the proportion of 70% and 30% respectively
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
“AQIS”	Australian Quarantine and Inspection Service, which is part of the Australian Government Department of Agriculture, Fisheries and Forestry, and provides import and export inspection and certification
“AQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局), which is the administrative agency in the PRC in charge of, among other things, inspection of entry/exit of goods, import and export food safety, and certification
“Articles of Association” or “Articles”	the articles of association of our Company approved by the written resolutions of our Shareholders on 19 September 2009, as amended or supplemented from time to time

DEFINITIONS

“Aubrand”	Hunan Aubrand Food Co., Ltd.* (湖南澳博蘭食品有限公司), a company established in the PRC on 11 June 2008. Aubrand is principally engaged in the sale of vegetable oil (such as olive oil and walnut oil), dairy products, rice cereal and protein powder and its majority shareholder is Mornring. As at the Latest Practicable Date, Aubrand is not engaged in any paediatric milk formula related business
“Ausnutria Australia”	Australia Ausnutria Dairy Pty Ltd., a company incorporated in New South Wales, Australia on 7 October 2003 with limited liability. Ausnutria Australia is an indirect wholly-owned subsidiary of our Company
“Ausnutria BVI”	Ausnutria Holding Co Ltd 奧優控股有限公司, a company incorporated in BVI on 20 December 2006 with limited liability. Ausnutria BVI is an investment holding company which is owned by Mr Wu, Mr Yan and Mrs Y Wu in the proportion of 60%, 30% and 10% respectively
“Ausnutria Hong Kong”	Ausnutria Dairy Company Limited 澳優乳品有限公司, a company incorporated in Hong Kong on 25 January 2007 with limited liability. Ausnutria Hong Kong is an indirect wholly-owned subsidiary of our Company
“Ausnutria (HK)”	Ausnutria Dairy (HK) Company Limited 澳優乳品(香港)有限公司, a company incorporated in Hong Kong on 3 November 2008 with limited liability. Ausnutria (HK) is an indirect wholly-owned subsidiary of our Company which we acquired as a shelf company on 5 July 2009
“Ausnutria Hunan”	Ausnutria Dairy (Hunan) Company Ltd* (澳優乳品(湖南)有限公司), a foreign-invested enterprise established in the PRC on 15 September 2003 with limited liability. Ausnutria Hunan is an indirect wholly-owned subsidiary of our Company
“Board” or “Board of Directors”	the board of directors of our Company
“BOCI”	BOCI Asia Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Brave Leader”	Brave Leader Limited, a company incorporated in BVI on 22 April 2009 with limited liability. Brave Leader is an investment holding company which is owned by Mr Wu, Ms X Wu and Mr Yan in the proportion of 59.57%, 30.67% and 9.76% respectively

DEFINITIONS

“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the allotment and issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company described in the section headed “Appendix VI — Statutory and General Information — Written resolutions of all shareholders passed on 19 September 2009” in this prospectus
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“CCTV”	China Central Television (中國中央電視台)
“CIQ”	Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) under AQSIQ
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules and in the context of this prospectus, means the controlling shareholder of our Company, namely Mr Wu

DEFINITIONS

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for, among other things, the supervision and regulation of the Chinese national securities markets
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax
“enterobacter sakazakii”	enterobacter sakazakii, a gramme-negative rod-shaped pathogenic bacterium of the genus enterobacter
“Global Offering”	the Hong Kong Public Offer and the International Offering
“GMP”	Good Manufacturing Practice, the control and management of manufacturing and quality control testing of foods, pharmaceutical products, and medical devices
“Green Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider designated by our Company
“HACCP”	Hazard Analysis and Critical Control Points, a systematic preventive approach to food safety that addresses physical, chemical, and biological hazards as a means of prevention rather than finished product inspection
“high-priced paediatric milk formula”	paediatric milk formula with retail price generally between RMB160 and RMB245 per kg. As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 30,000,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“Hong Kong Public Offer”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 23 September 2009 relating to the Hong Kong Public Offer entered into, amongst others, between our Company, the Controlling Shareholder and the Hong Kong Underwriters
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	party or parties that is or are not connected with us, any Directors, chief executive, controlling shareholders, substantial shareholders, their respective subsidiaries or any of their respective associates
“infant formula”	milk-powder based formula products for consumption by infants up to the age of 12 months
“International Offer Shares”	the 270,000,000 new Shares being offered by our Company for subscription under the International Offering and the Sale Shares, together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option, the number of which is further subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the offer of the International Offer Shares at the Offer Price to QIBs in the United States in reliance on Rule 144A and outside the United States in reliance on Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering whose names are set out in the section headed “Underwriting — International Underwriters” in this prospectus
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into, amongst others, between our Company, the Controlling Shareholder, the Selling Shareholders, the International Underwriters and the Joint Global Coordinators on or about 30 September 2009

DEFINITIONS

“ISO”	International Organisation of Standardisation
“Joint Bookrunners”, “Joint Lead Managers”, “Joint Global Coordinators” or “Joint Sponsors”	Macquarie Capital Securities Limited and BOCI
“kg”	kilogramme
“Latest Practicable Date”	17 September 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“LIBOR”	the London interbank offered rate
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 8 October 2009, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“low-priced paediatric milk formula”	paediatric milk formula with retail price generally lower than RMB100 per kg. As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data
“Macau”	the Macau Special Administrative Region of the PRC
“Macquarie Capital Securities Limited”	Macquarie Capital Securities Limited, a licensed corporation under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market

DEFINITIONS

“melamine”	an industrial chemical used for the production of melamine resins which can be added to milk-based products to cause a false increase in the measurement of protein content
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted by the written resolutions of our Shareholders on 19 September 2009, as amended or supplemented from time to time
“mid-priced paediatric milk formula”	paediatric milk formula with retail price generally between RMB100 and RMB160 per kg. As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data
“milk powder”	powdered milk manufactured from cow’s milk, which we source from our suppliers to produce our A-choice Series and Best-choice Series paediatric milk formula as well as our Allnutria Series
“Ministry of Commerce” or “MOFCOM”	The Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mornring”	Hunan Mornring Foodstuff Co., Ltd.* (湖南沐林現代食品有限公司), a sino-foreign equity joint venture company established in the PRC on 18 April 2000 with limited liability. Mornring is principally engaged in the production and sale of food products (including health food products). Mornring is a former shareholder of Ausnutria Hunan and as at the Latest Practicable Date, Mornring is not engaged in any paediatric milk formula related business. Upon completion of the Reorganisation, Mornring ceased to be a shareholder of Ausnutria Hunan. Mornring is owned by Xin Da Xin, Vilmorin Hong Kong Limited and Xinjiang Yilite Industry Co., Ltd.* (新疆伊力特實業股份有限公司) in the proportion of 51%, 41.71% and 7.29% respectively
“MoveUp”	Heilongjiang MoveUp Foodstuff Co., Ltd.* (黑龍江省姆阿普食品有限公司), a limited liability company established in the PRC on 18 October 2007. MoveUp became a wholly-owned subsidiary of Xin Da Xin on 28 April 2009 and prior to this, ADY was a shareholder of MoveUp. MoveUp was previously engaged in the procurement of milk powder for us but is not engaged in any substantial operations or any business similar to the Group’s business as at the Latest Practicable Date

DEFINITIONS

“Mr Chen”	Mr Chen Yuanrong (陳遠榮), an executive Director and the chief executive officer of our Group
“Mr Wu”	Mr Wu Yueshi (伍躍時), an executive Director and the chairman of our Group. He is the co-founder of our Group and the Controlling Shareholder
“Mr Yan”	Mr Yan Weibin (顏衛彬), an executive Director and the co-founder of our Group
“Mrs Y Wu”	Ms Xiong Fanyi (熊梵伊), the spouse of Mr Wu
“Ms Ng”	Ms Ng Siu Hung (吳少虹), an executive Director and the joint company secretary of our Group
“Ms X Wu”	Ms Wu Xingxing (伍星星), the elder sister of Mr Wu
“Murray Goulburn”	Murray Goulburn Co-operative Co. Limited, a cooperative company formed in 1950 and a major player in the Australian dairy industry
“NPC”	The National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK\$5.10 and expected to be not less than HK\$3.60, such price to be agreed upon by us, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, where relevant, with any Shares being issued pursuant to the exercise of the Over-allotment Option
“organic”	in relation to food products, refers to products which have not been grown or produced with the use of conventional non-organic pesticides, synthetic fertilisers, bio-engineering, or radiation
“Over-allotment Option”	the option to be granted by us to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters, pursuant to which we may be required to allot and issue up to an aggregate of 45,000,000 additional Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“paediatric milk formula”	infant formula and other milk-powder based formula products for consumption by children over the age of 12 months
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China. References in this prospectus to the PRC or China exclude Hong Kong, Macau and Taiwan
“PRC government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“premium-priced paediatric milk formula”	paediatric milk formula with retail price generally higher than RMB245 per kg. As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data
“Price Determination Date”	the date, expected to be on or about 30 September 2009, on which the Offer Price is to be fixed by agreement between us, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters)
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganisation”	the reorganisation of the group of companies now comprising our Group, completed on 15 September 2009 as described in the sections headed “History and Corporate Structure — Corporate Reorganisation” and “Appendix VI — Statutory and General Information” in this prospectus
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	a total of 100,000,000 Shares held by the Selling Shareholders, namely All Harmony, Brave Leader and Silver Castle as to 21,000,000 Shares, 67,000,000 Shares and 12,000,000 Shares respectively, initially offered for sale by the Selling Shareholders as part of the International Offer Shares at the Offer Price under the International Offering
“Selling Shareholders”	All Harmony, Brave Leader and Silver Castle

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the capital of our Company
“Shareholder(s) ”	holder(s) of Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to a resolution of the Board on 19 September 2009, further details of which are described in the section headed “Appendix VI — Statutory and General Information” in this prospectus
“Silver Castle”	Silver Castle International Limited, a company incorporated in BVI on 22 April 2009 with limited liability. Silver Castle is an investment holding company which is owned by Mr Wu, Ms X Wu and Mr Yan in the proportion of 59.57%, 30.67% and 9.76% respectively
“Spring Choice”	Spring Choice Limited, a company incorporated in BVI on 22 April 2009 with limited liability. Spring Choice is wholly-owned by our Company
“Stabilisation Manager”	Macquarie Capital Securities Limited
“State”	the government authorities authorised to perform specified duties in the name of the PRC according to the PRC laws, including without limitation the NPC and the State Council
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between the Stabilisation Manager and Brave Leader
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as approved by the SFC and as amended from time to time

DEFINITIONS

“Tatura”	Tatura Milk Industries Limited, a company established in 1907 and located at Tatura in Victoria, Australia. Tatura is a major player in the Australian dairy industry. In April 2007, Bega Cheese Co-operative Ltd acquired a 70% controlling interest in Tatura
“tons”	tonnes
“Track Record Period”	the three financial years ended 31 December 2008 and the six months ended 30 June 2009
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. persons”	U.S. persons as defined in Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO (www.eipo.com.hk)
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xin Da Xin”	Hunan Xin Da Xin Joint Co., Ltd.* (湖南新大新股份有限公司), a company established in the PRC on 19 January 2007. Xin Da Xin is an investment holding company with interests in various business activities including food processing, agriculture and real estate investment in the PRC and is a former shareholder of Ausnutria Hunan. As at the Latest Practicable Date, Xin Da Xin is not engaged in any paediatric milk formula related business. Upon completion of the Reorganisation, Xin Da Xin ceased to be a shareholder of Ausnutria Hunan. Xin Da Xin is owned by Mr Wu, Ms X Wu and Mr Yan in the proportion of 59.57%, 30.67% and 9.76% respectively

DEFINITIONS

“Xin Da Xin Real Estate” Changsha Xin Da Xin Real Estate Management Co., Ltd.* (長沙新大新物業管理有限公司), a company established in the PRC on 29 September 2000. Xin Da Xin Real Estate is principally engaged in real estate management and is wholly-owned by Xin Da Xin

“%” per cent

In this prospectus:

“Company”, “our Company”, “our”, “we” and “us” refer to Ausnutria Dairy Corporation Ltd 澳優乳業股份有限公司, an exempted company incorporated in the Cayman Islands with limited liability on 8 June 2009 and, except where the context otherwise requires, all of its subsidiaries or where its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it;

“Group” means our Company and its subsidiaries from time to time; and

the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

* *denotes English translation of the name of a Chinese company or entity, and is provided for identification purposes only.*

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain proforma information and other matters.

The words “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditures, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set forth in the section headed “Risk Factors” in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being offered in the Global Offering. You should pay particular attention to the fact that our business and operations are conducted almost exclusively in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of the Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment. For details regarding the PRC and other relevant matters, please refer to the sections headed “Corporate Information” and “The Laws and Regulations Relating to the Industry” in this prospectus.

We believe that an investment in our Shares involves certain risks, some of which are beyond our control. These risks can be broadly categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. Prospective investors in our Shares should consider carefully all the information set forth in this prospectus, and in particular, this section in connection with any investment in our Shares.

RISKS RELATING TO OUR BUSINESS

We rely on two Australian dairy producers, namely Tatura and Murray Goulburn, as our main suppliers of milk powder, and any shortage or suspension of milk powder from such suppliers could result in reduced production and revenue for us

We rely primarily on the use of milk powder in the production of our paediatric milk formula products. We source milk powder from producers in Australia. A majority of the milk powder sourced by us is produced by Tatura pursuant to a long term supply agreement between us and Tatura. We have also sourced milk powder from Murray Goulburn from time to time over the years. As a result, our business and results of operations rely on, among other things, the continued supply of milk powder from Tatura, Murray Goulburn and other milk powder suppliers we may identify in the future, and our continued relationships with these suppliers. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, we purchased 6.1%, 39.1%, 76.7% and 100% of our milk powder from Tatura, and we purchased 93.9%, 60.9%, 23.3% and nil of our milk powder from Murray Goulburn.

There is no assurance that the supply of milk powder will be sufficient to meet our increasing demands associated with our growth strategy. While we have entered into a long term supply agreement with Tatura, we do not have any such agreement with Murray Goulburn or any other milk powder supplier. We may be unable to ensure the continued supply of milk powder if Tatura, Murray Goulburn or other milk powder suppliers we may identify in the future should cease production or otherwise fail to supply us, are unable to comply with the terms and conditions of the supply agreement (if any) with us or if the supply agreement with Tatura is suspended, terminated or otherwise expired without renewal. Furthermore, Tatura, Murray Goulburn and other milk powder suppliers we may identify in the future may be unable to supply us with the required quantities of milk powder in a timely manner, which could have a material adverse effect on our business, financial condition and results of operations.

RISK FACTORS

In addition, our supplies of milk powder from Tatura and Murray Goulburn, or any other 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 Australia:* as currently all of our milk powder is sourced from Australia, any adverse changes to the environmental, climatical, economic, political and social conditions in Australia may have an adverse effect on our ability to obtain sufficient supplies of 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.

Disruption of our operations could adversely affect our business in material respects

Our ability to obtain supplies, produce, distribute and sell our products is critical to our success. Damage or disruption to milk powder or other raw material supplies, our production capabilities or the distribution capabilities of our distributors due to force majeure events such as bad weather, natural disaster, fire, terrorism, strikes, various contagious diseases or other reasons could affect our ability to produce, distribute or sell our products. Also, we may experience difficulties and delays inherent in the production and sales of our products, such as:

- seizure or recalls of our products or forced closing or suspension of our production plant;
- our failure to obtain, the imposition of limitations on the use of, or loss of, our trademarks, protection of our milk formulas or other intellectual property rights;
- our failure, or the failure of any of our suppliers, distributors, sub-distributors or retailers, to comply with applicable regulations and quality assurance guidelines that could lead to temporary product seizure or recalls, production shutdowns, production delays and product shortages;
- other production or distribution problems, including limitations to manufacturing capability due to regulatory requirements, changes in the types of products produced or physical limitations that could impact continuous supply; and
- availability of raw materials including milk powder supplies.

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 location, could materially adversely affect our business, financial condition and results of operations.

Increases in milk powder prices that we are unable to pass on to our distributors will reduce our profit margins and profitability

Our ability to pass any increase in the costs of milk powder to our distributors depends on competitive conditions and pricing methods employed in the various markets in which we sell our products. For example, there is a risk of volatile milk costs affecting the price of milk powder and we may be unable to pass on any increases in milk powder prices to our distributors by increasing the selling prices of our products if we wish to maintain our competitiveness in the market.

RISK FACTORS

If supplies of milk powder become scarce or prices otherwise increase significantly and remain high for an extended period of time, there can be no assurance that we would be able to pass the effects of any such price increases on to our distributors, if at all. Consequently, a material and/or prolonged increase in the cost of milk powder could adversely affect our results of operations, profit margin and profitability.

Any major outbreak of illness or disease relating to cattle could lead to significant shortfalls in the supply of milk and milk powder and could cause consumers to avoid or reduce consumption of paediatric nutrition products, resulting in substantial declines in our sales and possible serious losses

A major outbreak of any illness or disease in cattle in Australia or any country from which we may source milk powder in the future or where we may make investments in or undertake cooperation with cattle farms and milk powder producers in the future could lead to a loss of consumer confidence in, and demand for, our paediatric nutrition products. A major outbreak of mad cow disease, bovine tuberculosis or other serious diseases in the regions from which we source milk powder for our paediatric nutrition products could result in the widespread destruction of the affected cattle and consequently lead to significant shortfalls in the supply of milk powder or affect the continuity and quality of the supply of milk powder. Further outbreaks of, or concerns about, these or other diseases could create unfavourable publicity, which may discourage consumers from purchasing dairy products, including our products. If consumers were to avoid or reduce consumption of our products, our sales may decline substantially and we could suffer serious losses.

We rely on paediatric milk formula as our primary type of product

We primarily engage in the production, distribution and sale of high-priced and premium-priced paediatric nutrition products, with paediatric milk formula as our major products. During the Track Record Period, sales of our paediatric milk formula accounted for over 90% of our total annual sales revenue. As a result, our business and results of operations rely on, among other things, our ability to maintain and strengthen our market position in the PRC paediatric milk formula market. The continued sales of our paediatric milk formula is subject to a number of factors, such as our ability to identify and react to changing consumer trends, our competitiveness against other paediatric milk formula manufacturers and our ability to improve our brand recognition and consumer acceptance. If sales of our paediatric milk formula decline or if we fail to maintain our market position in the PRC paediatric milk formula market or fail to diversify our product range to increase our sales revenue derived from other paediatric nutrition products, our business, financial condition and results of operations could be materially adversely affected.

We rely on distributors to distribute and market our products

Almost all of our products are sold to consumers through our distributors. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, sales to our top five distributors represented approximately 25.1%, 37.9%, 27.5% and 28.2%, respectively, of our total revenue, whilst sales to the largest distributor represented approximately 7.1%, 13.2%, 8.7% and 9.0%, respectively, of our total revenue during the respective periods. As such, 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 directly affect our sales volume and profitability. Also, if any of our distributors fails to distribute our products in a timely

RISK FACTORS

manner or according to the terms of our standard distribution agreement, or at all, or if our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially adversely affected.

We rely on PRC trading companies to import our milk powder

As at the Latest Practicable Date, all of our supplies of milk powder produced by Tatura and Murray Goulburn are imported through a number of PRC trading companies which conduct import and customs clearance procedures on our behalf. We generally pay the PRC trading companies fees ranging from approximately 0.6% to 3.0% of the total value of goods imported. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the amount of fees paid to the PRC trading companies was RMB80,000, RMB738,000, nil and RMB145,000 respectively. If any of the PRC trading companies ceases to provide its services to us and we cannot find suitable alternatives, 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 milk powder late, 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. In 2007, 2008 and through to May 2009, we also procured milk powder from MoveUp which procured their milk powder produced by Tatura and Murray Goulburn through the PRC trading companies. We paid markup to MoveUp of RMB4,408,000, RMB67,801,000 and RMB5,884,000 in 2007, 2008 and the first six months ended 30 June 2009 respectively, representing a markup of approximately 26% to 28% of the total value of goods sold to us by MoveUp during 2007 and 2008 and approximately 6% during the first six months ended 30 June 2009. Since May 2009, we have terminated the arrangement with MoveUp and have procured milk powder directly through the PRC trading companies.

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 develop and offer 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 and bacteria content contained in the products. Consumer trends in the paediatric nutrition 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 other things, reduced demand for and/or price reductions of our products, which could materially adversely affect our business, financial condition and results of operations. Moreover, even if we do correctly anticipate, identify and interpret these trends and generate such consumer acceptance or recognition, we may be unable to react effectively. If we fail to develop a product portfolio that can offset the risk of market fluctuations caused by changing consumer preferences, or if we are unable to respond to rapid changes in consumer preferences in a timely manner, 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.

RISK FACTORS

We may face difficulties as we expand our distribution network to new regions or as we introduce new product series

We intend to expand our distribution network by further penetrating into our existing geographical coverage and expanding to more rural areas in the PRC. We are also planning to expand our market coverage to Hong Kong in the fourth quarter of 2009, and to the south-east Asian region in the longer term. We intend to broaden our product portfolio by adding new product lines, such as an organic paediatric nutrition product series. As we expand our business to new regions or with new product series, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay our ability to start up our operations and expand distribution network to comply with applicable regulatory requirements or become profitable in such regions or product series. There is also a substantial risk that any new markets to which we introduce our products may not accept, or be as receptive to, our products as our success depends on our ability to anticipate the tastes and dietary habits of consumers and to market our products in ways that would appeal to the consumers' preferences in these new markets. This may affect our relationships with consumers, suppliers, distributors and regulators and could have a material adverse effect on our business.

Our growth strategy may not prove to be successful and we may be unable to manage our expansion of operation effectively

We have grown rapidly in the past few years, with our revenue increasing by 332.3% from RMB93.7 million in 2006 to RMB405.2 million in 2008. We are currently in the process of developing several new product series, such as an organic paediatric nutrition series, which we are targeting to launch in late September 2009. Expanding our production capacity and achieving market acceptance for our new products, particularly from new consumers, will require substantial management and marketing efforts and the investment of significant funds. Our business growth could place a significant strain on our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve our operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may materially adversely affect our business, financial condition and results of operations.

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

We intend to evaluate upward integration opportunities including making investments in cattle farms or milk powder producers, or cooperating with our existing business partners or other international institutions which produce or supply 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:

- accurately identifying suitable investment opportunities or initiatives and assessing the likely benefits, commercial viability and technical feasibility of such initiatives;

RISK FACTORS

- the diversion of our management's attention from our existing business to explore and assess our investment initiatives;
- accurately identifying or hiring management and technical personnel to manage such investments; and
- 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.

Our profitability may suffer as a result of competition in our markets

We operate in the PRC paediatric nutrition products industry which is highly competitive. The major players in the industry are leading international paediatric nutrition product manufacturers who have substantial financial, marketing and other resources. In addition, Murray Goulburn, one of our milk powder suppliers, distributes their milk powder into the PRC market through Qingdao Maigao Dairy Company Limited* (青島邁高乳業有限公司). We understand that Murray Goulburn is one of the shareholders in the said company. We compete against these international paediatric nutrition products manufacturers, as well as other regional and local companies, in each of the regions where we distribute our products.

In order to maintain our existing market share and to increase our market share, we intend to continue improving our brand recognition and product value proposition, by investing in marketing and advertising initiatives and through product innovation. The success of our marketing, advertising and product innovation is subject to risks, including uncertainties about trade and consumer acceptance. We may also need to reduce prices for some of our products in order to respond to competition and consumer pressures and to maintain our market share. Competition and consumer pressures may restrict our ability to increase prices, including commodity and other cost increases. Our business will suffer if profit margins decrease, either as a result of a reduction in prices or an increase in costs which we are unable to mitigate by increasing our prices proportionally.

Furthermore, an intense competitive environment may induce our competitors to substantially increase their marketing and advertising expenditures or engage in irrational or predatory pricing behaviour. In addition, if our competitors carry out activities to undermine our brand or product quality or to influence consumer confidence in our products, whether legal or illegal, our business, financial condition and results of operations could be materially adversely affected.

Sales of our products are subject to seasonality

The sales of our products are subject to seasonality. We generally experience higher sales in the second half of a year than the first half of a year. Sales can fluctuate during the course of a financial year for a number of reasons, such as timing of launching new products, advertisement and promotional campaigns. As a result, we may not be able to optimise our utilisation of production capacity during the low seasons, or we may not have sufficient production capacity to meet customers' demand during the peak seasons.

RISK FACTORS

The risk of product contamination resulting in product liability which may materially adversely affect our business

As is the case with other consumer product manufacturers, we are subject to product liability claims if our products are found to be unfit for consumption or cause illness. Products may be rendered unfit for human consumption due to contamination of ingredients, whether accidental or not, and illegal tampering. Despite the measures we have in place to control the quality of our products, contamination of ingredients of our products may occur during the transportation, production, distribution and sales processes due to reasons unknown to us or out of our control. The occurrence of such problems may result in product recalls which will cause serious damage to our reputation and brand, as well as loss of revenue. We cannot assure you that such incidents will not occur in the future. In addition, adverse publicity about these types of concerns relating to our brand or to the industry as a whole, whether or not legitimate, may discourage consumers from purchasing our products. If consumers lose confidence in our brand, we could experience long term declines in our sales, resulting in losses which we may not be able to recover.

To protect consumers in relation to the purchase or use of goods and services, the Law of the PRC on Protection of Consumers' Rights and Interests (《中華人民共和國消費者權益保護法》) (“**Consumer Protection Law**”) was promulgated in the PRC in 1993. At present, all business entities which provide goods and/or services for sale in the PRC must observe and comply with the Consumer Protection Law. To provide further protection to consumers in relation to the purchase or consumption of food, the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (“**Food Safety Law**”) was promulgated on 28 February 2009 and took effect on 1 June 2009. Further details of the Food Safety Law are set out in the section headed “The Laws and Regulations Relating to the Industry — Regulatory System relating to the Infant Food Industry” in this prospectus. We have not been subject to any product liability claims during the Track Record Period. However, we cannot assure that there will not be any product liability claims made against us in the future. If we are subject to such product liability claims, 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 paediatric nutrition products depends on, among other factors, the maintenance of our cooperation arrangements with various institutions and manufacturers to jointly research and develop new products. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively. The research and development process is expensive and prolonged, and entails considerable uncertainty. Due to the complexities and uncertainties associated with research and development, products that we are currently developing or that we may develop in future may not

RISK FACTORS

complete the development process or obtain the regulatory approvals required for us to market and sell such products successfully. The development of new products may require a longer time, cost more and be less successful than we anticipated as a result of:

- products that may appear promising in the development stages but fail to satisfy regulatory standards in order to obtain the necessary approvals in Australia, the PRC and/or other places where our products are sourced from or sold in, or fail to reach the market within the expected or optimal time frame, or fail to ever reach market, for any number of reasons, including inefficacy, difficulty or excessive costs for development and production; and
- failure of one or more of our new products to achieve or maintain commercial viability.

We cannot assure you that all of our new products including our organic product series and products currently in the development stages will be commercially successful. If any of our products currently in development fails to become commercially successful, our business, financial condition and results of operations could be materially adversely affected.

We may not be able to adequately protect our paediatric milk formulas and intellectual property rights

Our paediatric milk formulas and intellectual property rights concerning the production processes of our paediatric milk formulas are of fundamental importance to our business as we rely on our paediatric milk formulas to produce our paediatric milk formula products. Our paediatric milk formulas are developed jointly with other parties. We have not made (and are not planning to make) patent applications for our paediatric milk formulas, as we understand that many stages of our production processes and some elements of our paediatric milk formula products involve proprietary know-how, technology or data that are not protectable by patents. Further, as details of the ingredients and nutrition contents of our paediatric milk formula products are required by applicable regulations to be listed on the packaging of these products, the information is therefore already in the public domain. Due to this, we have no protection against our competitors who may copy our trade secrets and formulas and thereby gain a competitive advantage.

To the extent that protection is afforded under applicable laws on trade secret protection, we rely on such laws as well as confidentiality agreements with some of our suppliers and our employees to establish and protect the trade secrets of our paediatric milk formulas. For example, our long term supply agreement with Tatura includes provisions to protect the paediatric milk formulas jointly developed by Tatura and us. According to such provisions, the proprietary rights concerning the composition, nutritional details, microbiological and functional characteristics of the Allnutria Series paediatric milk formula and any new products to be jointly developed by Tatura and us in the future shall remain the joint property of Tatura and us, which cannot be disclosed to any third party unless Tatura and us mutually agree otherwise.

If we fail to enforce such provisions or are unsuccessful in taking enforcement proceedings against the relevant parties, our business may be materially adversely affected. Moreover, if we fail to effectively observe such provisions and disclose confidential information to other parties, we may be exposed to legal proceedings and substantial compensation claims which could materially adversely affect our business, financial condition and results of operations.

RISK FACTORS

We have not entered into any kind of confidentiality agreement with Murray Goulburn in relation to the A-choice Series and Best-choice Series paediatric milk formulas which were jointly developed by Murray Goulburn and us. If Murray Goulburn uses the paediatric milk formulas of these two series of products to produce and distribute paediatric milk formula products in the PRC market, our business, financial condition and results of operations could be materially adversely affected.

The brand names and trademarks under which our products are marketed and sold are also important to our business. As at the Latest Practicable Date, we have 11 material registered trademarks and had made 13 material trademark applications of different classes in the PRC, Hong Kong and Australia for our brands and sub-brands. Further details of our intellectual property portfolio are set out in the section headed “Appendix VI — Statutory and General Information — Our Intellectual Property Rights” in this prospectus. If we fail to effectively protect our brand name and our production processes and techniques used in producing our paediatric milk formulas from inappropriate or unauthorised use by third parties in ways that adversely affect our brand name and paediatric milk formulas, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in the section headed “Directors, Senior Management and Employees” in this prospectus. In particular, Mr Wu, Mr Yan and Mr Chen all play vital roles in our operations and have been crucial to our success. Mr Wu and Mr Yan, the co-founders of our Group, have been primarily responsible for the corporate strategy, planning and business development of our Group. In addition, Mr Chen brings to our Group a wealth of experience in food production and dairy products and is primarily responsible for the day-to-day management and operations of our Group. There can be no assurance that such persons will continue to provide services to us or will honour the agreed terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

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 organisational 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. 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 their 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 procedures, our business, financial condition and results of operations could be materially adversely affected.

RISK FACTORS

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

We only obtain limited insurance coverage. As a result, we may have to pay out of our resources for financial and other losses, damages and liabilities, including those caused by fire, inclement weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any product liability insurance or business interruption insurance. Any defective product claim or business interruption may result in substantial costs to us. Losses incurred or 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 Controlling Shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders

After the Global Offering, Mr Wu will be our Controlling Shareholder and will indirectly own approximately 59.30% of the Shares. As such, Mr Wu 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 Shareholder may differ from the interests of our other Shareholders.

The global financial markets have experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy and may adversely affect our financial condition and results of operations

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowdown of economic growth both in China and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. As it is difficult to predict how long these conditions will exist and whether consumers will shift their purchases from our high-priced and premium-priced products to other lower-priced products, these developments could continue to present risks to our business and operations for an extended period of time, including a potential slowdown in our sales to consumers, increase in interest expenses on bank borrowings, and reduction in the amount of banking facilities currently available to us. If this economic downturn continues, our financial condition and results of operations may be materially adversely affected.

We may not be able to continue to enjoy the benefits from the effects of the melamine incident

We recorded a substantial increase in revenue for the several months immediately after the melamine incident in September 2008 as more consumers in the PRC shifted their purchase from domestically sourced paediatric milk formula products to internationally sourced paediatric milk formula products after the paediatric milk formula of a number of large domestic sourced dairy products manufacturers were found to contain melamine, causing infants to develop kidney stones. However, the melamine incident is a one-off incident and its effect on our increase in revenue may not be sustainable. If we fail to sustain consumers' confidence in our product quality and brand recognition, our business, financial condition and results of operations may be materially adversely affected.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

Adverse publicity concerning paediatric nutrition or dairy products may affect our profitability

We are highly dependent upon consumers' perception of the safety, quality and health benefits of our products. As a result, substantial and sustained negative publicity concerning paediatric nutrition or dairy products could lead to a loss of consumer confidence in our products, removal of our products from retailers' shelves 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 paediatric milk formula and other dairy products were found to be contaminated with melamine which could pose serious health issues for consumers. As a result, a nationwide investigation was launched on all paediatric milk formula and dairy products for traces of melamine. From this investigation, products manufactured by certain domestic producers which sourced their milk sources domestically were recalled and removed from retailers' shelves. This incident had a material adverse impact on local paediatric nutrition products manufacturers which generally sourced their milk powder from domestic sources. Also, we have been subjected to wrongful media speculation alleging that our products sold in the PRC were contaminated with enterobacter sakazakii. Further details relating to these incidents are set out in the section headed "Business — Quality Control" in this prospectus. We cannot guarantee that there will not be other adverse publicity in the future concerning the paediatric nutrition or dairy products industry or our products, which may have a material adverse effect on our business, financial condition or results of operations.

An adverse change in favourable demographic, consumer and economic trends as well as a change in scientific opinion regarding our products could materially adversely affect our business and reduce our profitability

Our growth plan relies on favorable demographic, consumer and economic trends in the PRC market, including: (i) rising incomes in emerging markets; (ii) increasing number of working mothers; and (iii) increasing number of Chinese women willing to accept paediatric milk formula as a substitute for breast milk for their infants. If these demographic trends change in an adverse way, our business could be materially adversely affected. In addition, an adverse change in scientific opinion regarding our products, such as the health benefits of DHA and ARA, could materially adversely affect our business.

The PRC paediatric nutrition products industry, including the PRC paediatric milk formula industry, could face slower growth

The PRC paediatric milk formula industry has undergone substantial growth in recent years. According to data issued by Euromonitor International in June 2009, the PRC paediatric milk formula market has grown from approximately RMB9 billion in 2003 to approximately RMB25 billion in 2008. However, there is no guarantee that the PRC paediatric milk formula industry will continue to grow at such a rate in the future. The PRC paediatric nutrition products industry including the PRC paediatric milk formula industry may experience slower growth in the future due to market saturation as well as competition from alternative products, which may impact upon the size and growth of the market for dairy products in general. Growth in the PRC market for paediatric nutrition products may also be affected by changes in the purchasing behaviour of consumers.

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Changes in public health and food safety laws and regulations may adversely affect our business

Our operations are subject to extensive laws and regulations promulgated by the Australian government, AQIS, the State Council, the Ministry of Health of the PRC, AQSIQ, the Ministry of Agriculture of the PRC, the State Food and Drug Administration of the PRC, and other national or local regulatory authorities in the countries where our products are produced or sold, regarding the production, packaging, storage, distribution, sales, export and labelling of our paediatric milk formula products and our organic paediatric nutrition products. Our production facilities and products are subject to periodic inspection by national and local authorities of the PRC. Save as disclosed in the paragraph headed “Review of Historical Operating Results 2007 Compared to 2006” of the section headed “Financial Information”, we are currently in full compliance with all laws and regulations and maintain all permits and licences necessary for our operation in all material aspects. Nevertheless, there can be no assurance that we are capable of complying with current laws and regulations, or that we will be able to comply with any future laws and regulations. Any incapability of our Group 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 Australian or the PRC government will not change the existing laws or regulations or adopt additional or more stringent laws or regulations relevant to us. To the extent that new laws and regulations are adopted, we will be required to conform our activities and operation 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, labelling and packaging requirements, more stringent compliance requirements for waste management, increase in transportation costs, and greater uncertainty in production and sourcing estimates. Any such government actions could have a material adverse effect on our business, financial condition and results of operations. Also, our failure to comply with any applicable laws and regulations could subject us to civil remedies, including fines, injunctions, products 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.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business, financial condition, results of operations and prospects could be negatively affected by political, economic and legal developments and changes in government policies in the PRC

All of our operating assets are located in the PRC and substantially all of our revenue are derived from our operations in the PRC. The results of our operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and government control of foreign exchange.

The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market economy. However, we cannot predict the extent of economic reform pursued by the PRC government and the economic system in the future. In addition,

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while the PRC economy has experienced significant growth in the last two decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, financial condition, results of operations and future prospects may be adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the dairy industry.

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 disease 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 Organisation 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.

Our business could be adversely affected by changes and uncertainties in the PRC 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. The PRC 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 organisation 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 some time 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 the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends

RMB is not currently a freely convertible currency. We receive all of our revenue in RMB and will need to convert RMB into foreign currencies for payment of dividends, if any, to holders of our Shares. Regarding the operations during the Track Record Period, our milk powder supplies were obtained through our PRC agents and paid in RMB. In the future, we may pay for our milk powder supplies in foreign currencies. Under the current foreign exchange regulations in the PRC, our PRC subsidiary will be permitted, upon completion of the Global Offering, to effect foreign exchange for current-account transactions (including the distribution of dividends) through accounts permitted by the PRC government. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be

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made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. There can be no assurance that the PRC government will not in the future impose restrictions on foreign exchange transactions for current-account items, including the payment of dividends.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. From 21 July 2005 to 30 June 2009, according to the PBOC official website, the value of RMB has appreciated by approximately 18.7% against the U.S. dollar.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of RMB against the Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollar terms.

The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders, as well as increase our enterprise income tax rate

We are incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiary. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which took effect on 1 January 2008, (“**New Tax Law**”), if our overseas members are deemed to be non-PRC resident enterprises for tax purposes without an office or premises in the PRC, our overseas members will be subject to a withholding tax rate of 10% for any dividends paid by our PRC incorporated subsidiary unless they are entitled to certain tax reductions or exemptions, for example, by tax treaties. Under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) which took effect on 1 January 2007 (“**Tax Agreement**”), the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%. According to the Notice of the State Administration of Taxation on issues relating to the administration

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of the dividend provision in tax treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (“**Notice 81**”) promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Pursuant to the Tax Arrangement and Notice 81, a payment of dividends by Ausnutria Hunan to Ausnutria Australia and Ausnutria Hong Kong, which hold 25% and 75% of the equity interests in Ausnutria Hunan respectively, may be subject to a PRC withholding tax at a rate of 10% and 5% respectively, if the provisions of Notice 81 are satisfied, and our overseas members are not considered to be PRC resident enterprises for tax purposes. According to Notice 81, if the primary purpose of the transactions or arrangements is deemed by the relevant authorities to be entered into for enjoying a favourable tax treatment, the favourable tax benefits enjoyed by us pursuant to the Tax Arrangement may be adjusted by the relevant tax authorities in the future.

The New Tax Law provides that if an enterprise incorporated outside the PRC has its “de facto management organisation” within the PRC, such enterprise may be deemed a PRC resident enterprise for tax purposes and be subject to an enterprise income tax rate of 25% on its worldwide income. Most members of our management are located in the PRC and, if they remain there after the effective date of the New Tax Law, our overseas members may be deemed PRC resident enterprises and therefore subject to an enterprise income tax rate of 25% on our worldwide income. As a result of these tax provision changes, our historical operating results may not be indicative of our operating results for future periods and the value of our Shares may be materially and adversely affected.

The New Tax Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, but due to the short history of the New Tax Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC incorporated subsidiary to us will meet such qualification requirements even if our overseas members are considered as PRC resident enterprises for tax purposes.

The New Tax Law also stipulates that if (i) an enterprise distributing dividends is domiciled in the PRC or (ii) capital gains are realised from the transfer of equity interests in enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. If our overseas members are deemed PRC resident enterprises for tax purposes, then (i) any dividends we pay to our overseas Shareholders and (ii) any capital gains realised by our Shareholders from transfers of our Shares may be regarded as PRC-sourced income and be subject to a PRC withholding tax rate of up to 10%.

As the New Tax Law has only recently taken effect, it is uncertain as to how it will be implemented by the relevant PRC tax authorities. If dividend payments from our PRC incorporated subsidiary to us are subject to the PRC withholding tax, it may have a material adverse effect on our business, financial condition and results of operations. If our dividend payments to our overseas Shareholders are subject to the PRC withholding tax, it may have a material adverse effect on your investment return and the value of your investment in us.

PRC regulations relating to loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of the Global Offering to contribute additional capital or make loans to our PRC subsidiary

We are an offshore holding company conducting our operations in the PRC through our PRC subsidiary. In utilising the proceeds we expect to receive from the Global Offering for the purposes described in the section headed “Use of Proceeds” in this prospectus, we may make loans or additional capital contributions to our PRC subsidiary.

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We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from the Global Offering to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially adversely affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiary to liabilities or penalties, limit our ability to inject capital into our PRC subsidiary or limit the ability of our PRC subsidiary to distribute profits to us

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 standardised more specific and stringent supervision on the registration relating to SAFE Circular No. 75. As advised by the Company’s PRC legal advisers, Mr Wu, Mr Yan and Mr Chen and other shareholders who are PRC residents have made their SAFE registrations for their foreign investment at the SAFE Hunan Branch. However, 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 subsidiary to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiary, limit the ability of our PRC subsidiary 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》), or 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 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》)

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issued by SAFE in April 2007 (the “**Operating Rules**”), 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 the 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 Operating Rules, we will require our employees to obtain approval from SAFE or its local branches prior to joining the Share Option Scheme. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into the PRC. 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. 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 legal or administrative sanctions.

RISKS RELATING TO THE GLOBAL OFFERING

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 Offer Price of our Shares will be determined by the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Offer Price may not be indicative of the price at which our Shares will trade following the completion of the Global Offering. Moreover, there can be no assurance that there will be an active trading market for our Shares, or if it exists, that it can be sustained following the completion of the Global Offering, or that the price at which our Shares will trade will not decline below the Offer Price. In addition, the price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, safety or environmental accidents suffered by us or other similar paediatric nutrition products manufacturers could cause large and sudden changes in the volume and price at which our Shares will trade.

Investors should not place undue reliance on industry and market information and statistics derived from official government publications contained in this prospectus

This prospectus contains information and statistics relating to, amongst other things, the PRC, the PRC economy and the PRC paediatric milk formula market. With respect to information and statistics derived from various official government publications, while we have exercised reasonable care in compiling and reproducing such information and statistics, it has not been independently verified by us or any of our affiliates or advisers, nor by the Underwriters or any other parties involved in the Global Offering or their respective affiliates or advisers. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice relating to the PRC, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Further, there can be no assurance that such information and statistics are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other countries. We cannot ensure the accuracy of such information and statistics, and such

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information and statistics may not be consistent with other information prepared within or outside the PRC. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

Investors will experience dilution in the pro forma net tangible assets value because the Offer Price is higher than the net tangible assets per Share

The Offer price of our Shares will be higher than the net tangible assets value per Share immediately prior to the Global Offering. Accordingly, investors of our Shares in the Global Offering will experience an immediate dilution in the pro forma net tangible assets value of HK\$0.76 per Share (assuming the Offer Price of HK\$3.60), or HK\$1.06 per Share (assuming the Offer Price of HK\$5.10). If we issue additional Shares in the future, investors of our Shares may experience further dilution in their ownership percentage.

Future issuances or sales, or perceived issuances or sales, of substantial amounts of our Shares in the public market could materially adversely affect the prevailing market price of our Shares and our ability to raise capital in the future

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, including by our substantial shareholders, or the issuance of new Shares by us, or the perception that such sales or issuances may occur. Future issuances or sales, or perceived issuances or sales, of substantial amounts of our Shares could also materially adversely affect our ability to raise capital in the future at a time and at a price favourable to us, and our Shareholders would experience dilution in their holdings upon issuance or sale of additional securities in the future.

The market price of our Shares could be lower than the Offer Price

The initial price to the public of our Shares sold in the Global Offering will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until the Share certificates are delivered, which is expected to be on the fifth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the market price of our Shares could be lower than the Offer Price.

You should read this entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us. Prior to the date of this prospectus, there has been press and media coverage regarding us, particularly in Ming Pao Daily News, which included certain financial information, financial projection, valuation, use of proceeds and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the press or media. We 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. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it. Accordingly, you should not rely on any such information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that, as our core business operations are based, managed and conducted in the PRC, our management is best able to attend to its functions by being based in the PRC. We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channels with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. The two authorised representatives are Ms Ng and Mr Li Wing Sum Steven. Each of the authorised representatives is an ordinary resident in Hong Kong and the authorised representatives will be available to meet with the Stock Exchange in Hong Kong in short notice upon request of the Stock Exchange and will be readily contactable by telephone, facsimile or e-mail;
- (b) both the authorised representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (a) each Director will provide his or her office phone number, mobile phone number, residential phone number, facsimile number and e-mail address to the authorised representatives; (b) each Director will provide valid phone numbers or means of communication to the authorised representatives when he or she is travelling; and (c) each Director will provide his or her office phone number, mobile phone number, residential phone number, facsimile number and e-mail address to the Stock Exchange;
- (c) in compliance with Rule 3A.19 of the Listing Rules, we shall retain China Merchants Securities (HK) Co., Ltd to act as compliance adviser for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules to provide us with advices on the obligation in compliance with the Listing Rules, all other applicable laws, rules, regulations, codes and guidelines. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing and, where our authorised representatives are unavailable, act as an additional channel of communication between the Stock Exchange and us at least for the period commencing from the Listing Date and ending on the date that on which we distribute the annual report for the first full financial year commencing after the Listing Date pursuant to Rule 13.46 of the Listing Rules;
- (d) meetings between the Stock Exchange and the Directors could be arranged through the authorised representatives or compliance adviser of the Company, or directly with the Directors within a reasonable time frame. The Company will inform the Stock Exchange promptly in respect of any change in the authorised representatives and compliance adviser of the Company; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) all Directors who are not ordinary resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange in short notice, when required.

WAIVER FROM RULE 8.17 OF THE LISTING RULES

Pursuant to Rule 8.17 of the Listing Rules, the secretary of our Company must be a person who is ordinarily resident in Hong Kong, and who has the requisite knowledge and experience to discharge the functions of a company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or a barrister or a professional accountant, or (ii) an individual who, by virtue of his academic or professional qualification or relevant experience, is in the opinion of the Stock Exchange capable of discharging those functions.

We have appointed Ms Ng as one of the joint company secretaries. Ms Ng is experienced in business management and has a thorough understanding in the operations of our Group. However, Ms Ng does not possess full qualifications as required under Rule 8.17 of the Listing Rules and may not be able to solely fulfill the requirements as stipulated under Rule 8.17 of the Listing Rules. As such, our Company has appointed Mr Li Wing Sum Steven to act as a joint company secretary and to provide assistance to Ms Ng so as to enable her to acquire the relevant experience as required under Rule 8.17(3) of the Listing Rules and to duly discharge the functions of a company secretary. Mr Li is a professional accountant and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Accordingly, Mr Li fully complies with the requirements as stipulated under Rule 8.17 of the Listing Rules.

We propose to engage Mr Li as joint company secretary for a minimum period of three years commencing from the Listing Date. During his engagement period, Mr Li will ensure that he will be available at all times to provide the assistance as described above. Mr Li will also provide training to Ms Ng by introducing her to the relevant provisions and requirements of the Listing Rules in order to enhance and improve Ms Ng's knowledge and familiarity with the requirements of the Listing Rules.

The waiver is valid for an initial period of three years from the Listing Date. Upon expiry of the three-year period, our Company will make the decision after re-evaluating the qualifications of Ms Ng to determine whether the requirements as stipulated under Rule 8.17 of the Listing Rules can be satisfied.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules, Chapter 571V of the Laws of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Having made all reasonable enquiries, our Directors confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholders, the Joint Global Coordinators, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. For details of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his/her acquisition of Hong Kong Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

of this prospectus and the offering of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Shares in issue, the Offer Shares (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued upon the exercise of any options to be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on or around 8 October 2009.

None of our Shares or loan capital are listed on or dealt in on any other exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholders, the Joint Global Coordinators, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOCATION AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilisation Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, being 29 October 2009. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilisation Manager or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilisation Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer, being 29 October 2009. The number of Shares that may be overallocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 45,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules, Chapter 571W of the Laws of Hong Kong. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in our Shares should note that:

- the Stabilisation Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilisation Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilisation Manager may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 29 October 2009, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 45,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Joint Global Coordinators or their agent on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilisation Manager may borrow up to 45,000,000 Shares from Brave Leader, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Brave Leader by the Stabilisation Manager in relation to the stock borrowing arrangement.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong. The Company's principal register of members will be maintained by Codan Trust Company (Cayman) Limited in the Cayman Islands.

Dealings in the Shares registered on the register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in Hong Kong dollars and US\$ have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the following rates:

HK\$1 : RMB0.88153
HK\$7.7500 : US\$1

This is the PBOC rate prevailing on 30 June 2009, being the noon buying rate in the City of New York for cable transfer as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2009.

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Wu Yueshi (伍躍時)	Room 416, Block 14 No. 351 West District Wuyida Road Furong District Changsha City, China	Chinese
Yan Weibin (顏衛彬)	Room 602, Block 26 Left Bank Spring Kaifu District Changsha City, China	Chinese
Chen Yuanrong (陳遠榮)	Flat 19FA, Block A Xin Da Xin Building No. 168 Huangxing Middle Road Furong District Changsha City, China	Chinese
Ng Siu Hung (吳少虹) (formerly known as Wu Shaohong) . . .	Flat H, 42nd Floor, Block 1 Banyan Garden 863 Lai Chi Kok Road Lai Chi Kok, Kowloon, Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Qiu Weifa (仇為發)	Room 1004, Block 9 No. 263 Shaoshanbei Road Furong District Changsha City, China	Chinese
Jason Wan (萬賢生) (formerly known as Wan Xiansheng)	804 Corday Drive, Apartment 306, Naperville, IL 60540, USA	Australian
Chan Yuk Tong (陳育棠)	Flat A, 1st Floor Block 2, King's Park Villa 1 King's Park Rise Kowloon, Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

**Joint Global Coordinators,
Joint Sponsors,
Joint Bookrunners and
Joint Lead Managers**

Macquarie Capital Securities Limited
18th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

BOCI Asia Limited
26th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Auditors and reporting accountants

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law and Australian law:
Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
15th Floor
The Union Plaza
20 Chaoyangmenwai Dajie
Beijing
PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Underwriters	<i>As to Hong Kong and United States law:</i> Clifford Chance 28th Floor Jardine House One Connaught Place Central Hong Kong <i>As to PRC law:</i> Commerce & Finance Law Offices 6th Floor NCI Tower A12 Jianguomenwai Avenue Chaoyang District Beijing 100022 PRC
Property valuer	Jones Lang LaSalle Sallmanns Limited 17th Floor Dorset House Taikoo Place 979 King's Road Quarry Bay Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong
Cayman Islands principal share Registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters	9th Floor, Xin Da Xin Building No. 168 Huangxing Middle Road Changsha City, Hunan Province, China
Principal place of business in Hong Kong	Room 305, 3rd Floor, Arion Commercial Centre 2–12 Queen’s Road West, Hong Kong
Website of the Company	www.ausnutria.com.hk ⁽¹⁾
Company secretary	Ng Siu Hung (吳少虹) Li Wing Sum Steven (李永森) <i>FCCA, FCPA, FTIHK</i>
Authorised representatives	Ng Siu Hung (吳少虹) Flat H, 42nd Floor, Block 1 Banyan Garden 863 Lai Chi Kok Road Lai Chi Kok, Kowloon, Hong Kong Li Wing Sum Steven (李永森) Flat 1, 2nd Floor, Block D Garden Vista 15–17 On King Street Shatin, New Territories, Hong Kong
Audit Committee	Chan Yuk Tong (陳育棠) (<i>Chairman</i>) Qiu Weifa (仇為發) Jason Wan (萬賢生)
Remuneration Committee	Wu Yueshi (伍躍時) (<i>Chairman</i>) Chan Yuk Tong (陳育棠) Qiu Weifa (仇為發) Jason Wan (萬賢生)
Nomination Committee	Wu Yueshi (伍躍時) (<i>Chairman</i>) Chan Yuk Tong (陳育棠) Qiu Weifa (仇為發) Jason Wan (萬賢生)

Note:

(1) The information contained on the website of our Company does not form part of this prospectus.

CORPORATE INFORMATION

Compliance adviser

China Merchants Securities (HK) Co., Ltd
48th Floor, One Exchange Square
Central
Hong Kong

Principal bankers

Bank of China, Hunan Province branch
No. 593, First Section of Furong Middle Road
Changsha City, Hunan Province, China

China Construction Bank, Huangxing Road branch
10th Floor, Xin Da Xin Building
No. 168 Huangxing Middle Road
Changsha City, Hunan Province, China

Bank of Changsha, Dong Tang branch
No. 79, Lao Dong Middle Road
Changsha City, Hunan Province, China

INDUSTRY OVERVIEW

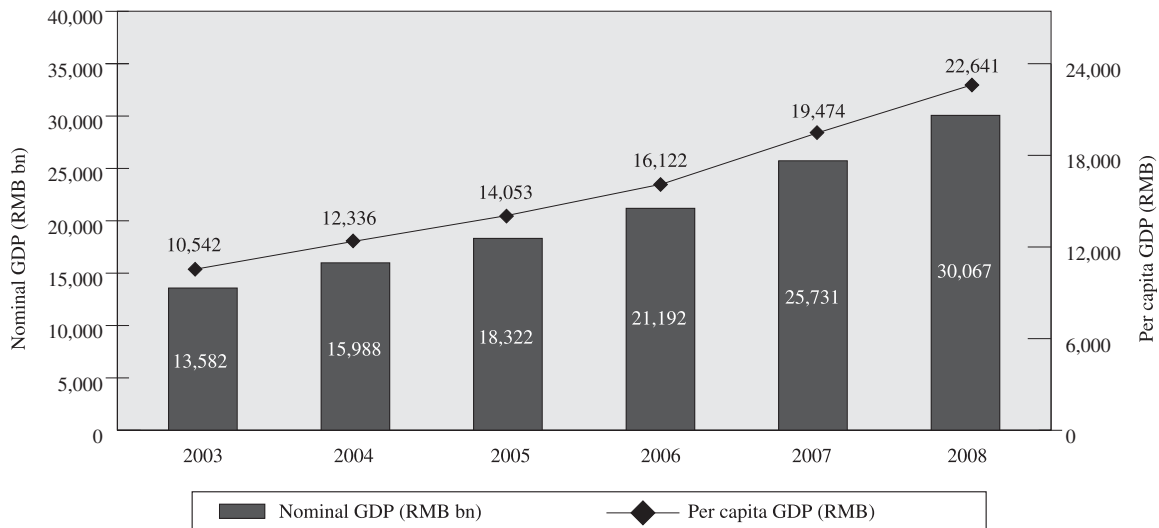
We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

THE PRC ECONOMY

Economic growth and urbanisation

The PRC economy is one of the world's fastest growing economies. According to the National Bureau of Statistics of China, the nominal Gross Domestic Product ("GDP") of China in 2008 was RMB30,067 billion, representing a CAGR of 17.2% since 2003 and a 16.9% annual growth in 2008. From 2003 to 2008, the per capita GDP of China also increased from RMB10,542 to RMB22,641, representing a CAGR of 16.5%. The following chart sets forth the nominal GDP and per capita GDP of China from 2003 to 2008.

Nominal GDP and GDP per capita growth in China



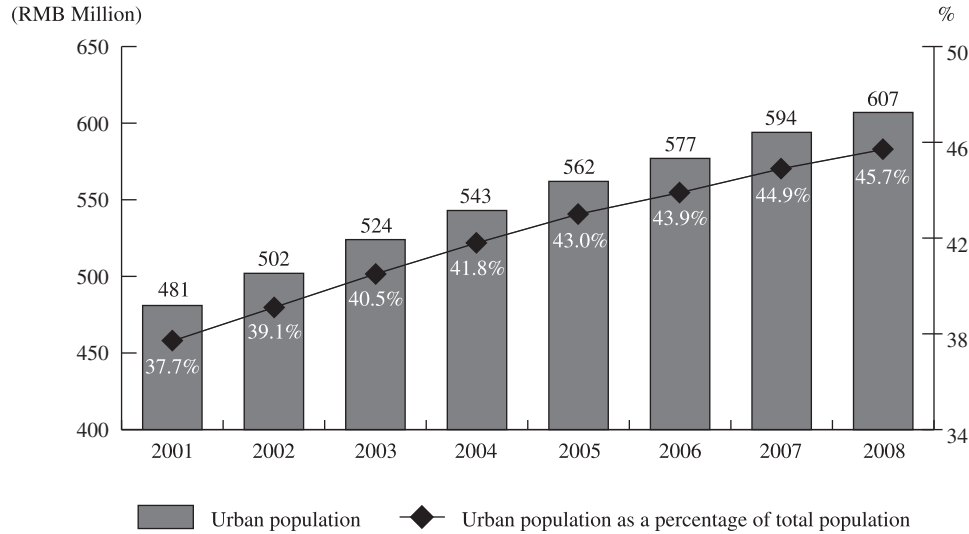
Source: National Bureau of Statistics of China

The PRC's economic growth has been accompanied by rapid urbanisation. The total urban population in the PRC increased from 481 million as of the end of 2001 to 607 million as of the end of 2008, representing an increase of 26.2% between 2001 to 2008. During the same period, the urban population

INDUSTRY OVERVIEW

as a percentage of the total population increased from 37.7% to 45.7%. The chart below sets forth the total urban population and the urban population as a percentage of the total population in the PRC as of the end of the periods indicated.

Absolute and Relative Growth of Urban Population in the PRC



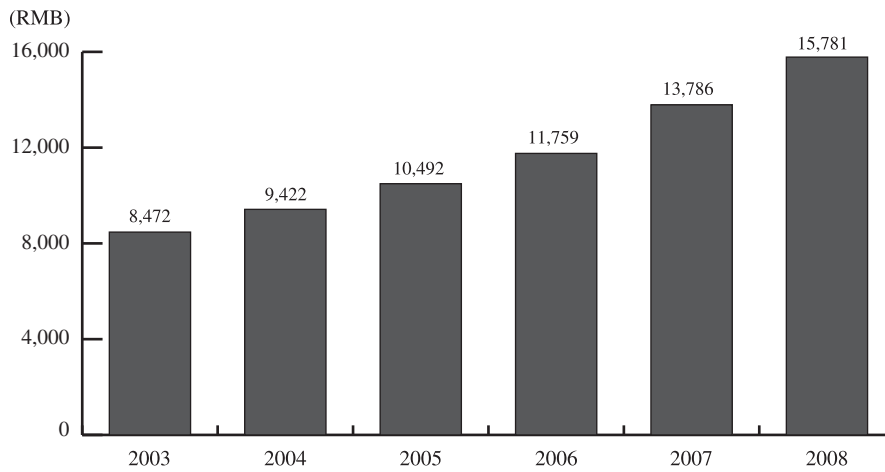
Source: National Bureau of Statistics of China

Growth in disposable income of urban and rural households

Personal income from urban and rural households in China has been increasing along with economic growth and increasing urbanisation. According to the National Bureau of Statistics of China, from 2003 to 2008, the per capita annual disposable income of urban households in China increased from RMB8,472 to RMB15,781, representing a CAGR of 13.2%. During the same period, the per capita annual net income of rural households in China increased from RMB2,622 to RMB4,761, representing a CAGR of 12.7%. These increases indicate that the purchasing power of Chinese consumers is increasing, and as a result Chinese consumers are more capable of purchasing high quality products for their babies and children. The following chart sets forth the per capita annual disposable income of urban households in China from 2003 to 2008.

INDUSTRY OVERVIEW

Per capita income in urban households

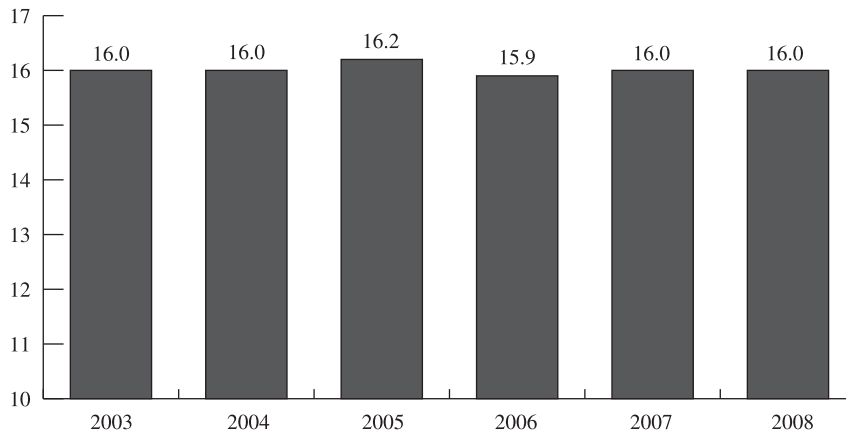


Source: National Bureau of Statistics of China

Number of newborns in China

From 2003 to 2008, the number of newborns in China was relatively stable, at around 16 million births each year. We believe that the number of newborns in China will continue at a relatively consistent level in the near future. The following chart sets forth the number of newborns in China from 2003 to 2008, which is calculated based on the birth rate and population in China during the same period.

Number of newborns in China (million)



Source: National Bureau of Statistics of China

PAEDIATRIC MILK FORMULA INDUSTRY IN CHINA

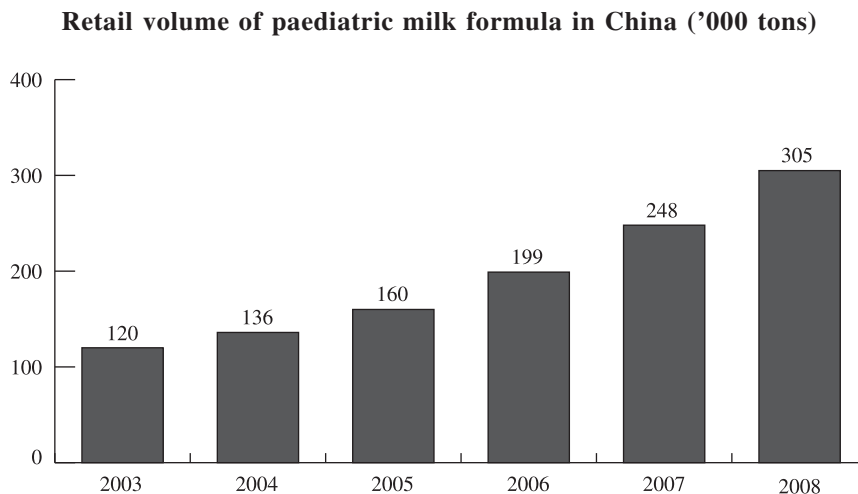
Overview

China is the most populated country in the world and one of the fastest growing paediatric milk formula markets globally. Furthermore, we believe that the increasing trend in China towards double income families, where many women continue to work after giving birth, coupled with the benefits of convenience and nutrition offered by paediatric milk formula has resulted in an increasing number of Chinese women willing to accept paediatric milk formula as a substitute for mother's breast milk for their infants. According to Euromonitor International, the retail volume of paediatric milk formula in China was approximately 304,900 tons in 2008. Therefore, China attracts a large number of enterprises, both foreign and domestic, wishing to gain a share in the country's paediatric milk formula market.

Sales of paediatric milk formula in China

Before 1979, China's paediatric milk formula market only included whole milk powder and whole milk powder with sugar added. In the 1990s, technological advancements and process innovation in formulating milk powder greatly increased the quality of paediatric milk formula products, and as a result consumers in China became more willing to accept paediatric milk formula as a substitute for mother's breast milk.

With the stable birth rate in China, the trend towards urbanisation, the increase in disposable income, and the increase in the number of working mothers, the paediatric milk formula sector has been growing rapidly. The following chart sets forth the development trends of the retail volume of paediatric milk formula in China from 2003 to 2008.



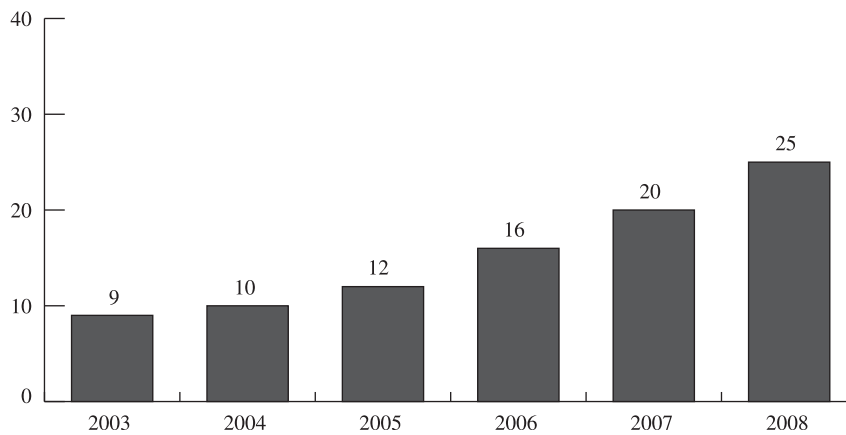
Source: Euromonitor International, which is a leading independent provider of business intelligence on industries, countries and consumers. Euromonitor International is an Independent Third Party and we did not commission the preparation of the data which we purchased from Euromonitor International. The data prepared by Euromonitor International was issued in June 2009.

INDUSTRY OVERVIEW

We anticipate that the paediatric milk formula market size in China will continue to increase. The predicted increase is due to a number of factors, including increasing demand for paediatric milk formula in China, increase in the average retail price of paediatric milk formula products and increasing consumer preference for high-priced and premium-priced paediatric milk formula products. The increase in the paediatric milk formula market value in China is also influenced by other macro-economic factors including increasing urbanisation, increase in disposable income and increase in the number of working mothers.

We estimate that the market value of the paediatric milk formula market in China will increase at a higher rate than the corresponding increase in the retail volume of paediatric milk formula in China, as the increase in the paediatric milk formula market size is mainly attributable to an increase in the sales of high-priced and premium-priced paediatric milk formula products, which are sold at significantly higher prices. The following chart sets forth the development trend of the paediatric milk formula market value in China from 2003 to 2008.

Paediatric milk formula market value in China (RMB billion)



Source: Euromonitor International

INDUSTRY OVERVIEW

MARKET SEGMENT IN THE PRC PAEDIATRIC MILK FORMULA MARKET

Overview

We believe paediatric milk formula brands in the PRC market can be broadly grouped into three categories:

- international brands;
- domestic brands whose paediatric milk formula is produced from milk powder sourced from overseas and imported into the PRC; and
- domestic brands which source all or most of their milk powder and produce their paediatric milk formula in the PRC.

We believe the PRC paediatric milk formula market can generally be categorised into four categories based on retail price, namely:

- low-priced paediatric milk formula;
- mid-priced paediatric milk formula;
- high-priced paediatric milk formula; and
- premium-priced paediatric milk formula.

We consider that there is no official industry classification for different priced and different quality paediatric milk formula products in the PRC market. Accordingly, the above classifications have been determined based on the Directors' knowledge and experience in China as well as market research on the range of retail prices of paediatric milk formula products sold by major players in the PRC market including the following brands: Dumex, Mead Johnson, Wyeth, Abbott, Synutra (聖元), Beingmate (貝因美), Yili (伊利), Yashili (雅士利), Nestle (China) Ltd., Hunan Yahua Seeds Co., Ltd., Heilongjiang Feihe Dairy Co., Ltd., Wonder Sun Dairy Co., Ltd and us. Based on the information obtained from our market research, retail prices for paediatric milk formula products range from approximately RMB27 per kg to approximately RMB245 per kg or above. In view of this price range and the distribution of retail prices amongst the products we researched, the Directors consider that the prices of different products gathered from the market can be divided into the above four categories. The Directors use this price range as a standard solely for ease of comparison and classification.

We estimate that the high-priced and premium-priced paediatric milk formula market segments will grow at a faster rate when compared with the growth of the low-priced and mid-priced paediatric milk formula segments. This is due to economic development, improvement in living standards and increase in purchasing power.

COMPETITION IN THE PRC PAEDIATRIC MILK FORMULA MARKET

Based on the information from the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局) as of September and October 2008, there are 109 paediatric milk formula producers in operation in China and approximately 290 standard milk formula and other milk formula producers in China respectively. Whilst the industry is fragmented with a large number of players, based on the data of Euromonitor International, the top five producers accounted for almost 50% of the total market share by sales value in 2008. The market leaders including international brands such as Dumex, Mead Johnson, Wyeth and Abbott accounted for approximately 41.75% of the total market share by sales value in 2008 in the PRC market. Several domestic dairy manufacturers have devoted substantial resources to penetrate into the PRC paediatric

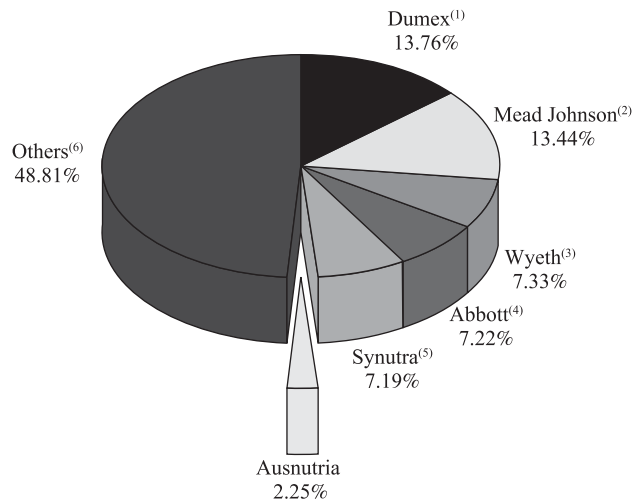
INDUSTRY OVERVIEW

milk formula market, however, we believe that it may be some time before domestic dairy manufacturers are able to pose any significant threat to the international paediatric nutrition products manufacturers' dominant market position.

According to data issued by Euromonitor International in June 2009, we ranked 13th in terms of sales value in 2008 in the PRC market amongst the producers assessed. The top 12 paediatric milk formula producers in 2008 comprised four leading international brands, namely Dumex, Mead Johnson, Wyeth and Abbott, and eight domestic brands including Synutra, Beingmate and Yili. We believe that, with approximately 50% of the sales value in 2008 constituted by a large number of smaller players, our leading position and competitive advantage (including high product quality, recognised brand name and extensive distribution network) over these other players will enable us to capture an increasing portion of market share in the PRC market and thereby reinforcing our leading position and increasing our returns. While we believe the market has yet to see a domestic paediatric nutrition manufacturer capable of overtaking the international paediatric nutrition products manufacturers, we consider this as providing us with immense opportunities to grow, to increase our market share and to improve our position in the PRC market.

The following chart sets forth the market shares of paediatric milk formula producers in the PRC based on sale value in 2008.

**Market shares of different paediatric milk formula producers in the PRC
(in terms of sales value) in 2008**



Source: Euromonitor International

Notes:

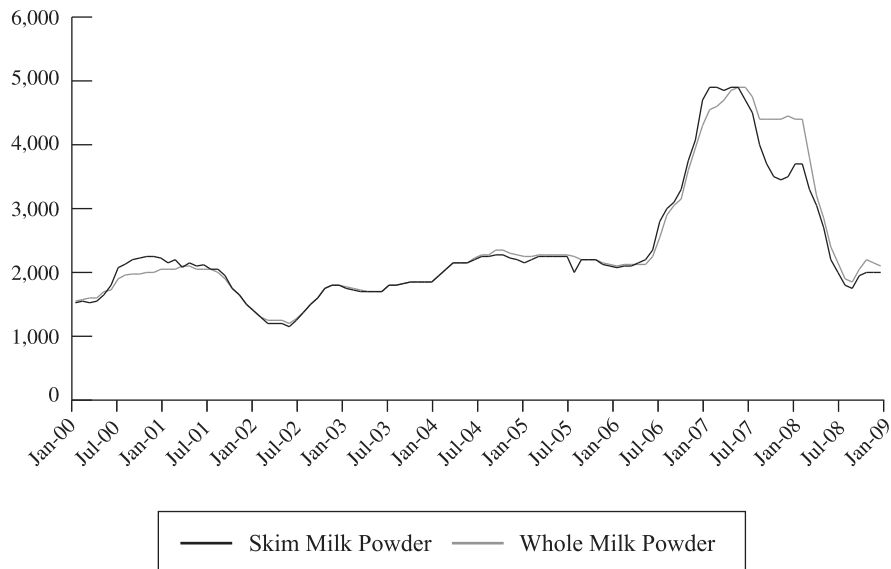
1. Dumex manufactures infant and child nutritional products which are distributed in Malaysia and Singapore with exports to around 20 countries around the world.
2. Mead Johnson is a global leader in infant and children's nutrition, best known for certain paediatric milk formulas and regional children's nutritional products.
3. Wyeth is a global leader in pharmaceuticals, consumer health care products and animal health care products.
4. Abbott is well recognised as one of the world's most respected names for nutritional products.
5. Synutra is one of the leading manufacturers of dairy-based nutritional products in China.
6. Others include Beingmate (6.23%), Yili (5.49%), Yashili (5.4%), Nestle (China) Ltd. (5.03%), Hunan Yahua Seeds Co., Ltd. (3.38%), Heilongjiang Feihe Dairy Co., Ltd. (2.37%), Wonder Sun Dairy Co., Ltd. (2.26%) and other manufacturers which have smaller market share than us.

INDUSTRY OVERVIEW

PRICES OF MILK POWDER

According to Dairy Australia, the dairy industry is one of Australia's major rural industries with a farmgate value of production of approximately A\$4.6 billion in 2007 and 2008. Export dairy commodity prices rose to record levels in 2007 due to consistently strong demand and tight supplies. Prices suffered a minor contraction during the first half of 2008, due to some buyers' resistance and increased availability of products. The following chart sets forth the skim milk powder and whole milk powder export spot prices from January 2000 to January 2009. The price trends of skim milk powder and whole milk powder are directly correlated to the price of milk powder obtained from our Australian suppliers.

Dairy Australia Spot Price Survey of Milk Powder Prices (US\$/ton)



Source: Dairy Australia, which is a dairy industry organisation formed in 2003 by the Australian dairy industry which provides industry services to Australian dairy farmers. Dairy Australia is an Independent Third Party and its data is available from its website and accessible by the general public.

THE MELAMINE INCIDENT

Overview and the effect on the high-priced and premium-priced paediatric milk formula market segments

In September 2008, the paediatric milk formula of a number of large domestic dairy products manufacturers were found to contain melamine, causing infants to develop kidney stones, and affecting several thousands of children. The melamine incident undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and in turn a decrease in production volume. According to the 2009-2012 Report on the Effect of Melamine on Dairy Products — Market Investigation and Future Market Predictions* 《中國三聚氰胺對乳製品的影響市場調研與未來市場預測分析報告》 prepared by Beijing Huajing Shidian Information Consulting Co. Ltd.* (北京華經視點信息諮詢有限公司) issued in June 2009 (“**2009 Report**”), as at September 2008, 66 of the 175 paediatric milk formula manufacturers in China had ceased to produce paediatric milk formula products. In general, sales volume of dairy products produced by Chinese enterprises dropped to only 20% of the usual sales volume prior to the melamine incident. For details of the impact of the melamine incident on our revenue and our Directors' view on the melamine incident, please refer to the section headed “Business — Quality Control — The Melamine Incident” in this prospectus.

According to the 2009 Report, the high-priced and premium-priced paediatric milk formula market segments have grown at a faster rate than the low-priced and mid-priced paediatric milk formula market segments after the melamine incident in the second half of 2008. We believe that Chinese consumers who originally purchased paediatric milk formula products produced by milk powder sourced domestically shifted their purchases to brands which produced paediatric milk formula using milk powder sourced from overseas, as such milk powder is considered to be of a higher quality.

Laws and regulations implemented by the PRC government

Due to the impact of the melamine incident on China's dairy products industry, a number of regulations and measures have been introduced by the PRC government since the incident took place. These are aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. For example, the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products 《乳品質量安全監督管理條例》 issued and effective on 9 October 2008 aims to strengthen the management of dairy products safety and quality. Manufacturers are now required to follow more stringent rules which include the prohibition of adding non-edible chemical substances or substances which may be harmful to humans into dairy products, and the establishment of quality management systems to ensure quality control throughout the whole production process.

In September 2007, the PRC Premier Mr. Wen Jiabao signed the State Council Opinion on the Promotion of Continuing the Healthy Development of the Dairy Industry 《國務院關於促進奶業持續健康發展的意見》 (“**Opinion**”). In the Opinion, the State Council recommended restrictions to the entry system to the China dairy industry. The PRC dairy manufacturers are encouraged to enlarge their production scale through asset reorganisation, merger and acquisition or otherwise on a reasonable basis.

Following the melamine incident, as part of the PRC government's measures, more than 5,000 investigators were appointed to supervise the manufacturing of dairy products in China. A new set of national standards was put in place in October 2008 for manufacturers, which included the legally

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acceptable level of melamine content in paediatric milk formula products as well as other dairy products. Breaches of such standards could result in the revocation of licences and the referral of cases to law enforcement bodies for investigation and enforcement actions.

According to the 2009 Report, the dairy products industry in China has slowly recovered as a result of the combined efforts made by the government, enterprises, agricultural sector and others. From January to March 2009, the total production value of dairy products amounted to approximately RMB35.42 billion, representing an increase of 5.53% compared to the same period in 2008, and production of dairy products reached approximately 4.37 million tons, representing an increase of 3.28% over the same period.

It can be seen from these increases that Chinese consumers are slowly regaining confidence in Chinese dairy products. In February 2009, the annual production volume of Chinese dairy products reached approximately 1.5 million tons, representing an increase of 13.8% compared to the previous year, and this also marked the first increase in production volume since the melamine incident in September 2008. In addition, those manufacturers which ceased production because of the melamine incident are gradually resuming production or are offering their businesses for sale.

SUMMARY OF THE PRC LAWS AND REGULATIONS

The primary production and operations entity of the Group is Ausnutria Hunan, which is located in the PRC. Ausnutria Hunan, with respect to its all business operations, including the production and sales of paediatric food products, milk and dairy products, is subject to all industry policies, relevant laws, regulations, rules and extensive government regulatory policies which are presently valid and effective. With respect to its current business operations, the Group is mainly subject to the following laws, regulations and rules:

Policies relating to the Foreign-invested Paediatric Nutrition Products Industry

Guidance on the foreign investment industry in the PRC can be found in the Foreign Investment Industrial Guidance Catalogue 《外商投資產業指導目錄》 which has been promulgated and implemented from time to time. Pursuant to the Foreign Investment Industrial Guidance Catalogue which was jointly issued by the National Development and Reform Commission and Ministry of Commerce on 31 October 2007, development and production of infant food has been listed as a business which has encouraged foreign investment.

In addition, based on the Dairy Product Industrial Policies (2009 Version) 《乳製品工業產業政策 (2009年修訂)》 released by the Ministry of Industry and Information Technology of the PRC and the National Development and Reform Commission on 26 June 2009, foreign investment in paediatric nutrition products need to comply with the relevant admission conditions, such as the establishment and composition of enterprises, scale and capability of processing, technology and equipment, product quality, environmental health and protection, energy consumption and production safety.

Regulatory System relating to the Infant Food Industry

The PRC has established a series of laws and regulations to strengthen the control on production, operation and sales of food, especially paediatric nutrition products, and has formed a stringent regulatory system that covers, *inter alia*, food safety system, food hygiene system, food production licence system, food standardisation system, food imports and exports control system, food identification management system as well as food recall system. The following is a general description of the aforesaid key legal systems:

A. Food Safety System

According to the Food Safety Law of the PRC 《中華人民共和國食品安全法》 adopted by the National People's Congress Standing Committee on 28 February 2009 and implemented on 1 June 2009, the food safety standard is compulsory and should include the following:

- (1) maximum limits relating to the level of pathogenic micro-organisms, pesticide residues, veterinary medicine residue, heavy metals, contaminants, and other substances which may be harmful to human health found in food and food-related products;
- (2) types, scope of application and dosage of food additives;
- (3) nutritional requirements of staple and supplementary food exclusively for infants and toddlers and other special groups of people;
- (4) requirements for labels, identification and instructions relevant to food safety and nutrition;
- (5) hygiene requirements for the operating procedures of food production;

- (6) quality requirements relating to food safety;
- (7) methods and procedures for food inspection and testing; and
- (8) other particulars proposed to be developed as food safety standards.

The health administrative department (衛生行政部門) of the State Council is responsible for formulating and announcing national food safety standards. Where there are no national food safety standards, the health administrative department of provinces, autonomous regions and municipalities directly under the central government may formulate their own local food safety standards. If there are no national food safety standards or local standards, enterprises should formulate their own enterprise standards to regulate their own food production. Imported food, food additives and food-related products should comply with the PRC national food safety standards.

According to the Regulations for the Implementation of the Food Safety Law of the PRC 《中華人民共和國食品安全法實施條例》 promulgated and implemented on 20 July 2009, food producers and traders should engage in production and trading activities in accordance with the laws, regulations and food safety standards, establish and improve their food safety management systems and adopt effective measures to ensure that the food is safe. Food producers and traders should be responsible for the safety of the food which they produce and trade, be responsible to the society and the public, and undertake social responsibility.

The Food Safety Law has been implemented since 1 June 2009, however, the related regulations of other regulatory departments are subject to further enactment, for specifying and refining the actual application of the Food Safety Law.

According to the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products 《乳品質量安全監督管理條例》 issued and implemented by the State Council of the PRC on 9 October 2008, dairy animal breeders, fresh milk purchasers, dairy products production enterprises and sellers are the first responsible takers. They should assume responsibility for the quality and safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products should comply with the national safety standards for the quality of dairy products. These national safety standards relating to the quality of dairy products are developed by the health department of the State Council and amended from time to time in accordance with the results of risk monitoring and risk assessments. The addition of non-edible chemical substances or other substances which may be harmful to human health during the production process of dairy products is prohibited.

B. Food Hygiene System

Pursuant to the requirements of the Food Safety Law of the PRC, food production operations should comply with the following hygiene requirements:

- (1) having suitable facilities to treat raw food materials and process, package and store food based on the variety and quantity of food produced; keeping such facilities tidy and clean; and maintaining required distances between such facilities and toxic or hazardous elements or other sources of contamination;

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- (2) having appropriate production and operating equipments or facilities based on the variety and quantity of food produced or operated; and having appropriate equipments or facilities for disinfection, changing, cleaning, lighting, illumination, ventilation, anticorrosion, dust-proofing, fly-proofing, rat-proofing, insect-proofing, cleansing and wastewater treatment, rubbish and other wastes storage;
- (3) having technical professionals and management personnel trained in the area of food safety, and a system with rules to ensure food safety;
- (4) having equipments and production lines arranged in a practical way to prevent cross-contamination between processed food and food that are ready-to-eat, raw materials and finished products, and to avoid food being in contact with toxic and unclean substances;
- (5) tableware, drinking utensils and containers for ready-to-eat food should be cleaned and disinfected prior to use; cooking utensils and other utensils should be washed after being used and kept clean;
- (6) containers, utensils and equipments used for storage, transportation, loading and unloading of food should be safe, harmless and kept clean to prevent food contamination; and conforming to specifications such as setting the temperature to a value which is required to ensure food safety; transporting food and toxic and hazardous substances separately;
- (7) ready-to-eat food should have small packages or use packaging materials and tableware which are non-toxic and clean;
- (8) food production and operating staff should have good personal hygiene, wash their hands thoroughly and wear clean working clothes and headwear while producing and operating food; non-toxic and clean tools should be used while selling ready-to-eat food without packaging;
- (9) water used should comply with the national hygiene standards for drinking water;
- (10) detergents and disinfectants used should be safe and harmless for the human body; and
- (11) compliance with other laws and regulations.

Pursuant to the Measures for the Administration of Food Hygiene Permit 《食品衛生許可證管理辦法》 promulgated by the Ministry of Health on 25 December 2005 and implemented on 1 June 2006, enterprises which wish to engage in food production and operating activities must report to the health administrative department and submit an application for obtaining hygiene permits according to the relevant procedures. Once approval from the health administrative department is granted, food production and operating activities can commence, and thereafter responsibility in regard to the hygiene in food production and operation should be assumed by the relevant enterprises.

Those applying to be engaged in the business of food production and processing must comply with the following conditions:

- (1) having a hygiene management system in place, organisation and professionally trained full-time or part-time profession staff to manage food hygiene;
- (2) having plants, facilities, equipments and an environment which are appropriate for food production and processing that meet hygiene requirements;

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- (3) having conditions and measures that control contamination in production lines and during production and processing;
- (4) having raw and supplementary materials, tools, containers and packaging materials for production that meet hygiene requirements;
- (5) having agencies, personnel and the necessary instruments and equipments to carry out food testing;
- (6) staff should receive training and pass health checks before commencing work; and
- (7) other conditions as required by provincial health administrative departments.

Health administrative departments will issue food hygiene permits to those food production operators who meet the relevant permit requirements.

C. Food Production Permission System

Pursuant to the Food Safety Law of the PRC, China has implemented a licensing system on food production and operation.

In accordance with the Regulations of the PRC on the Administration of Production Licence for Industrial Products 《中華人民共和國工業產品生產許可證管理條例》 promulgated by the State Council on 9 July 2005 and implemented on 1 September 2005, the State has put in place a production licensing system for enterprises which produce processed food such as dairy products, meat products, beverage, rice, noodles, cooking oil, wine, and other products the consumption of which may directly affect human health.

Under the Provisional Detailed Rules for Administration and Supervision of Quality and Safety in Food Production and Processing Enterprises 《食品生產加工企業質量安全監督管理實施細則(試行)》 issued and implemented by AQSIQ on 1 September 2005, the State has introduced a system on food quality and safety market entry. Food production and processing enterprises must meet the required production conditions for food quality and safety, and obtain food production licences in accordance with the required procedures. Produced or processed food is only allowed to be sold after passing inspections and with labels regarding food quality and safety market entry.

For production of processed food by way of entrustment arrangement, the enterprise (that is, the contractor) should be an enterprise holding a valid licence for food production, and the contracting party and the contractor should file a report with their respective municipal quality and technical supervision departments (質量技術監督部門).

The effective period for a food production licence is three years. If enterprises wish to continue their operation after the expiry of the effective period, they must submit applications to the original quality and technical supervision departments six months before the effective period expires.

D. Food Standardisation System

In accordance with the Standardisation Law of the PRC 《中華人民共和國標準化法》 implemented on 1 April 1989 and its implementation regulations and interpretation provisions, standards in relation to protecting personal health and the safety of persons and property as well as mandatory execution standards imposed by laws and regulations are classified as “mandatory standards”. Food hygiene standards are part of mandatory standards.

According to the Notice of Issues Relating to the Implementation of Three Compulsory National Standards Including General Technical Requirements of Infant Formula Powder and Infant Supplementary Cereals Powder 《關於實施〈嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件〉等三項強制性國家標準有關問題的通知》(國標委農輕聯[2004]63號) issued by the Standardisation Administration Commission of the PRC and AQSIQ on 29 June 2004, production enterprises should strictly comply with three compulsory national standards, namely GB10767-1997 General Technical Requirements of Paediatric Formula Powder and Paediatric Supplementary Cereals Powder 《嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件》(hereinafter referred to as “**General Technical Requirements** 《通用技術條件》”), GB10765-1997 “Infant Formula Milk Powder I 《嬰幼兒配方乳粉I》” (hereinafter referred to as “**Formula I**”) and GB10766-1997 “Infant Formula Milk Powder II, III 《嬰幼兒配方乳粉II·III》” (hereinafter referred to as “**Formula II, III**”).

Besides following the three standards, enterprises producing paediatric formula products can also adopt enterprise standards to the extent that such standards are not below the corresponding technical requirements of the national standards. If this is the case, enterprises are required to file such standards to the local standardisation administrative department.

Imported infant formula milk powder I or infant formula milk powder II, III are required to comply with the technical requirements of Formula I or Formula II, III, while other paediatric formula powder products are required to comply with the General Technical Requirements.

E. Food Imports and Exports Regulatory System

Pursuant to the requirements of the Food Safety Law of the PRC, imported food, food additives and food-related products must comply with the PRC’s national food safety standards. Customs will allow the imported food products to enter the country after the relevant exit-entry inspection and quarantine authority has inspected and approved such products by issuing certificates of customs clearance. Overseas food producers exporting food to China are required to register with the PRC’s exit-entry inspection and quarantine departments.

According to the requirements of the Law on Import and Export Commodity Inspection of the PRC 《中華人民共和國進出口商品檢驗法》 which was amended on 28 April 2002 and executed on 1 October 2002 and its implementation regulations, AQSIQ has formulated and adjusted the list of imported and exported commodities which require mandatory inspection. Exit-entry inspection and quarantine authorities will carry out inspections on commodities which are on the list as well as on other imported and exported commodities which are required to be inspected by other laws and administrative regulations. Commodities which require inspection shall be inspected in accordance with the mandatory requirements of the national technical specifications. Commodities which do not have such mandatory requirements can refer to the relevant overseas standards designated by AQSIQ. Imported commodities which require inspection cannot be sold or used before such inspections have been completed.

F. Food Identification Management System

Pursuant to the Food Identification Management Requirement 《食品標識管理規定》 promulgated by AQSIQ on 27 August 2007 and effective from 1 September 2008, food identification labels should state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses of producers, and standardisation numbers of national standards, industry standards, local standards or enterprise standards for those who have filed these to the authorities.

Food labels with wordings such as “nutrition” or “strengthened” in their names or descriptions are required to state the nutrition and calories of such food in accordance with the relevant national standards and comply with the quantity identification required by the national standards. Food which is under the production licensing management scheme is required to show its food production licence number and QS mark on the food label.

G. Food Recall System

The State has established a food recall system under the requirements in the Food Safety Law of the PRC.

Pursuant to the Provisions on the Administration of Food Recall 《食品召回管理規定》 issued and implemented by AQSIQ on 27 August 2007, food recall is categorised into three grades, namely grade one recall, grade two recall and grade three recall, based on the severity level of food safety hazards. Food will be recalled on two basis: voluntary recall or recall by order.

Voluntary recall

- (1) The food producer should immediately cease production and sale of the food that has been identified as unsafe for human consumption which should be recalled;
- (2) from the date on which the food has been identified as unsafe food which should be recalled, the relevant sellers should be notified not to sell and the consumers should be notified not to consume the identified food within one day for a grade one recall, within two days for a grade two recall, and within three days for a grade three recall;
- (3) information relating to food recall distributed by food producers to the public must be reported to provincial quality and technical supervision departments or above in accordance with relevant requirements;
- (4) from the date on which the food has been identified as unsafe food which should be recalled, food producers should submit their food recall plan to provincial quality and technical supervision departments through municipal quality and technical supervision departments where such producers are located within three days for a grade one recall, within five days for a grade two recall, and within seven days for a grade three recall; and
- (5) from the date on which the food has been recalled, progress reports should be submitted to provincial quality and technical supervision departments through municipal quality and technical supervision departments where such producers are located once every three days for a grade one recall, once every seven days for a grade two recall and once every 15 days for a grade three recall.

Recall by order

If any of the following situations takes place, AQSIQ shall order food producers to recall the relevant unsafe food and may publish relevant food safety information and consumption warnings or adopt other measures to avoid any further harm being caused to the public:

- (1) food producers deliberately concealing the hazards of food safety, or food producers not taking any recall action where a voluntary recall is required;
- (2) the harm has expanded or reoccurred due to the fault of food producers; and

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- (3) hidden problems relating to food safety which may be harmful to human health and life are discovered during a selective inspection conducted by the nation's supervisors. Food producers are required to stop producing and selling the unsafe food immediately after receiving notice of a recall order.

Supervision on the use of food additives

Pursuant to the Food Safety Law, no food additive may be used in food unless it is technically deemed necessary and has been proven to be safe and reliable after passing risk assessments. The health administrative department of the State Council shall, on the basis of the technical requirements and the results of the food safety risk assessments, revise the varieties, scope of use and standard on the dosage of food additives in a timely manner. A food producer shall use food additives in accordance to the food safety standards in relation to the varieties, scope of use and dosage of food additives, and shall not, during the process of food production, use any chemical substances other than food additive or any other substances which may cause potential harm to human health.

When purchasing raw materials for producing food, food additives and food-related products, a food producer shall inspect the licence and product compliance certification document from the supplier. For any supplier who is unable to provide a compliance certification document, an inspection on the raw materials for producing food shall be implemented in accordance to the food safety standards. No raw material for food, food additive or food-related product with which the food safety standards have not been complied shall be purchased or used. A food production enterprise shall establish an inspection record system for the purchased raw materials for producing food, food additives and food-related products, which records contents such as the names, specifications, quantities of the raw materials for producing food, food additives and food-related products, names and contact information of the suppliers and the date of purchase. Such inspection record must be true and be kept for at least two years.

Pursuant to the Measures for the Hygienic Administration of Food Additives 《食品添加劑衛生管理辦法》 promulgated on 28 March 2002 and implemented since 1 July 2002 by the Ministry of Health of the PRC, a food additives operator, when purchasing food additives, shall request a copy of the Licence of Hygiene and a certification of product inspection compliance. The use of food additives should comply with the applicable hygienic standards of food additives or the provisions on varieties, the scope of use and dosages as required under the list announced by the Ministry of Health.

Under the Administrative Measures for the Record of Use of Food Additive by Food Production and Processing Enterprises (Trial) 《食品生產加工企業食品添加物質使用備案管理辦法(試行)》 promulgated on and implemented since 19 April 2007 by AQSIQ, an enterprise engaged in food processing in the PRC shall file at the Bureau of Quality and Technical Supervision of a county-level from where it is located a record of the varieties, the use and dosages of all food additives used in the food, and be responsible for the authenticity of its contents. In case of a change of the basic contents to the record made by such enterprise, a new record shall be made within 15 days.

Environmental Protection

- A. Under the Environmental Protection Law of the People's Republic of China 《中華人民共和國環境保護法》 implemented on 26 December 1989, all enterprises producing environmental pollution and other public hazards should incorporate environmental protection works into their plans and establish a responsibility system for environmental protection. These enterprises should adopt

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effective measures to prevent and control pollution and damage from waste gas, sewage, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities caused to the environment.

Facilities for preventing and controlling pollution in construction projects should be designed, built and operate with the main construction works simultaneously. Such projects can commence operation or be used after passing the examination for acceptance conducted by the environmental protection administrative department in charge which reviewed and approved the original environmental impact reports.

- B. Pursuant to the Regulation on the Administration of Construction Projects Environmental Protection 《建設項目環境保護管理條例》 issued and implemented on 29 November 1998 by the State Council and the Law of Environmental Impact Assessment of the PRC 《中華人民共和國環境影響評價法》 implemented on 1 September 2003, the State has conducted an assessment of environmental impact system for construction projects. The State organises the projects into different categories according to the level of harm such projects could cause to the environment. If the construction projects will have a significant impact on the environment, then environmental impact reports should be prepared, and full assessment of the impact should also be conducted. Projects with smaller environmental impact are required to compile environmental impact report statements and conduct analysis or special assessment on environmental impact. For those projects with minor environment impact, and which are not required to conduct an environment impact assessment are required to fill out an environmental impact registration form. The aforesaid environmental impact assessment documents as submitted by the construction units will be approved by the environmental protection administrative department in charge, which possesses the right of approval in accordance with the national rules. For projects which have not gone through this examination process or have not received approval after such examination, the project approval department must not approve such projects and construction units cannot commence construction.
- C. According to the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》 amended on 28 February 2008 and with effect from 1 June 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, discharge pollutants into the water directly or indirectly should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fee according to the types and quantities of their water pollutants and the levy standard.
- D. The Law of the PRC on Prevention and Control of Air Pollution 《中華人民共和國大氣污染防治法》 which was amended on 29 April 2000 and took effect from 1 September 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere need to comply with certain regulations relating to environmental protection. Units that discharge

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pollutants into the atmosphere should report to the local environmental protection administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

- E. According to the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste 《中華人民共和國固體廢物污染環境防治法》 amended on 29 December 2004 and with effect from 1 April 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.
- F. Under the Law of the PRC on Prevention and Control of Environmental Noise Pollution 《中華人民共和國環境噪聲污染防治法》, effective from 1 March 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

Labour and Production Safety

- A. In accordance with the Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, effective from 1 January 2008, employers and employees should enter into written employment contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other matters which employees may be concerned with. Employers and employees should fully perform their respective obligations in accordance with the commitments set forth in the employment contracts. Employers should pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contract and the PRC regulations, strictly adhere to the working quota standards, and are prohibited from compelling employees to work overtime. At the time of terminating an employment contract, the employers should provide evidence for such termination and arrange for the worker to transfer his/her file and social insurance relations within 15 days.
- B. Pursuant to the Employment Promotion Law of the PRC 《中華人民共和國就業促進法》 with effect from 1 January 2008, recruitment units should provide equal employment opportunities and fair employment conditions when recruiting employees. No employment discrimination will be

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allowed. The State protects female workers in that men and women have equal employment rights. Except as required by the State, employers must not refuse to employ women due to their gender or raise the employment standard for women. Additionally, employers are not allowed to include any restrictions regarding the marital status or pregnancy of female employees in employment contracts. Employers should also provide suitable care to workers from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. Furthermore, they are not permitted to reject employment on the basis of the employees having a contagious disease or discriminate against workers from rural areas.

- C. According to the Regulation on Occupational Injury Insurance 《工傷保險條例》 which took effect from 1 January 2004, employers should pay occupational injury insurance fees for their employees.
- D. Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees 《企業職工生育保險試行辦法》, effective from 1 January 1995, employers should pay maternity insurance fees for their employees.
- E. Under the Interim Regulations Concerning the Levy of Social Insurance Fees 《社會保險費徵繳暫行條例》 implemented from 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance 《社會保險登記管理暫行辦法》 adopted since 19 March 1999, employers in the PRC should register social insurance with the local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.
- F. According to the Regulation Concerning the Administration of Housing Fund 《住房公積金管理條例》 implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management centre. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.
- G. Pursuant to the Production Safety Law of the PRC 《中華人民共和國安全生產法》, effective from 1 November 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entities that do not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programmes to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operation procedures of the relevant units regarding safety.

Regulations on Foreign Trade and Customs

- A. Pursuant to the Foreign Trade Law of The People's Republic of China 《中華人民共和國對外貿易法》 amended on 6 April 2004 by the Standing Committee of the National People's Congress of the PRC and implemented since 1 July 2004, (1) the State allows the free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations, (2) the foreign trade department of the State Council may, where the monitoring of import and export so requires, employ the system of automatic licence of import and export for some of the freely

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imported and exported goods, and publish a catalogue of these goods. For goods subject to the automatic licence system, if the consignor or consignee applies for automatic licence prior to handling the formalities of customs declaration, the foreign trade department of the State Council in-charge or the institutions entrusted by it shall grant approval. Should it fail to handle the formalities of the automatic licence, customs shall not release the goods thereunder, (3) the state employs a system to manage the quotas or licensing for goods subject to import or export restrictions, and a system to manage the licensing of the technologies subject to import or export restrictions. For goods and technologies subject to these systems, they cannot be imported or exported unless approvals have been granted by the foreign trade department of the State Council independently or in collaboration with other departments of the State Council, (4) the State has in place a unified system of commodity quality assessment, and makes authentications, inspections, and quarantines to imported and exported commodities according to the relevant laws and administrative regulations.

- B. Pursuant to The Regulations of the People's Republic of China on the Administration of the Import and Export of Goods 《中華人民共和國貨物進出口管理條例》 promulgated on 10 December 2001 and implemented since 1 January 2002 by the State Council, the state allows the free import and export of goods and maintains fairness and order of the import and export of goods according to the PRC laws. Unless it is clearly provided in laws or administrative regulations to forbid or restrict the import or export of goods, no entity or individual may establish or maintain prohibitive or restrictive measures over the import or export of goods. Prohibited goods may not be imported into the country. Where there are quantitative limits on the goods being imported, such goods shall be subject to the administration of quotas, and goods limited by other aspects shall be subject to the administration of licences. Goods which can be freely imported are not subject to any limitations.
- C. Pursuant to The Customs Law of the People's Republic of China 《中華人民共和國海關法》 as amended on 8 July, 2000 by the Standing Committee of the National People's Congress and implemented since 1 January 2001, unless otherwise provided, all imported and exported goods shall be declared and duties on them paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee, and approved by and registered with the customs. If entrusted by the consignor or consignee and handling the declaration in the name of the client, such declaration enterprise shall submit to the customs a document certified by a power of attorney and signed by the entrusting party, and comply with all the provisions applicable to the entrusting party under the Customs Law. If entrusted by the consignor or consignee, but the handling of the declaration is in its own name, the declaration enterprise shall bear the same legal responsibility as that of the consignor or consignee. Where the consignor or consignee or the declaration enterprise handle the declaration, they shall register with the customs office in accordance with the laws. The person handling the declaration shall obtain the qualification for declaration in accordance with the laws. No enterprises or persons can make declarations without registering with customs or obtaining the relevant qualifications for declaration in accordance with the laws.
- D. Pursuant to The Measures for the Registration and Record of Foreign Trade Dealers 《對外貿易經營者備案登記辦法》 promulgated on 25 June 2004 and implemented since 1 July 2004 by the Ministry of Commerce of the PRC, foreign trade operators engaging in the import and export of goods shall register with the Ministry of Commerce or the agency appointed by the Ministry for record, and obtain the Registration Form of Record for Foreign Trade Operators (對外貿易經營者

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備案登記表) with a seal indicating filing and registration. Save for those not required for registration under the laws, administrative regulations or by the Ministry of Commerce, should a foreign trade dealer fails to register, the declaration procedures for import and export will be subject to refusal by the Customs.

- E. Pursuant to The Provisions of the Customs of the People's Republic of China for the Administration of Registration of Declaration Entities 《中華人民共和國海關對報關單位註冊登記管理規定》 promulgated on 31 March 2005 and implemented since 1 June 2005 by the General Administration of Customs of the PRC, a declaration activity refers to (1) complying with the provisions pertaining to truthfully declaring commodity codes, the actual traded price, the place of origin and the code of the corresponding preferential trade agreement, etc in relation to the imported or exported goods, filling out declaration lists, submitting declaration documents, etc, and handling other declaration related matters; (2) applying for payment of taxes, or tax refund or supplement of tax; (3) applying for filing, modification or cancellation of contracts for processing trade, and tax regulations, etc; (4) applying for tax reduction and exemption, etc. for imported and exported goods; (5) dealing with inspection or customs clearance, etc, of imported and exported goods; and (6) other declarations that should be made by declaration entities. A consignor or consignee of import or export goods shall register with the declaration entity at the local customs office, and to obtain the Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods by the Customs of the People's Republic of China (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書), which is valid for three years. The consignor or consignee shall apply for exchange of certificate at the local customs office within 30 days prior to the expiry of the validity.
- F. Pursuant to The Administrative Measures on Goods Automatic Import Permission 《貨物自動進口許可管理辦法》 jointly announced by the Ministry of Commerce and the General Administration of Customs on 10 November 2004, and implemented since 1 January 2005, the Ministry of Commerce carries out automatic import permission administration on some imported goods according to the requirements of goods import supervision. The catalogue should be published at least 21 days before the implementation. For imported goods which are required to undergo automatic import permission administration, a consignee (including the importer and import customer) is required to submit an application for an "automatic import licence" with the local or corresponding licence issuing administration authorities and obtain such licence, before its declaration at customs. On 10 July 2009, the Ministry of Commerce and the General Administration of Customs jointly announced that automatic import permission administration also applies to fresh milk, milk powder and whey from 1 August 2009.
- G. Pursuant to The Administrative Measures for the Import Report and Information Issuance of the Staple Agricultural Products (Trial) 《大宗農產品進口報告和信息發佈管理辦法(試行)》 promulgated on 24 June, 2008 and implemented since 1 August 2008 by the Ministry of Commerce, the Ministry of Commerce shall, together with the relevant departments, formulate and adjust the Catalogue of the Staple Agricultural Products under the Administration of Import Report 《實行進口報告管理的大宗農產品目錄》 (the "Catalogue"). A foreign trade operator who imports the staple agricultural products under the Catalogue shall report to the organisations entrusted by the Ministry of Commerce the basic information of that enterprise and perform the obligations concerning the import report. On 10 July 2009, the Ministry of Commerce announced that fresh milk, milk powder and whey are included in the Catalogue, and the import reporting administration has been implemented for the abovementioned categories since 1 August 2009. A foreign trade

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operator which imports fresh milk, milk powder and whey should report to the China Chamber of Commerce of Import and Export of Foodstuffs (中國食品土畜進出口商會), and also file a copy of the registration form with the local commerce department at the provincial level and the local commerce department of city specifically designated in the state plan.

Taxation

The key taxes applicable to the Company in the PRC are enterprises income tax and value added tax.

- A. Pursuant to the PRC Enterprises Income Tax Law 《中華人民共和國企業所得稅法》 and its implementation regulations implemented since 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. If an organisation or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (“**Tax Arrangement**”), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》, residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counter-parties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

- B. Pursuant to the Provisional Regulations of the People’s Republic of China on Value-Added Tax 《中華人民共和國增值稅暫行條例》 and the implementation regulations as amended on 5 November 2008 by the State Council and implemented since 1 January 2009, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Foreign exchange

- A. Pursuant to the Regulations on the Administration of Foreign Exchange of the People's Republic of China 《中華人民共和國外匯管理條例》 as amended on 1 August 2008 by the State Council and implemented since 5 August 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and terms related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or sold to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals propose to make onshore direct investments, they shall complete registration with the foreign exchange administrative body upon approval of the relevant competent authorities. If onshore institutions or onshore individuals propose to make an offshore direct investment or offshore issuance or trading of negotiable securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department under the State Council. The foreign exchange or the settled foreign exchange funds under the capital account can be used if approved by the relevant authorities and the foreign exchange administrative body.
- B. Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies 《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》 (“**Notice No. 75**”) promulgated on 21 October 2005 by the State Administration of Foreign Exchange of the PRC and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days as of the major event, apply to the foreign exchange office for going through the procedures of modification or archival filing of the foreign exchange registration of the overseas investments. In May 2007, the State Administration of Foreign Exchange announced the implementation procedures for foreign exchange registration in accordance to Notice No. 75 in order to instruct and govern the relevant registration of domestic residents. On 25 June 2009, 25 individual shareholders of the Company completed the foreign exchange registration procedures in accordance to Notice no. 75.

Others

Regulations concerning mergers and acquisitions of domestic enterprises by foreign investors.

A. Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors.

Pursuant to the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者並購境內企業的規定》 (“**Acquisitions Provisions**”) implemented since 8 September 2006 by the Ministry of Commerce, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and State Administration of Foreign Exchange and amended on 22 June 2009 by the Ministry of Commerce, the acquisition of a domestic enterprise by a foreign investor means (1) the foreign investor purchases by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise (hereinafter referred to as “domestic enterprise”) or subscribes to the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; (2) the foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or (3) the foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise and operates the assets.

In the opinion of our PRC legal advisers, there was no action contemplating an acquisition of any domestic enterprise by foreign investors as defined in the Acquisitions Provisions during the Reorganisation. Accordingly, the Acquisitions Provisions do not apply to the Reorganisation. The Listing does not require any approval from the Ministry of Commerce and the China Securities Regulatory Commission.

B. Law of Wholly Foreign-invested Enterprises

Pursuant to the Law of the People’s Republic of China on Wholly Foreign-invested Enterprises 《中華人民共和國外資企業法》 as amended and implemented by the Standing Committee of the National People’s Congress on 31 October 2000 and the Rules for the Implementation of the Law of the People’s Republic of China on wholly Foreign-invested enterprises 《中華人民共和國外資企業法實施細則》 as amended and implemented by the State Council on 12 April 2001, a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with PRC tax law as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax has been paid), and the withdrawal may stop when the accumulated amount withdrawn reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered; undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year.

C. The Product Quality Law

Pursuant to the Product Quality Law of the People’s Republic of China 《中華人民共和國產品質量法》 as amended by the Standing Committee of the National People’s Congress on 8 July 2000 and implemented since 1 September 2000, a producer shall establish its own proper internal

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regulatory system for the management of product quality, strictly implementing position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard examinations. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and those products that have been reported by consumers or relevant organisations as defective in quality.

Our compliance with the regulations

As confirmed by our PRC legal advisers, Ausnutria Hunan has currently complied with the relevant PRC regulatory requirements and obtained all necessary approvals, permits and licences in regard to its existing operations in all material aspects. To ensure compliance with all applicable PRC laws and regulations and to prevent any breaches in the future, we have adopted the following measures to enhance our internal compliance management system.

- A. We have been approved by the relevant verifications of ISO9001:2000 and GB/T19001-2000, HACCP and GMP. We would, as required by the regulations of the PRC and, depending on the needs of our operations, promulgate, revise, announce and/or comply with all related regulations and systems of operations, and ensure that our staff members are trained and are fully aware of all regulations. Our compliance officer monitors the status of compliance of such regulations, and we also receive inspection, instruction and guidance from the verification department of such professional bodies on a regular basis.
- B. We have established a dedicated customer service department to provide services to our consumers. It deals with feedbacks and complaints from our consumers, maintains communication between us and consumers, and recommends improvements in our operations and products.
- C. We believe the strict regulations of the PRC also help to ensure the legitimate operations of our Group. The PRC government applies a stricter regulatory system, and the relevant supervisory departments of the government have the rights to oversee our operations, and undertake inspection from time to time in order to ensure our ability to comply with the requirements under the PRC laws and regulations.

SUMMARY OF HONG KONG LAWS AND REGULATIONS

There are a number of laws and regulations which are relevant to the infant food industry and the importation of milk powder into Hong Kong. In Hong Kong, the Food and Environmental Hygiene Department (“**FEHD**”) is responsible for food safety control which includes the implementation of policies and enforcement of legislation relating to food. The Customs and Excise Department is responsible for the control of the import of goods into Hong Kong.

A. *Food Safety Control*

Public Health and Municipal Services Ordinance

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance (Cap. 132) (“**Public Health Ordinance**”), and all regulations made thereunder. The basic requirement under the Public Health Ordinance is that no food intended for sale should be unfit for human consumption. There are various restrictions contained in the Public Health Ordinance, such as the prohibition of adding substances to food which may render the food injurious to health, and provisions relating to examination, labelling, advertisement and sampling of food.

Pursuant to the Public Health Ordinance, the FEHD (or any public officer empowered under the Public Health Ordinance) has the power to take samples at entry points into Hong Kong to conduct various kinds of tests such as bacteria testing and chemical analysis.

The FEHD (or any public officer empowered under the Public Health Ordinance) also has power to examine any food which is intended for human consumption, and seize and remove such food or its packaging if it appears that such food is unfit for human consumption. This power is also exercisable where there is a breach of any of the regulations formed under the Public Health Ordinance (see below under the heading “Regulations under the Public Health Ordinance”). For imported food, the FEHD may request the importer to provide all the facilities which may be necessary for the examination. Furthermore, the FEHD can prohibit or restrict the delivery of imported food for a period of not more than six days for the purpose of examining such food, and request for details of who and where the food is being delivered to.

2009 Amendments

In May 2009, certain amendments were made to the Public Health Ordinance. The Public Health and Municipal Services (Amendment) Ordinance 2009 (“**2009 Amendments**”) came into force on 8 May 2009 which empowers the Director of Food and Environmental Hygiene (the “**Authority**”) to make various orders under the new section 78B of the Public Health Ordinance.

The Code of Practice on Section 78B Orders (“**Code**”) was issued under the Public Health Ordinance and took effect on 8 May 2009, the same date on which the 2009 Amendments came into force. The Code aims at explaining the relevant powers of the Hong Kong government and sets out the steps that should be taken in order to comply with the Section 78B orders. While a breach of the Code does not impose any criminal or civil liability, the Code may be used as evidence in legal proceedings if the court considers that a provision therein is relevant.

Section 78B orders include:

- (a) prohibiting the import of food;
- (b) prohibiting the supply of food;
- (c) directing that food supplied be recalled; and
- (d) directing that food be impounded or destroyed.

In relation to an order prohibiting the import of food, the Code explains that if only food products produced by a particular overseas plant or only a particular batch of food imported are problematic, the prohibition order is likely to apply to that particular plant or that particular batch of food only. If food is being transported into Hong Kong when an order is in force, the FEHD may ban it from entry, mark and seal or seize the food. In certain circumstances, special arrangements may be made to return the food to its place of origin in its original transporting media or to direct the food to a designated place for temporary storage, for the purpose of re-exporting to its place of origin or other places acceptable to the FEHD.

The FEHD or any relevant authority can only make an order if it has reasonable grounds to believe that the making of the order is necessary to prevent or reduce a possibility of danger to public health or to mitigate the adverse consequence of a danger to public health in Hong Kong. The 2009 Amendments provide a non-exhaustive list of factors in determining whether there are reasonable grounds for making an order. These factors include information obtained from the importer or supplier of the food, and information and reports from a public analyst or from any international food or health authority.

Regulations under the Public Health Ordinance

Pursuant to the Public Health Ordinance, the FEHD or the relevant authority may make regulations in relation to the composition of food and drugs, as well as in relation to food and drugs hygiene.

Other regulations which may be important to the infant food industry include the Food and Drugs (Composition and Labelling) Regulations (Cap. 132W) (“**Composition and Labelling Regulations**”), the Preservatives in Food Regulation (Cap. 132BD), Harmful Substances In Food Regulations (Cap. 132AF) (“**Harmful Substances Regulations**”) and Dried Milk Regulations (Cap. 132R).

Dried Milk Regulations

The Dried Milk Regulations apply to dried milk in which no other substance has been added. “Dried milk” as defined in these regulations includes milk which has been concentrated in the form of solid or powder by removal of water.

There are specific requirements under these regulations for dried milk products. For example, particular types of dried milk must contain a certain percentage of milk fat, and there should not be more than 5% of moisture in the product. There is a further condition that the product (which is in powder or solid form) consists of no less than 70% of dried milk.

Composition and Labelling Regulations

The Composition and Labelling Regulations relate to the marking and labelling of certain food types. Milk powder products which are manufactured and packaged outside Hong Kong and then imported into Hong Kong may be caught under these regulations as “prepackaged food”. Prepackaged food is where the contents of the food cannot be altered without opening or changing the packaging and it is ready for presentation to the ultimate consumer. There are certain requirements that apply to prepackaged food under these regulations.

One of the main requirements is that the food must be legibly marked or labelled with its food name or designation, and which must not be false, misleading or deceptive as to the nature of the food. Specifically, where a purchaser could be misled by the omission of an indication that a food is powdered, the name of the food must include or be accompanied by such an indication.

The name and address of the manufacturer or packer also need to be indicated unless: (i) the product contains a mark or label with an indication of its country of origin, the name and registered office of the distributor or brand owner in Hong Kong, and the full address of the manufacturer or packer has been notified to the relevant authority by the Hong Kong distributor or brand owner; or (ii) the food is marked or labelled with an indication of its country of origin and with a code marking which identifies the manufacturer or packer in that country, and particulars of such code marking have been notified to the relevant authority.

Other requirements relate to the labelling of the ingredients, durability (such as the “best before” date), and net weight or volume of the food.

Harmful Substances Regulations

The Harmful Substances Regulations and its amendments in 2008, the Harmful Substances in Food (Amendment) Regulation 2008 (“**2008 Amendments**”) govern the presence of harmful substances in food imported to and sold in Hong Kong. The 2008 Amendments came into effect on 23 September 2008 after the melamine incident. Various measures have since taken place to effectively improve the control of food safety in milk powder and milk products. The Centre for Food Safety has expanded the scope of the surveillance and testing and is continuously obtaining samples of milk powder and dairy products in the market. The 2008 Amendments have put in place new provisions to prohibit inappropriate level of melamine in food. For food intended to be consumed principally by children under the age of 36 months, the maximum amount of melamine which can be present is 1 milligram per kilogram of the food.

B. *Importation*

The Import and Export Ordinance (Cap. 60) and its regulations are applicable to the general importation process in Hong Kong. The Import and Export Ordinance is aimed at providing regulation and control of the import of articles into Hong Kong, the export of articles from Hong Kong, and the handling and carriage of articles imported into Hong Kong or which may be exported from Hong Kong.

The general requirement is that persons who import any goods into Hong Kong are required to lodge with the Customs and Excise Department an import declaration within 14 days after the importation of the food. Certain documents need to be presented for customs clearance, including bill of lading or similar documents, invoice, packing list, etc.

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Under the Import and Export Ordinance, customs officers are granted certain powers in order to carry out their duties. They are given various powers in relation to the investigation, examination, and seizure of goods.

Similar to the Public Health Ordinance, the relevant authority may make specific regulations as provided by the Import and Export Ordinance for the purpose of prohibiting the import of any article and other purposes relating to import and export. Such regulations include the Import and Export (General) Regulations (Cap. 60A) and Import and Export (Removal of Articles) Regulations (Cap. 60F).

As at the Latest Practicable Date, we have imported our paediatric milk formula products into Hong Kong but have not yet commenced selling or distributing these products in Hong Kong. As advised by our Hong Kong legal advisers, we have complied with all the relevant procedural requirements relating to the importation of goods and quality control of the Customs and Excise Department and the FEHD which are necessary for permitting the sale and distribution of our paediatric milk formula products in Hong Kong.

HISTORY AND CORPORATE STRUCTURE

INTRODUCTION

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 8 June 2009.

Our Group is primarily engaged in the production, distribution and sale of high-priced and premium-priced paediatric nutrition products in the PRC, with paediatric milk formula products as our major products.

HISTORY AND DEVELOPMENT

Establishment of Ausnutria Hunan and incorporation of Ausnutria Australia and subsequent transfers of certain interests

Hunan Ausnutria Functional Dairy Company Ltd (湖南澳優功能乳品有限公司) was established in the PRC as a sino-foreign equity joint venture company on 15 September 2003 with a registered capital and total investment of RMB10 million and RMB12.8 million respectively. Its equity interests were held as to 75% by Mornring, 20% by Pearl Time Australia Pty Ltd. (澳大利亞明珠時代有限責任公司) (“**Pearl Time Australia**”) and 5% by American Functional Foodstuff respectively. Pearl Time Australia is a company incorporated in Australia on 25 June 2003 principally engaged in trading business⁽¹⁾. Pearl Time Australia held the 20% equity interests in Ausnutria Hunan on trust for Mr Wu and Mr Yan at their request before they incorporated a company in Australia to hold the relevant equity interests. The registered capital for the 20% equity interests in Ausnutria Hunan (i.e. RMB2 million) was paid by Ausnutria Australia after its incorporation.

Hunan Ausnutria Functional Dairy Company Ltd was subsequently renamed as Ausnutria Dairy (Hunan) Company, Ltd (澳優乳品(湖南)有限公司) in October 2003, which name change was approved by the competent government authorities in May 2004.

On 18 February 2004, Mr Chen and 20 other former and present employees of our Group⁽²⁾ (collectively, the “**20 employees**”), and Mornring entered into a trust agreement (the “**First Trust Agreement**”), pursuant to which Mornring agreed to hold 32% equity interests in Ausnutria Hunan in favour of Mr Chen and the 20 employees. Mr Chen and the 20 employees paid an aggregate amount of RMB3.2 million for the 32% equity interests in Ausnutria Hunan.

After Mr Wu and Mr Yan incorporated Ausnutria Australia in October 2003, they requested the shareholders of Pearl Time Australia to transfer the 20% equity interests in Ausnutria Hunan back to Ausnutria Australia. Such equity transfer was approved by the competent government authority in May 2004. After such equity transfer, the equity interests in Ausnutria Hunan were held as to 75% by Mornring, 20% by Ausnutria Australia and 5% by American Functional Foodstuff.

Notes:

- (1) Pearl Time Australia is owned by Christine Young and Carl Qur Young in the proportion of 30% and 70% respectively. Christine Young is a director of Ausnutria Australia and Carl Qur Young is an Independent Third Party.
- (2) These former and present employees of our Group comprise Zhu Zhonghua, Gong Jingming Zhu Junxiang, Xiao Guoxiong, Xiao Shihu, Dai Zhiyong, Yang Mingqing, Li Sihua, Cao Xi, Liu Yuehui, Tan Ningnan, Wu Zhangwei, Qu Zhishao, Huang Yongbi, Huang Yongcheng, Huang Mingwen, Yang Peihao, Li Wei, Liu Yubiao and Sun Jingang.

HISTORY AND CORPORATE STRUCTURE

In June 2007, the competent government authority approved the transfer of 5% equity interests in Ausnutria Hunan held by American Functional Foodstuff to Ausnutria Australia for a consideration of RMB0.5 million as Mr Wu and Mr Yan decided to make the transfer as they wished to relocate Ausnutria Hunan's research and development base from the U.S. to Australia. The consideration was determined based on the amount of registered capital contributed by American Functional Foodstuff into Ausnutria Hunan. The consideration was settled among the shareholders of Ausnutria Australia and American Functional Foodstuff. Upon completion of the equity transfer, the equity interests in Ausnutria Hunan were held as to 75% by Mornring and 25% by Ausnutria Australia.

In July 2007, the competent government authority approved the transfer of 32% equity interests in Ausnutria Hunan by Mornring to Mr Chen for a consideration of RMB3.2 million. This was because Mr Chen wished to directly hold the equity interests in Ausnutria Hunan for himself and on behalf of the 20 employees. There was no consideration paid by Mr Chen to Mornring in this transfer. Upon completion of the equity transfer, the equity interests in Ausnutria Hunan were held as to 43% by Mornring, 32% by Mr Chen and 25% by Ausnutria Australia.

On 4 July 2007, Mr Chen and the 20 employees, and Mornring entered into a termination agreement to terminate the First Trust Agreement. On the same date, Mr Chen and the 20 employees entered into another trust agreement (the "**Second Trust Agreement**"), pursuant to which Mr Chen agreed to hold 16.25% equity interests in Ausnutria Hunan as trustee in favour of the 20 employees.

Aborted transactions in respect of the sale of Ausnutria Hunan to ADY

Between about August and October 2007, Mornring, Mr Chen, Ausnutria Australia engaged into negotiations with ADY (through its investment vehicle) for the sale and purchase of 100% equity interests in Ausnutria Hunan, pursuant to which ADY (through its investment vehicle) paid a deposit of approximately RMB70 million and the parties entered into a series of agreements. In view that the equity interests in Ausnutria Hunan were held by both onshore shareholders (namely, Mornring and Mr Chen) and offshore shareholder (namely, Ausnutria Australia), the parties entered into further negotiations leading to a detailed equity transfer agreement entered into between Mornring, Mr Chen, Ausnutria Hunan and MoveUp in respect of the sale and purchase of the 75% equity interest in Ausnutria Hunan held by the onshore shareholders (the "**Equity Purchase Agreement**"). Pursuant to the Equity Purchase Agreement, MoveUp agreed to acquire the 43% and 32% equity interests in Ausnutria Hunan held by Mornring and Mr Chen respectively for a total consideration of RMB206.5 million. The consideration was determined among the parties on the basis of Ausnutria Hunan's historical financial performance, its future prospects and profitability. Mornring and Mr Chen considered that the said consideration was reasonable and thus it was in their commercial interests to realise their respective investment in Ausnutria Hunan. The consideration, net of the deposit paid by ADY (through its investment vehicle) of approximately RMB70 million, was paid by ADY (through its investment vehicle), taking the total amount of deposit paid by ADY to approximately RMB206.5 million. Pursuant to the Equity Purchase Agreement, the parties carried out steps to complete the transfer, including the obtaining of the certificate of approval and the new business licence of Ausnutria Hunan from the competent government authorities in October and November 2007 respectively (the "**Original Approval**").

The parties then entered into further negotiations regarding the details of the sale and purchase of the remaining 25% equity interests in Ausnutria Hunan held by offshore shareholder. As a result, ADY (through its investment vehicle) paid a further deposit of approximately RMB10 million in February 2008. It was agreed between the parties that ADY would acquire the entire issued share capital of

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Ausnutria Australia, being the offshore shareholder, which held the remaining 25% equity interests in Ausnutria Hunan, from Ausnutria BVI. It was also the intention of the parties that the sale and purchase of the 75% equity interests in Ausnutria Hunan pursuant to the Equity Purchase Agreement would close together and only upon the closing of the sale and purchase of the entire issued share capital of Ausnutria Australia (and hence the other 25% equity interests in Ausnutria Hunan).

In March 2008, ADY, Ausnutria BVI and Ausnutria Australia entered into an equity purchase deed (the “**Equity Purchase Deed**”) pursuant to which ADY agreed to acquire the entire issued share capital of Ausnutria Australia for a consideration of RMB87.5 million (and thereby indirectly acquiring the 25% equity interest in Ausnutria Hunan held by Ausnutria Australia). The consideration was determined on the basis of Ausnutria Hunan’s historical financial performance, its future prospects and profitability, as Ausnutria Australia’s substantial asset was its 25% equity interests in Ausnutria Hunan.

However, we understand from ADY that ADY’s directors were concerned that completion of the Equity Purchase Deed would render them unable to comply with relevant regulatory requirements regarding its obligation to ensure that the audited accounts of Ausnutria Hunan were published as part of its public filing within the requisite time frame after the closing date of the Equity Purchase Deed and Ausnutria BVI did not receive payment of the relevant consideration under the Equity Purchase Deed and the parties engaged in discussions with a view to reach a resolution. However, as the transactions had been in process for about eight months without a satisfactory closing, Ausnutria BVI served a notice of termination to ADY on 17 March 2008 to terminate the Equity Purchase Deed. As a result, the parties entered into further discussions on how to resolve the incomplete transactions.

In December 2008, MoveUp, ADY, Ausnutria Hunan, Mornring, Mr Chen and Xin Da Xin entered into a letter of intent to record their intention to terminate the Equity Purchase Agreement and the acquisition of MoveUp by Xin Da Xin at a consideration of RMB90 million. In February 2009, Mornring, Mr Chen, Ausnutria Hunan and MoveUp entered into an agreement to revoke and terminate the Equity Purchase Agreement (the “**Purchase Termination Agreement**”). Pursuant to the Purchase Termination Agreement, the relevant parties agreed to (i) terminate the transaction stipulated in the Equity Purchase Agreement; (ii) jointly apply to the competent government authorities to revoke the said transaction; (iii) re-register the 75% equity interests in Ausnutria Hunan, which was registered in the name of MoveUp, back in the names of Mornring and Mr Chen in the respective proportion of 43% and 32%; and (iv) reinstate the board composition and articles of association of Ausnutria Hunan to the original state. The parties also entered into arrangements for refund of the deposits paid in respect of the transactions by ADY/MoveUp in the aggregate amount of RMB206.5 million.

The repayment by Xin Da Xin (on behalf of Mornring and Mr Chen) of the total deposit of RMB206.5 million paid by ADY and the payment of the deposit of approximately RMB90 million for the acquisition of MoveUp by Xin Da Xin (as described below) were effected as follows: (i) payment of approximately RMB75 million by Xin Da Xin to ADY; (ii) our deposit of approximately RMB52 million into an escrow account designated by ADY; (iii) deposit by Xin Da Xin of approximately RMB170 million into the same escrow account (RMB91 million of which was lent to Xin Da Xin by us). We understand that amounts were paid into the escrow account as surety monies until the relevant governmental approvals for the termination of the incomplete transactions relating to Ausnutria Hunan and the transfer of MoveUp were granted. After the relevant approvals were granted to approve the Purchase Termination Agreement, revoke the Original Approval and approve the transfer of MoveUp to Xin Da Xin, the following payments were made: (i) release of approximately RMB170 million to ADY; (ii) return of RMB52 million from the escrow account to us; and (iii) repayment of RMB91 million from Xin Da Xin to us. We understand that Xin Da Xin had fully paid RMB296.5 million for the refund and

HISTORY AND CORPORATE STRUCTURE

consideration for acquiring MoveUp to ADY. We understand that Xin Da Xin used its cash derived from its operations to finance the refund and payment of consideration for MoveUp. As described above, we have facilitated the refund by Xin Da Xin to ADY. Part of the funds provided by us was financed by a short term bank loan of RMB160 million provided by China Construction Bank. Since the loan was obtained by us to facilitate the refund by Xin Da Xin, Xin Da Xin was responsible for the interest payment incurred by us in obtaining the short term bank loan from China Construction Bank.

Confirmations on terminations of the proposed transactions and reinstatement of shareholding of Ausnutria Hunan

In addition to the Purchase Termination Agreement in respect of the sale and purchase of the 75% equity interest in Ausnutria Hunan, ADY has provided or the parties have entered into, the following documents.

- A confirmation letter dated 20 July 2009 signed by Leng Youbin (冷友斌), the chairman of ADY, confirming that up to February 2009, ADY was still unable to complete the acquisition of the entire issued share capital of Ausnutria Australia. Since it was the intention of the relevant parties that the acquisition of 100% equity interests in Ausnutria Hunan would only be completed if both the onshore and offshore transactions were completed and in order to prevent any adverse effect on the operations of Ausnutria Hunan, ADY, Mornring, Mr Chen, Ausnutria Australia and Ausnutria Hunan entered into negotiations and agreed to apply to the competent government authority to revoke the transaction of the 75% equity interests in Ausnutria Hunan. ADY also confirmed that all of the onshore and offshore transactions in relation to Mornring, Mr Chen, Ausnutria Australia and Ausnutria Hunan were completely revoked and terminated, and all the rights and obligations in relation thereto were fully settled. ADY further confirmed that it had not enjoyed any rights or received any dividend as a shareholder of Ausnutria Hunan and had not made, and would not in the future make, any claims or initiate any legal proceedings against Ausnutria Hunan and its existing and future shareholders. Our PRC legal advisers advised us that the repayment to MoveUp is a final and conclusive settlement for the termination of Equity Purchase Agreement in respect of the 75% equity interests in Ausnutria Hunan and ADY will not have any recourse to the equity interests in Ausnutria Hunan.
- ADY, Ausnutria BVI and Ausnutria Australia entered into a deed of release dated 5 August 2009, acknowledging and confirming that the transaction in relation to the entire issued share capital of Ausnutria Australia was terminated and that all the parties' duties and obligations as stated in the Equity Purchase Deed were terminated as of 17 March 2008. Our Australian legal advisers advised that the Equity Purchase Deed has been terminated accordingly.

In March 2009, the Department of Commerce of Hunan Province (湖南省商務廳) issued an approval letter (the "**Termination Approval**") which revoked the Original Approval and the board alteration of Ausnutria Hunan and approved the reinstatement of the articles of association of Ausnutria Hunan to the original state prior to the Equity Purchase Agreement in October 2007. Accordingly, the transfer of 43% and 32% equity interests in Ausnutria Hunan respectively held by Mornring and Mr Chen to MoveUp were void from October 2007. Mornring and Mr Chen were deemed as shareholders who continued to hold an aggregate of 75% equity interests in Ausnutria Hunan from October 2007 to the date of cancellation. This was further confirmed by an approval from the Administration for Industry & Commerce of Hunan Province in March 2009 to cancel its registration of the transfer of 43% and 32% equity interests in Ausnutria Hunan respectively held by Mornring and Mr Chen to MoveUp and reinstate the registration status to that before 4 November 2007 i.e. Mornring, Mr Chen and Ausnutria

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Australia owned 43%, 32% and 25% equity interests in Ausnutria Hunan respectively. The new certificate of approval and business licence of Ausnutria Hunan were issued on 20 March 2009 and 26 March 2009 respectively.

As advised by our PRC legal advisers, we have obtained approval from the Department of Commerce of Hunan Province (湖南省商務廳) and have carried out the relevant registration procedures with the Administration for Industry & Commerce of Hunan Province in order to effect the termination and the reinstatement of equity interests of Ausnutria Hunan to the original state before the purported disposal to MoveUp in October 2007. Our PRC legal advisers have further advised that we have obtained all the approvals and carried out all the registrations necessary to effect the above termination and reinstatement which are legal and valid and therefore the transfer of the 75% equity interests in Ausnutria Hunan by Mornring and Mr Chen to MoveUp was void from the outset.

The board of directors of Ausnutria Hunan had changed as a result of entering into the Equity Purchase Agreement. Mr Wu and Mr Yan ceased to be directors of Ausnutria Hunan from 29 October 2007. On the same date, Liu Hua (劉華) was appointed to the board of Ausnutria Hunan, and Leng Youbin (冷友斌) was appointed as the chairman of the board. Judy F. Tu (塗芳而) was also appointed as a director and the chairman of the board of Ausnutria Hunan (replacing Leng Youbin) on 17 January 2008. Leng Youbin, Liu Hua and Judy F. Tu were directors appointed by MoveUp. Although the directors appointed by MoveUp attended the board meetings of Ausnutria Hunan, they authorised Mr Chen to exercise their directorship power and the management function in Ausnutria Hunan by signing authorisation letters in favour of Mr Chen, and they did not participate in the day-to-day management of Ausnutria Hunan. As a result, the day-to-day management of Ausnutria Hunan was carried out by Mr Chen and other senior management throughout the Track Record Period. These three directors also confirmed that they would support the decisions made by Mr Chen within his authority in the exercise of his management function. As advised by our PRC legal advisers, the signed authorisation letters in favour of Mr Chen were valid and legally enforceable between the parties.

Acquisition of MoveUp by Xin Da Xin from ADY

Together with the arrangement to resolve and terminate the series of incomplete transactions amicably, Mornring, Mr Chen, Ausnutria BVI and ADY engaged in discussions about the sale and purchase of MoveUp at around the same time when engaging in discussions to terminate the incomplete transactions in relation to Ausnutria Hunan and Ausnutria Australia. Mornring, Mr Chen, Ausnutria BVI and ADY agreed that Xin Da Xin would purchase the entire equity interests of MoveUp for a consideration of RMB90 million pursuant to agreements entered into in February and April 2009. The transaction was completed in about April 2009. The consideration was determined by reference to the then net asset value of MoveUp, which was valued at approximately US\$8.5 million as of 31 December 2008, according to ADY's public information. Xin Da Xin also considered the following factors when deciding to acquire MoveUp, namely the location of MoveUp in Heilongjiang province as a suitable area with good pasture conditions for potential dairy cattle nurturing, the fact that at the time the Group procured a significant portion of milk powder through MoveUp, and the potential tax benefits (as described below). In addition, when accepting the consideration of RMB90 million, Xin Da Xin also took into account the remainder of the deposit paid by ADY in February 2008 which was not refunded (i.e. RMB10 million) as well as the need to proceed with the termination of the series of transactions concerning the transfer of equity interests in Ausnutria Hunan described above and reinstating the shareholding and board members of Ausnutria Hunan swiftly in order to safeguard the normal operations of Ausnutria Hunan.

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Notwithstanding the potential advantages, to facilitate the Listing, our Directors confirmed that there is currently no concrete plan for our Group to develop business in the PRC through acquiring MoveUp or otherwise source milk powder from or develop dairy farm in Heilongjiang province and our Directors also understand that Xin Da Xin currently does not have any concrete plan to develop dairy business in the PRC by itself, on the basis that any such business would constitute a competing business of our Group.

Reorganisation for the purposes of Listing

In May 2009, the transfers by Mornring and Mr Chen of their respective 43% and 16% equity interests in Ausnutria Hunan to Xin Da Xin for a consideration of RMB150.5 million and RMB56 million respectively were approved by the competent government authority. The consideration for these transfers was determined by reference to the amounts that Xin Da Xin had to refund to ADY on behalf of Mornring and Mr Chen. Upon completion of the equity transfers, the equity interests in Ausnutria Hunan were held as to 59% by Xin Da Xin, 25% by Ausnutria Australia and 16% by Mr Chen. As Mr Chen had transferred 16% equity interests in Ausnutria Hunan to Xin Da Xin in the above transfer, on 6 May 2009, Mr Chen and the 20 employees entered into a supplemental trust agreement (the “**Supplemental Agreement**”) to reflect the trust arrangement after the above transfer. Pursuant to the Supplemental Agreement, Mr Chen held 8.125% equity interests in Ausnutria Hunan as trustee in favour of the 20 employees.

In June 2009, the transfers by Xin Da Xin and Mr Chen of their respective 59% and 16% equity interests in Ausnutria Hunan to Ausnutria Hong Kong for a consideration of US\$11.8 million (or equivalent to approximately RMB80.6 million) and US\$3.2 million (or equivalent to approximately RMB21.9 million) respectively were approved by the competent government authority. The consideration for these transfers was determined by reference to the net asset value of Ausnutria Hunan as of 31 December 2008. Upon completion of the equity transfers, the equity interests in Ausnutria Hunan were held as to 75% by Ausnutria Hong Kong and 25% by Ausnutria Australia.

As Mr Chen had transferred 16% equity interests in Ausnutria Hunan to Ausnutria Hong Kong in the above transfer, Mr Chen and the 20 employees entered into a termination agreement (the “**Second Termination Agreement**”) in June 2009. Pursuant to the Second Termination Agreement, the parties agreed to terminate the Second Trust Agreement and the Supplemental Agreement.

As advised by our PRC legal advisers, all the equity transfers and the trust arrangements described in this section in relation to Ausnutria Hunan are valid and legally enforceable according to the relevant PRC laws and regulations.

Procurement of milk powder by our Group through MoveUp

At the time we entered into the Equity Purchase Agreement and the Equity Purchase Deed, we anticipated that after MoveUp acquired 100% equity interests in Ausnutria Hunan, both MoveUp and Ausnutria Hunan would belong to the same enlarged group. As a result, Mr Chen (as our chief executive officer) considered that it would be in the interest of the anticipated enlarged group to procure milk powder through MoveUp in order to take advantage of certain tax benefits granted to MoveUp by the local government. MoveUp was granted preferential tax treatments during the period from 1 November 2007 to 31 December 2010 by the government in Heilongjiang province. We understand that the government in Heilongjiang province will determine the amount of tax rebate to be given to MoveUp (in terms of value added tax and income tax) from time to time subject to the amount of tax to be paid by

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MoveUp. As a result, we procured some milk powder through MoveUp during each of 2007, 2008 and through to May 2009. While the Purchase Termination Agreement was entered into in February 2009, we only terminated our procurement of milk powder from MoveUp in May 2009 as we were executing orders which were already placed. Our PRC legal advisers advised that as there was no association relationship between MoveUp and us during the period from entering into the Equity Purchase Agreement to the date of Termination Approval, the transactions between MoveUp and us during the relevant periods do not constitute transfer pricing under PRC law. A similar confirmation has been obtained from the competent local tax administration bureau.

For details of the amount of procurement of milk powder we made through MoveUp and the amount we paid to MoveUp during 2007, 2008, and the six months ended 30 June 2009, please refer to the section headed “Financial Information” in this prospectus.

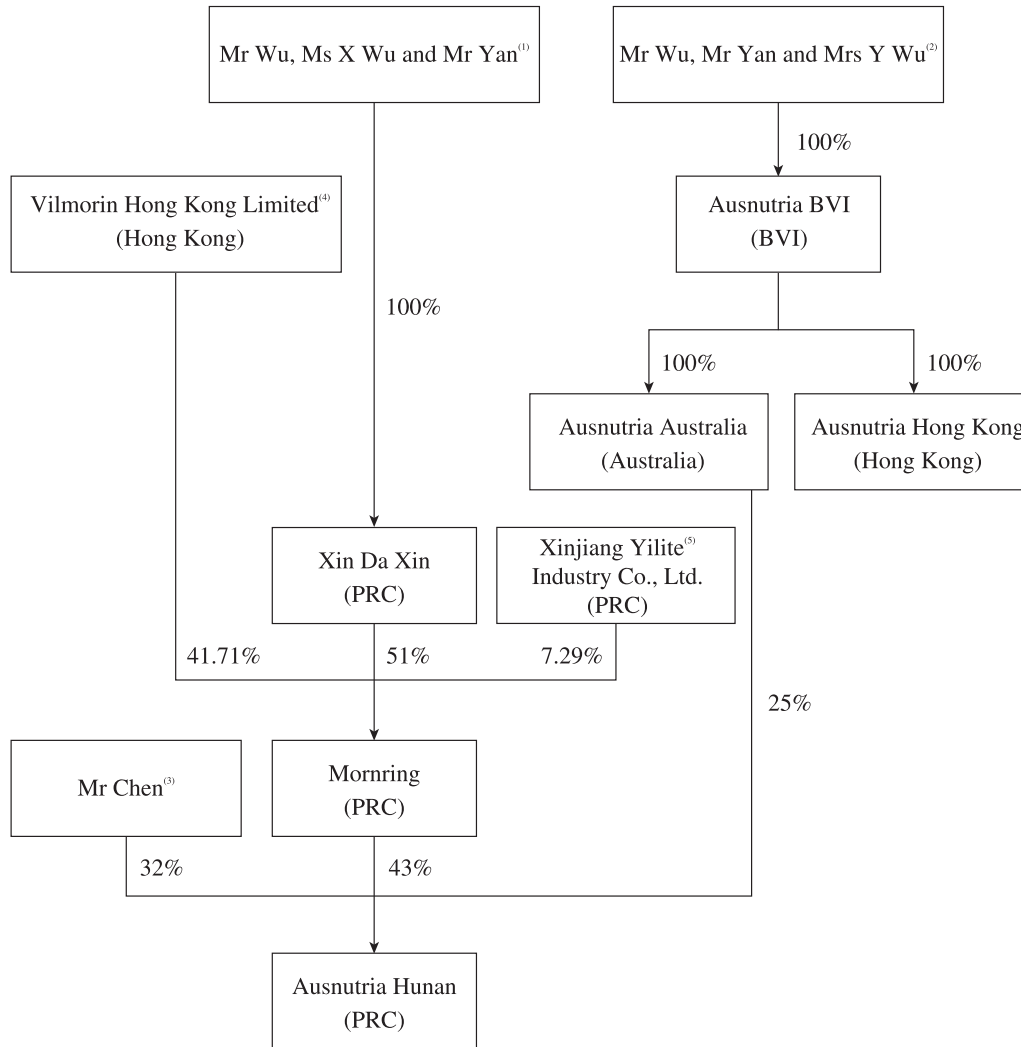
The following timeline illustrates our major business development milestones and achievements:

- | | |
|----------------|---|
| September 2003 | ● establishment of Ausnutria Hunan |
| November 2003 | ● commencement of purchase of Murray Goulburn’s products and launch of our first product series of paediatric milk formula — A-choice Series in China |
| July 2005 | ● launch of our second product series of paediatric milk formula — Best-choice Series in China |
| September 2006 | ● Allnutria Series products are permitted by Dairy Australia (a dairy industry organisation in Australia) to use the “Dairy Good” logo in China |
| September 2006 | ● cooperation with Tatura to develop our third product series of paediatric milk formula — Allnutria Series |
| | ● establishment of strategic cooperation with Tatura for development of paediatric nutrition products |
| December 2006 | ● launch of our third product series of paediatric milk formula — Allnutria Series in China |
| November 2007 | ● cooperation with Tatura to develop the Allnutria Series milk formula for expectant or nursing mothers |
| September 2008 | ● the outbreak of melamine incident in China — CCTV announced the first batch of paediatric milk formula manufacturers whose products had not been contaminated by melamine, and we were among the 87 paediatric milk formula manufacturers mentioned in the announcement |

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANISATION

The following chart sets out our corporate structure prior to the commencement of the Reorganisation:



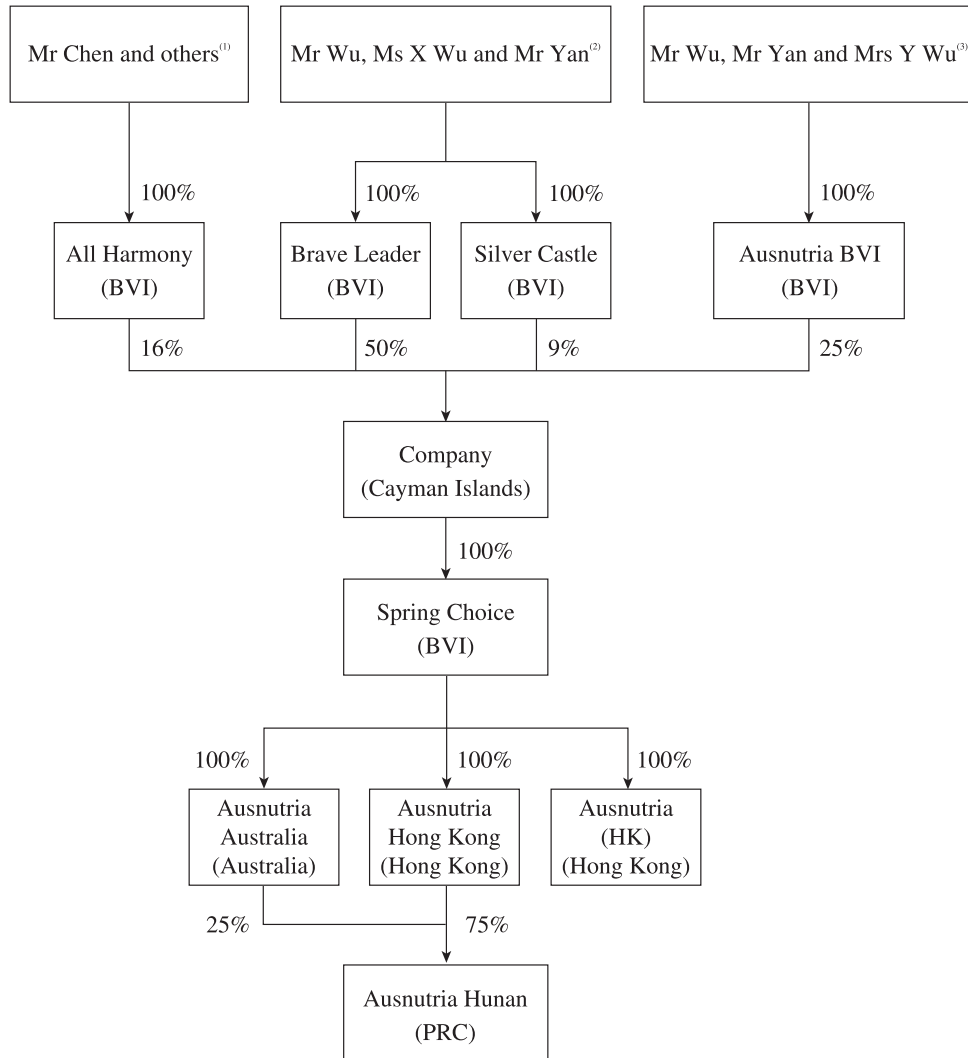
Notes:

- (1) Mr Wu, Ms X Wu and Mr Yan held 59.57%, 30.67% and 9.76% equity interests in Xin Da Xin, respectively.
- (2) Mr Wu, Mr Yan and Mrs Y Wu held 60%, 30% and 10% shareholding in Ausnutria BVI, respectively.
- (3) Mr Chen held an aggregate of 32% equity interest in Ausnutria Hunan for himself and on trust for 20 former and present employees of our Group, namely, Mr Chen (15.75%), Zhu Zhonghua (1%), Gong Jingming (1%), Zhu Junxiang (0.5%), Xiao Guoxiong (1%), Xiao Shihu (1.75%), Dai Zhiyong (1%), Yang Mingqing (0.5%), Li Sihua (1%), Cao Xi (2%), Liu Yuehui (1%), Tan Ningnan (1%), Wu Zhangwei (0.5%), Qu Zhishao (0.5%), Huang Yongbin (0.5%), Huang Yongcheng (1%), Huang Mingwen (0.5%), Yang Peihao (0.25%), Li Wei (0.25%), Liu Yubiao (0.5%) and Sun Jingang (0.5%).
- (4) Vilmorin Hong Kong Limited is a company incorporated in Hong Kong on 19 August 2006. It is an investment holding company and its sole shareholder is Vilmorin & CIE, a company incorporated in France whose shares are listed on the Paris Stock Exchange. Vilmorin & CIE is an Independent Third Party. Vilmorin Hong Kong Limited owns 46.5% equity interests in Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd (長沙新大新威邁農業有限公司) with the other shareholder being Xin Da Xin.
- (5) Xinjiang Yilite Industry Co., Ltd is a company whose shares are listed on the Shanghai Stock Exchange and is an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

The companies comprising our Group underwent the Reorganisation to rationalise our corporate structure in preparation for the Listing, and as a result, our Company became the holding company of our Group. Details of the Reorganisation are set out in the section headed “Appendix VI — Statutory and General Information — Corporate reorganisation” in this prospectus.

The following chart sets out our corporate structure immediately following completion of the Reorganisation and prior to the Global Offering:

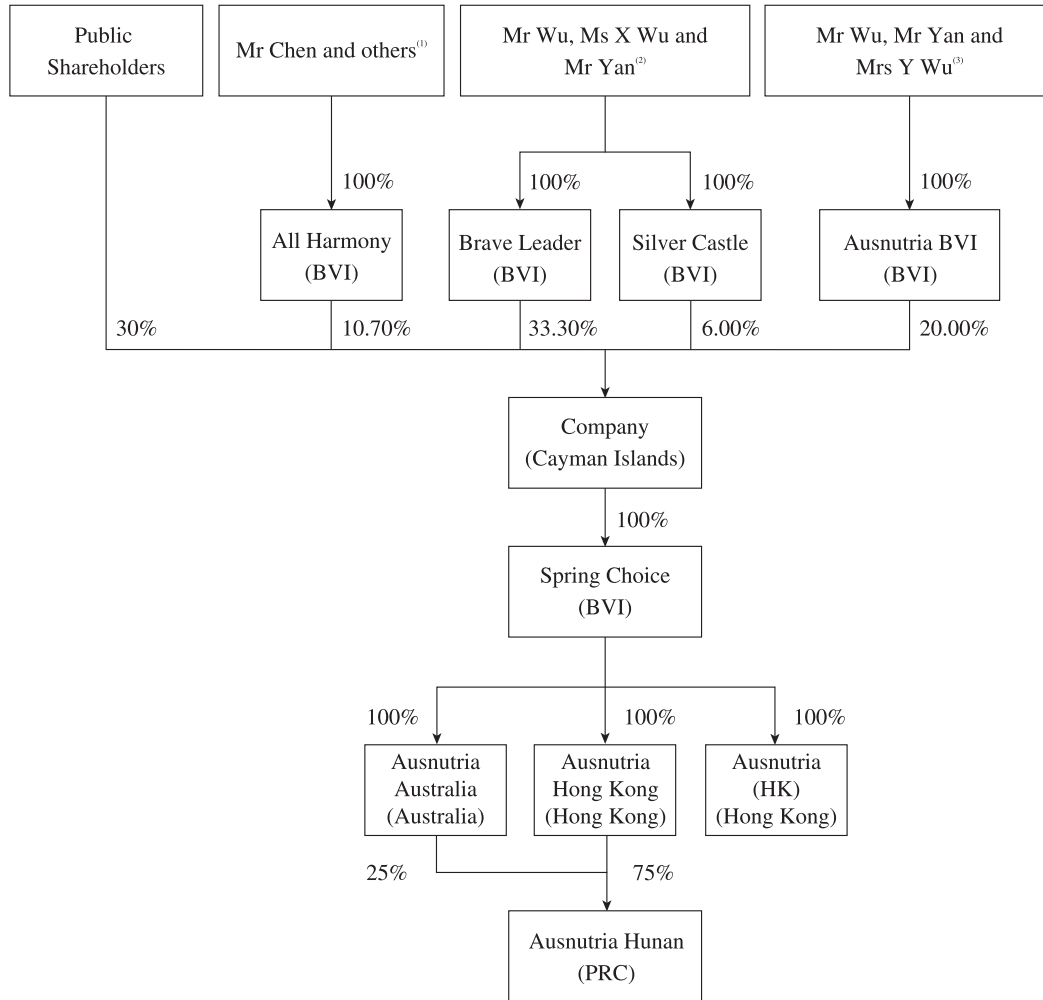


Notes:

- (1) All Harmony is owned by Mr Chen (49.22%) and 20 former and present employees of our Group, namely Zhu Zhonghua (3.125%), Gong Jingming (3.125%), Zhu Junxiang (1.56%), Xiao Guoxiong (3.125%), Xiao Shihu (5.49%), Dai Zhiyong (3.125%), Yang Mingqing (1.56%), Li Sihua (3.125%), Cao Xi (6.25%), Liu Yuehui (3.125%), Tan Ningnan (3.125%), Wu Zhangwei (1.56%), Qu Zhishao (1.56%), Huang Yongbin (1.56%), Huang Yongcheng (3.125%), Huang Mingwen (1.56%), Yang Peihao (0.78%), Li Wei (0.78%), Liu Yubiao (1.56%) and Sun Jingang (1.56%).
- (2) Both Brave Leader and Silver Castle are owned by Mr Wu, Ms X Wu and Mr Yan in the same shareholding proportion of 59.57%, 30.67% and 9.76% respectively.
- (3) Ausnutria BVI is owned by Mr Wu, Mr Yan and Mrs Y Wu in the shareholding proportion of 60%, 30% and 10%, respectively.

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The following chart sets out our corporate structure immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any Shares that may be issued under the Share Option Scheme):



Notes:

- (1) All Harmony is owned by Mr Chen (49.22%) and 20 former and present employees of our Group, namely Zhu Zhonghua (3.125%), Gong Jingming (3.125%), Zhu Junxiang (1.56%), Xiao Guoxiong (3.125%), Xiao Shihu (5.49%), Dai Zhiyong (3.125%), Yang Mingqing (1.56%), Li Sihua (3.125%), Cao Xi (6.25%), Liu Yuehui (3.125%), Tan Ningnan (3.125%), Wu Zhangwei (1.56%), Qu Zhishao (1.56%), Huang Yongbin (1.56%), Huang Yongcheng (3.125%), Huang Mingwen (1.56%), Yang Peihao (0.78%), Li Wei (0.78%), Liu Yubiao (1.56%) and Sun Jingang (1.56%).
- (2) Both Brave Leader and Silver Castle are owned by Mr Wu, Ms X Wu and Mr Yan in the same shareholding proportion of 59.57%, 30.67% and 9.76%, respectively.
- (3) Ausnutria BVI is owned by Mr Wu, Mr Yan and Mrs Y Wu in the shareholding proportion of 60%, 30% and 10%, respectively.

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As advised by our PRC legal advisers, Ausnutria Hunan was established as a foreign-invested company by Mornring, American Functional Foodstuff and Pearl Time Australia in September 2003, and was not acquired through any merger and acquisition transaction. During the Reorganisation, we have not been engaged in any transaction which would fall under the definition of “mergers and acquisitions of domestic enterprise by foreign investor” in the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 effective from 8 September 2006. Accordingly, our PRC legal advisers advised that the Provisions were not applicable to the Reorganisation relating to the PRC subsidiary of our Group.

SHAREHOLDINGS IN OUR SUBSIDIARIES

The following table sets forth further information on shareholdings in all of our subsidiaries.

<u>Name</u>	<u>Date of incorporation (place of incorporation)</u>	<u>Principal business</u>	<u>Direct Interests</u>
Ausnutria Hunan	15 September 2003 (PRC)	Operating subsidiary for the production, distribution, sales and marketing of high-priced and premium-priced paediatric nutrition products in the PRC market	—
Ausnutria Australia	7 October 2003 (New South Wales, Australia)	Investment holding	Ausnutria Hunan (25%)
Ausnutria Hong Kong	25 January 2007 (Hong Kong)	Investment holding	Ausnutria Hunan (75%)
Ausnutria (HK)	3 November 2008 (Hong Kong)	Investment holding	—
Spring Choice	22 April 2009 (BVI)	Investment holding	Ausnutria Australia (100%), Ausnutria Hong Kong (100%), Ausnutria (HK) (100%)

HISTORY AND CORPORATE STRUCTURE

BRIDGE LOAN

On 18 July 2009, All Harmony, Brave Leader and Silver Castle (together the “**Borrowers**”) entered into a facility agreement with BOCI Leveraged & Structured Finance Limited (the “**Arranger**”) for the provision of a bridging loan in a principal amount of US\$16.5 million (“**Principal Amount**”), which was secured by guarantees, an account charge and a share pledge provided by the Borrowers and some of the companies in our Group. Set out below is a summary of the principal terms of the bridging loan:

Arranger	:	BOCI Leveraged & Structured Finance Limited
Lender	:	BOC International Holdings Limited and/or its subsidiaries
Borrowers	:	All Harmony, Brave Leader and Silver Castle
Principal Amount	:	US\$16.5 million
Reference Rate	:	the higher of LIBOR or the Lender’s cost of funds
Interest Rate	:	Reference Rate plus Margin
Margin	:	4% for the first six months; and 8% thereafter
Final Maturity Date	:	twelve months from the date of drawdown
Purpose of the bridging loan	:	to ultimately finance the acquisition of the 75% equity interests in Ausnutria Hunan
Repayment	:	full repayment on Final Maturity Date
Securities	:	guarantees, an account charge and a share pledge provided by some of the companies in our Group

According to the facility agreement and other relevant securities documents, the securities provided by our Group to secure the bridge loan will be released immediately prior to the Listing. The bridge loan will be repaid shortly after the Listing and the funding of repayment of the bridge loan will be sourced from proceeds raised by the Selling Shareholders from their sale of the Sale Shares as part of the Global Offering.

OVERVIEW

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

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

We currently sell three different series of paediatric milk formula products, namely, A-choice Series, Best-choice Series and Allnutria Series. Each of these series of products is designed to target consumers of high-priced and/or premium-priced paediatric milk formula products. Our A-choice Series of products also include specialty formula products for consumers with special needs, such as for premature or low birth-weight infants. All our products are marketed and sold under our own “Ausnutria” family of brands, which we believe are recognised for Australian milk powder based paediatric milk formula in the PRC market.

During the Track Record Period, our paediatric milk formula products were subject to the following processes:

- we import milk powder that is produced by Australian dairy producers according to specifications provided by us. The imported milk powder undergoes our production process which primarily involves the mixing, bacteria killing and purification and other quality control processes. The milk powder is imported in bulk-bag form and is used to produce our A-choice Series and Best-choice Series paediatric milk formula in small foil bag and can forms for retail sale;

Notes:

- (1) According to data issued by Euromonitor International in June 2009, we ranked 13th based on sales value amongst paediatric milk formula producers in China in 2008. Euromonitor International is an Independent Third Party and we did not commission the preparation of the data which we purchased from Euromonitor International. Based on the information from the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (國家質量監督檢驗檢疫總局) as of September and October 2008, there are 109 paediatric milk formula producers in operation in China and approximately 290 standard milk formula and other milk formula producers in China respectively.
- (2) As there is no official industry classification, such classification is determined based on our Directors’ knowledge and experience as well as our market research data. For further information, please refer to the section headed “Industry Overview — Market Segment in the PRC Paediatric Milk Formula Market” in this prospectus.

BUSINESS

- our Allnutria Series paediatric milk formula is produced by Tatura and we import the paediatric milk formula in can form ready for retail sale as well as in bulk-bag form. We do not undertake any further processing with respect to the Allnutria Series paediatric milk formula imported in can form, although the product does undergo our quality control process before it is sold to distributors. The milk powder imported in bulk-bag form undergoes our production process to be produced into Allnutria Series paediatric milk formula in small foil bag form for retail sale. The Allnutria Series paediatric milk formula is a product of our research and development efforts in conjunction with Tatura. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively; and
- the wholesale distribution and sale of our paediatric milk formula products (whether produced or imported by us for direct resale) to distributors through an extensive distribution network across 20 provinces, four autonomous regions and four municipalities in the PRC. These distributors further distribute and sell our products to retail outlets such as department stores, supermarkets and babies and parenting specialty stores throughout the PRC. We have also appointed an agent to distribute our products online via a website operated by an independent online shopping service provider.

During the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our total revenue was RMB93.7 million, RMB186.5 million, RMB405.2 million and RMB321.0 million respectively, and our profit attributable to owners of our Company during the same periods was RMB11.9 million, RMB22.4 million, RMB70.5 million and RMB65.2 million respectively.

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

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

We seek to increase consumer awareness of our brand and products through advertising and promotional activities. We conduct nationwide marketing campaigns through television advertising and other media. Our marketing team also uses telemarketing strategies to advertise our products and make promotional offers. In addition to our marketing activities, our distributors are responsible for regional marketing efforts, including advertising in retail outlets and arranging paediatric nutrition education seminars.

COMPETITIVE STRENGTHS

We believe our success to date and potential for future growth can be attributed to a combination of our competitive strengths, including the following:

Recognised brand name for high-priced and premium-priced paediatric nutrition products from Australia

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

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

Efficient selling and distribution model

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

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

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

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

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

Experienced and capable management team

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

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

Innovative business strategies and Australian sourced products

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

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

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

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

We focus our research and development efforts in formulating high-priced and premium-priced paediatric nutrition products to capture the future growth in this market. For example, we jointly developed the Allnutria Series with Tatura to capture the premium-priced paediatric milk formula market in the PRC. Our Allnutria Series is one of the few paediatric milk formulas in the PRC to split the first stage of paediatric development (i.e. Stage 1 for new born infants up to 12 months of age) into two stages (i.e. Stage 1 for new born infants up to 100 days and Stage 2 for infants aged from 100 days to 180 days). This extra breakdown of the traditional Stage 1 classification and corresponding specialised formulations for the two stages are believed to further enhance the infant's neurological and biological development. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively. Our Allnutria Series has proven to be a great success and has contributed to a large proportion of the sales revenue of our Group. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the sales revenue from Allnutria Series products amounted to RMB2.9 million, RMB36.5 million, RMB161.0 million and RMB143.8 million respectively, representing 3.2%, 19.5%, 39.8% and 44.8% of the total revenue of our Group during the respective periods.

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

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Maintaining stringent quality controls

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

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

BUSINESS STRATEGIES

Our goal is to strengthen our position as a leading paediatric milk formula company in the PRC market and expand our market share in the PRC. We plan to accomplish our goal through the following strategies:

Reinforcing and strengthening our relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to support our diversification

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

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

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

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

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

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

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

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

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

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

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

Enhancing our focus and efforts on research and development

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

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

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

Improving our production facilities and expanding our storage capacity

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

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

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Evaluating the opportunities for upward integration to secure our milk powder supplies by investing in cattle farms or milk powder producers or cooperating with international institutions that produce milk powder

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

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

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

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

PRODUCTS

Overview

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

Our products can be broadly classified into two categories:

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

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

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

Paediatric milk formula

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

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

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

A-choice Series (A選系列)



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

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

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

Best-choice Series (優選系列)



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

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

Allnutria Series (能力多系列)



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

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

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

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

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

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

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

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

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

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

Note:

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

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

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

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

SUPPLY OF MILK POWDER AND OTHER RAW MATERIALS

Milk powder

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

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

We procure our supplies of milk powder produced by Tatura and Murray Goulburn through the PRC trading companies which are Independent Third Parties. The supply from Tatura is procured according to the long term supply agreement we entered into with Tatura. We believe that the PRC trading companies are more familiar with the relevant import and customs clearance procedures than us and thus our Directors believe that it is more efficient to appoint them to conduct these procedures on our behalf. We generally pay the PRC trading companies fees ranging from approximately 0.6%–3.0% of the total value of goods imported by the relevant PRC trading companies. We paid aggregate fees of RMB80,000, RMB738,000 and nil to the PRC trading companies in 2006, 2007 and 2008, respectively and aggregate fees of RMB145,000 during the six months ended 30 June 2009. For the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the volume of milk powder we procured through the PRC trading companies represented approximately 100%, 86.8%, 12.0% and 21.8% of the total volume of milk powder procured by us respectively.

Note:

(1) Other paediatric nutrition products comprise rice cereals.

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

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

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

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

Our supply relationship with Tatura

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

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

The supply agreement may also be terminated:

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

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

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

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

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

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

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

Our supply relationship with Murray Goulburn

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

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

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

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

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Other raw materials

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

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

Suppliers

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

PRODUCTION PROCESS AND FACILITIES

Production facilities and production capacity

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

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Production processing

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

	<u>For the financial year ended 31 December</u>			<u>For the six months end</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>30 June 2009</u>
	Total amount of sales (RMB'000)			
A-choice Series (in foil bags)	26,056	27,375	40,514	19,499
A-choice Series (in cans)	16,878	10,812	18,822	14,334
Best-choice Series (in foil bags)	13,197	36,440	75,741	63,099
Best-choice Series (in cans)	31,531	70,369	98,179	73,989
Allnutria Series (in foil bags)	—	—	2,985	18,791
Allnutria Series (in cans)	2,942	36,531	158,057	125,056

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

One of the key focus of our research and development department is to conduct ongoing research into paediatric nutrition, including the constituents of mother's breast milk, in order to improve our existing product series and to develop new products. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively. We also cooperate with international paediatric milk formula manufacturers for the research and development of paediatric milk formulas. For example, the Allnutria Series was jointly developed by Tatura and us in 2006. Such research and development activities are integral to our operations, and we consider such activities to be part of our production process of paediatric milk formula. We also conduct market surveys and research to ensure that we obtain the latest data on consumer preferences and market sentiment for paediatric milk formula products.

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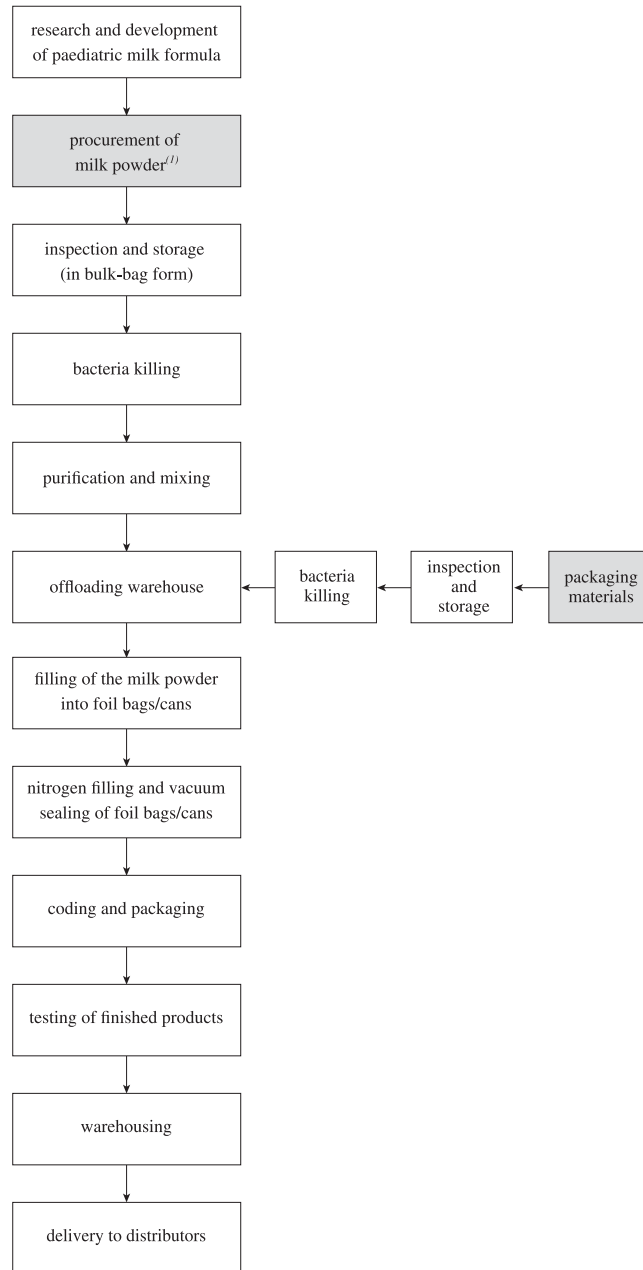
Once the milk powder has passed the CIQ inspection in the PRC and arrived at our plant, a random sample is taken for further inspection to ensure that it meets our quality standards. The milk powder then undergoes a bacteria killing procedure by way of processing the milk powder through a machine which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

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

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

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



Note:

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

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

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

Notes:

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

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

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

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

Repair and Maintenance

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

INVENTORY MANAGEMENT

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

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

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

AWARDS, CERTIFICATES, ACCREDITATIONS, PERMITS AND REGISTRATIONS

Awards, Certificates and Accreditations


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

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

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

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

SALES AND DISTRIBUTION

Distribution network

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

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

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

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The map below shows the coverage of our distribution network:



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

Standard distribution agreement

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

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

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

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

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

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

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

Relationships with distributors

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

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

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

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

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Sales

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

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

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

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



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

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

BRANDING AND MARKETING

Branding

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

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

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

Marketing

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

Our direct marketing activities

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

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

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

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

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

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

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

Marketing activities by our distributors

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

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

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

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

QUALITY CONTROL

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

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

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

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

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

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

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

Milk powder which is imported in can form ready for retail sale will also need to undergo export inspection at the Australian border and AQIS will issue the relevant certifications to indicate that they have complied with the relevant laws and regulations in Australia. Upon arrival in China, customs

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

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

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

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

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

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

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

The Melamine Incident

In September 2008, the paediatric milk formula of a number of large domestic dairy products manufacturers were found to contain melamine, causing infants to develop kidney stones, and affecting several thousands of children in the PRC. The melamine incident undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in purchases and in turn a decrease in production volume. Consumers shifted their purchases from domestically sourced paediatric milk formula products to international brands and domestic brands which sourced milk powder overseas. This change benefited us as our products are produced from high quality milk powder imported from Australia. We recorded a substantial increase in revenue for several months immediately after the melamine incident. However, the Directors are of the view that the increase in revenue due to the melamine incident may not be sustainable as it is based on the effect of one single incident. As consumers became more cautious of product quality and reliability after the melamine incident we continued to strengthen our consumers' confidence in our products by enhancing our quality control system over our operations, from the sourcing of our milk powder, production, packaging, inventory storage, to distribution of our products to distributors. This can be evidenced by the issuance of several awards and certificates to us in the first half of 2009. Please refer to the section headed "Business — Awards, Certificates, Accreditations, Permits and Registrations" in this prospectus for the details of the relevant awards and certificates. We have also launched more marketing and promotional activities to advertise that our milk powder is sourced from Australia, as we believe the Australian dairy industry has a good reputation for the high quality of its dairy products, technological and product innovation and strict quality controls. These marketing activities help to promote brand recognition of our products and strengthen consumers' confidence in our products.

The Enterobacter Sakazakii Incident

In June 2008, the General Administration of Customs of the PRC examined 8.9 tons of Allnutria Series milk powder from Tatura which arrived at the PRC customs, which were found to contain enterobacter sakazakii. According to the long term supply agreement with Tatura, Tatura is responsible for the products during their transportation to our designated ports. We returned the milk powder to our supplier immediately upon such discovery. We conducted a thorough investigation into the incident and found that the milk powder packaging had been contaminated during the transportation process from our supplier to the PRC. The contaminated milk powder did not reach our plant nor was it offered for sale by us or our distributors to the public in the PRC. However, we understand that subsequent media speculation wrongfully alleged that our products sold in the PRC were contaminated with enterobacter sakazakii. As such wrongful allegations had a negative impact on our brand image, we responded instantly and robustly in objecting to the false media claims, and assured the public that our products sold in the PRC satisfied all health and quality standards and were not contaminated with enterobacter sakazakii. In support of the safety and quality of our products, ACSIQ issued two clarification

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announcements on this incident. There were no penalties imposed on us for this incident and our results of operations were not affected. We have communicated with Tatura and ensured that it would carefully select transportation providers thereafter to prevent similar incidents from reoccurring in the future.

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

COMPETITION

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

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

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

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

Technological innovation: The paediatric milk formula industry is still in the early stages of development in China, whilst the industry has already matured in other foreign countries. The international paediatric nutrition product manufacturers develop their paediatric milk formulas to suit the different ages and requirements of infants and toddlers, eliminating elements in raw milk which are not suitable for infants and toddlers and adding nutritional ingredients to mirror the constituent components of mother’s breast milk in order to bring their paediatric milk formulas closer to mother’s breast milk.

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Due to our strong research and development capabilities, close collaboration with international research and development institutions and manufacturers, we believe the technological processes used to produce our paediatric milk formula are comparable with the processes adopted by international brands. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to the food technology industry. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively.

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

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

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

RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

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



With an increase in the number and costs of our research and development projects in recent years, we expect to place an increasing amount of resources on research and development. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.73%, 0.45%, 0.25% and 0.12% of our total revenue respectively.

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

INTELLECTUAL PROPERTY RIGHTS

Our paediatric milk formulas and intellectual property rights are of fundamental importance to our business as we rely on our paediatric milk formulas to produce unique paediatric milk formula products, and we rely on our intellectual property rights, namely our trademarks, to distinguish our products from other producers which have similar paediatric milk formulas. Our paediatric milk formulas are jointly developed with other parties. We have not made patent applications for our paediatric milk formulas, as we understand that many stages of our production process and some elements of our paediatric milk formula products involve proprietary know-how, technology or data that are not protectable by patents. Further, as details of the ingredients and nutrition contents of our paediatric milk formula products are required by applicable regulations to be listed on the packaging of the paediatric milk formula products, the information is accessible by the general public.

Brand names and trademarks

The brand names and trademarks under which our products are marketed and sold are also important to our business. As at the Latest Practicable Date, we have 11 material registered trademarks and had made 13 material trademark applications of different classes in China, Hong Kong and Australia for our brands and sub-brands. We believe that these trademark registrations and applications will strengthen our brand name and are consistent with our business strategy to expand our future product portfolio. We market our major products under the “澳优” and “” trademarks. The “澳优” trademark was recognised as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province for dairy products in December 2006 for a period of three years. The other trademark, “”, has been recognised as a Hunan province famous trademark by Administration for Industry & Commerce of Hunan province in 2008 for a period of three years. Further details of our intellectual property portfolio are set out in the section headed “Appendix VI — Statutory and General Information — Our Intellectual Property Rights” in this prospectus.

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

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

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

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

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

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

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

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

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

INSURANCE

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

PROPERTIES

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

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

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

ENVIRONMENTAL AND PRODUCTION SAFETY MATTERS

Environmental matters

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

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

Production safety matters

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

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

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

LEGAL PROCEEDINGS

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Immediately upon completion of the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), Brave Leader (which is controlled by Mr Wu) is entitled to exercise, or control the exercise of, 30% or more voting rights in general meetings of our Company. Therefore, our Controlling Shareholder is Mr Wu. Further details of the shareholding interest of our Controlling Shareholder are set out in the section headed “Substantial Shareholders” in this prospectus.

Independence from our controlling shareholder

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

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

CONNECTED TRANSACTIONS

Exempt continuing connected transaction

We have entered into a lease agreement with Xin Da Xin Real Estate which will, upon the Listing, constitute an exempt continuing connected transaction of our Company. Xin Da Xin Real Estate is wholly-owned by Xin Da Xin, an associate of Mr Wu, and therefore is a connected person by virtue of Rule 14A.11(4) of the Listing Rules. Details of the lease agreement are as follows:

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

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

The above transaction was made on normal commercial terms and on the basis that the aggregate amount of the annual rental payable by Ausnutria Hunan under the above lease agreement with Xin Da Xin Real Estate is expected to be less than 0.1% of each of the relevant “percentage ratios” (as defined under Rule 14.04(9) of the Listing Rules), the above transaction falls under the de minimis provision set forth in Rule 14A.33(3)(a) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholder’s approval requirements under Chapter 14A of the Listing Rules.

Related party transactions

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

NON-COMPETITION UNDERTAKING

All the Directors and senior management of our Group, Xin Da Xin, MoveUp, Mornring and Aubrand (each, a “**Covenantor**”), have each confirmed that he is not engaged in, or interested in, any business which directly or indirectly competes with our business. In accordance with the non-competition undertakings set out in the deed of non-competition (the “**Deed of Non-Competition**”), each Covenantor has agreed, undertaken and covenanted with us (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which our Shares cease to be listed on the Stock Exchange or another recognised stock

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exchange; (ii) the day on which the Covenantor ceases to be interested in 30% or more of our entire issued share capital or ceases to be a Director or senior management of our Group; or (iii) the day on which the Covenantor beneficially owns or is interested in our entire issued share capital:

- he will not and he will procure that none of his spouse and children under the age of 18 and persons to whom the Covenantor provides financial assistance to set up and operate any business (the “**Controlled Persons**”) or any companies controlled, whether directly or indirectly, by him (the “**Controlled Companies**”) will, and he will use his best endeavours to procure that none of his associates or associated companies not controlled by him, will, except through his/her/its/their interests in us, whether as principal or agent and whether undertaken directly or indirectly through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interests or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with our business as described in this prospectus (the “**Restricted Business**”) within any of the territories within the PRC, Hong Kong, Macau and south-east Asia where any member of our Group carries on business from time to time (the “**Restricted Territories**”);
- if he and/or any of the Controlled Persons and/or any of the Controlled Companies (except MoveUp) is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Business in any of the Restricted Territories, he/she/it/they:
 - will promptly notify us in writing and refer such business opportunity to us for consideration and provide such information as reasonably required by us in order to come to an informed assessment of such business opportunity; and
 - will not and procure his/her/its/their Controlled Persons and/or Controlled Companies will not invest or participate in any project or business opportunity unless such project or business opportunity will have been rejected by us and the principal terms on which the Covenantor or his/her/its/their Controlled Persons and/or Controlled Companies invest or participate are no more favourable than those made available to us.

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

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

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

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

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

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

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

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

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

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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

OVERVIEW

The Board currently consists of seven Directors, comprising four executive Directors and three independent non-executive Directors.

The following table provides certain information about our Directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Wu Yueshi (伍躍時)	51	Chairman and Executive Director
Yan Weibin (顏衛彬)	43	Executive Director
Chen Yuanrong (陳遠榮)	49	Executive Director and Chief Executive Officer
Ng Siu Hung (吳少虹) (formerly known as Wu Shaohong)	40	Executive Director and joint company secretary
Qiu Weifa (仇為發)	64	Independent non-executive Director
Jason Wan (萬賢生) (formerly known as Wan Xiansheng)	45	Independent non-executive Director
Chan Yuk Tong (陳育棠)	47	Independent non-executive Director

EXECUTIVE DIRECTORS

Wu Yueshi (伍躍時), aged 51, is one of the co-founders and the chairman of our Group and became our executive Director on 8 June 2009. Mr Wu has lived in China for a substantial period of time. He joined our Group at the establishment of Ausnutria Hunan in September 2003. From 2003 to 2005, Mr Wu completed a Master of Business Administration programme at the International College of Beijing University, and on 21 May 2005 obtained the Executive Master's of Business Administration degree from Fordham University. He was employed full time in the Labour Department of Hunan Province (湖南省勞動廳), a governmental body, from 1988 to 1993. From 1996 to 2007, he was the chairman of board of directors of Changsha Xin Da Xin Group Company* (長沙新大新集團有限公司) which changed its name to Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd* (長沙新大新威邁農業有限公司) in July 2007. Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd is a company established in the PRC on 20 September 1996 and is principally engaged in activities including the development, promotion and application of advanced agricultural technology. Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd is owned by Xin Da Xin and Vilmorin Hong Kong Limited, which is an Independent Third Party. From 2001 to 2002, he was a director and the chief executive officer of Hunan Ava Seed Co., Ltd* (湖南亞華種業股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange and which owned Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司) at the time. From 2004 to present, he is director and chairman of Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange and which is principally engaged in the promotion and sale of seeds for rice, cotton, corn, wheat and vegetables. From 2007 to present, Mr Wu is the chairman and a director of Xin Da Xin, Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd and our Company, as well as the vice chairman of the Chamber of Commerce and Industry (Hunan)* (湖南省工商業聯合會).

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He is also a director of Ausnutria BVI, Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Australia, Ausnutria Hunan and Spring Choice. Mr Wu is primarily responsible for the overall corporate strategy, planning and business development of our Group.

Mr Wu was awarded the Medal for Glorious Business* (光彩事業獎章) from the China Society for Promotion of the Glorious Business Programme* (中國光彩事業促進會) in September 2003, and was recognised as one of the first National-level Outstanding Builder to Socialism with Chinese Characteristics* (優秀中國特色社會主義事業建設者) in December 2004 by several PRC regulatory authorities, including the United Front Work Department, the Central Committee of the Communist Party of China, the National Development and Reform Commission of the People's Republic of China, the Ministry of Personnel of the People's Republic of China, the State Administration for Industry and Commerce of the People's Republic of China and the All-China Federation of Industry and Commerce. He was also recognised as one of the provincial-level Outstanding Builder to Socialism of the PRC* by the Hunan Provincial Committee of the Communist Party and the People's Government of Hunan Province.

Yan Weibin (顏衛彬), aged 43, is one of the co-founders of our Group and became our executive Director on 8 June 2009. He joined our Group since the establishment of Ausnutria Hunan in September 2003. Mr Yan graduated from Hunan University with a degree in Bachelor of Engineering and MBA. From 2001 to 2003, he was a director of Changsha Xin Da Xin Real Estate Company* (長沙新大新置業有限公司), a director and the vice president of Hunan Ava Seed Co., Ltd* (湖南亞華種業股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange. He was the chairman of Ausnutria Hunan, and the chief executive officer and director of Changsha Xin Da Xin Group Company* (長沙新大新集團有限公司) from 2003 to 2007. From 2004 to present, he is the chief executive officer of Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange and which is principally engaged in the promotion and sale of seeds for rice, cotton, corn, wheat and vegetables. He is also a director of Ausnutria BVI, Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Australia, Ausnutria Hunan and Spring Choice. Mr Yan is primarily responsible for the overall corporate strategy, planning and business development of our Group.

Mr Yan was awarded the China MBA Top Ten Managers* (中國MBA十大職業經理人) in September 2006.

Chen Yuanrong (陳遠榮), aged 49, is the chief executive officer of our Group and became our executive Director on 8 June 2009. He joined our Group in December 2003. Mr Chen studied at the Central South Forestry University* (中南林學院) in 1998 and has taken a business administration course at University of Helsinki in 2003. Mr Chen held various management positions in dairy factories and food production companies before joining our Group. From 1986 to 1998, Mr Chen was employed as the general manager of Hunan Nanshan Dairy Farm* (湖南省南山牧場). From January 1999 to November 2000, Mr Chen was a director and an assistant to the president of Hunan Ava Holding Co., Ltd.* (湖南亞華種業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange. From December 2000, Mr Chen was the general manager of Hunan Ava Nanshan Dairy product branch* (湖南亞華南山乳品分公司) and Nanshan Dairy Marketing Company* (南山乳業營銷有限公司), which are companies principally engaged in production and distribution of dairy products. It has its own pasture for cattle rearing which provides source of its dairy products. Mr Chen gained experience in cattle rearing and cattle farm management during that period. From August 2003, Mr Chen was the asset controller of Hunan Ava Holding Co., Ltd* (湖南亞華種業股份有限公司). He is also a director of

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Hunan and Spring Choice. From 2004 to present, he is the chief executive officer of Ausnutria Hunan. Mr Chen is primarily responsible for the day-to-day management and operation of the Group.

Ng Siu Hung (吳少虹), formerly known as Wu Shaohong, aged 40, became our executive Director on 19 September 2009. She studied Applied English Language at Changsha University and graduated at The University of Westminster, the United Kingdom with a Master's of Arts degree in Human Resource Management. She was the representative of a computer network company and then, a manager of a trading company for about two years. From 2004 to present, Ms Ng is a director of Hunan Yukai Real Estate Development Co., Ltd (湖南宇凱房地產有限公司), a company established in the PRC on 2 April 2003 and is principally engaged in real estate development. Its current shareholders are Hong Kong Yue Cheng Company Limited* (香港宇城實業有限公司), Anhui Yue Wa Real Estate Development Limited* (安徽宇華房地產開發有限公司), and Chi Chau Yu Cheng Company Limited* (池洲宇城實業有限公司), all of which are Independent Third Parties. From December 2006 to present, she is the assistant to the chairman of Xin Da Xin. Ms Ng is primarily responsible for investor relations and the Group's public announcements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Qiu Weifa (仇為發), aged 64, became an independent non-executive Director on 19 September 2009. Mr Qiu graduated from the Central University of Finance and Economics* (中央財政金融學院) in August 1970. He has senior economist qualifications* (高級經濟師). From October 1990 to March 1995, he was the vice general manager of the Bank of China (Singapore branch). From March 1995 to March 1996, Mr Qiu was the alternate general manager of the Bank of Guangdong province (Singapore branch). From March 1996 to December 2004, he became the head of branch (行長) of the Bank of China (Hunan province branch). He has over 30 years of experience in the banking sector, holding management positions at various banking institutions. Mr Qiu retired from the banking sector in March 2005.

Jason Wan (萬賢生), formerly known as Wan Xiansheng, aged 45, became an independent non-executive Director on 19 September 2009. Mr Wan completed a Doctor of Philosophy (PhD) Degree at Deakin University, Australia in 1992. Prior to that, he graduated with a Bachelor of Science at Hunan Agricultural University and a Master of Science in dairy science and processing at Northeast Agricultural University. Mr Wan was a lecturer in the department of food science and technology at the Northeast Agricultural University during the period from 1986 to 1989, and a visiting scientist at the Food Research Institute at the Department of Agriculture in Victoria, Australia from 1989 to 1990. From 1992 to 1995, Mr Wan was a post-doctoral researcher in the department of biochemistry at the University of Melbourne. From 1995 to June 2009, Mr Wan was a senior research scientist at CSIRO Food Science Australia. Since July 2009, he has been a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA. Mr Wan has extensive knowledge and expertise in the areas of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr Wan has also received numerous scholarships and research grants, with the most recent research grants being a PhD scholarship relating to whey proteins and biological properties (from 2006 to 2009), as well as a major research grant for research relating to dairy processing (from 2007 to 2010).

Chan Yuk Tong (陳育棠), aged 47, became an independent non-executive Director on 19 September 2009. Mr Chan graduated from the University of Newcastle in Australia with a bachelor's degree in Commerce, and from the Chinese University of Hong Kong with a master's degree in business

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administration. Mr Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr Chan joined Ernst & Young in November 1988, and was appointed as audit principal in 1994. Mr Chan joined G2000 (Apparel) Limited in 2000 and worked as a finance director and sales director from August 2000 to October 2003 and from October 2003 to May 2004, respectively. His appointments as executive director, non-executive director, independent non-executive director or director of publicly listed companies are as follows:

<u>Listed Company</u>	<u>Role</u>	<u>Period</u>
Asia Cassava Resources Holdings Limited (亞洲木薯資源控股有限公司)	Executive Director	July 2008 to present
Vitop Bioenergy Holdings Limited (天年生物控股有限公司)	Non-executive director	February 2008 to present
Sichuan Xinhua Winshare Chainstore Co., Ltd (四川新華文軒連鎖股份有限公司)	Independent non-executive director	April 2006 to present
Jia Sheng Holdings Limited (formerly known as Carico Holdings Limited) (嘉盛控股有限公司)	Independent non-executive director	November 2006 to present
Daisho Microline Holdings Limited (大昌微綫集團有限公司)	Independent non-executive director	September 2004 to present
Kam Hing International Holding Limited (錦興國際控股有限公司)	Independent non-executive director	July 2005 to present
BYD Electronic (International) Company Limited (比亞迪電子(國際)有限公司)	Independent non-executive director	November 2007 to present
Anhui Conch Cement Company Limited (安徽海螺集團有限責任公司)	Independent non-executive director	June 2007 to present
Global Sweeteners Holdings Limited (大成糖業控股有限公司)	Independent non-executive director	June 2008 to present
Tak Sing Alliance Holdings Limited (達成集團)	Executive director	February 1999 to September 2000
Luks Group (Vietnam Holdings) Company Limited (formerly known as Luks Industrial (Group) Limited) (陸氏集團(越南控股)有限公司)	Director	September 2004 to December 2005
China Pipe Group Limited (formerly known as World Trade Bun Kee Limited) (中國管業集團有限公司)	Director	January 2007 to July 2007

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In addition, Mr Chan is the deputy head of the accounting and financial department of Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司). Mr Chan has over 22 years of experience in audit, accounting, management consulting and financial consulting services.

SENIOR MANAGEMENT

The following table provides certain information about our senior management.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Xiao Shihu (肖詩弧)	34	Chief Marketing Officer
Dai Lianyu (戴聯宇)	40	Vice President (Finance)
Liu Yuehui (劉躍輝)	46	Vice President (Human Resources and Administration)
Dai Zhiyong (戴智勇)	34	Vice President (Research & Technology)
Li Wei (李偉)	32	Vice President (Production)
Yang Mingqing (楊明清)	44	CEO Assistant & General Manager (Finance)

Xiao Shihu (肖詩弧), aged 34, is the chief marketing officer of Ausnutria Hunan. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr Xiao studied at Hunan Engineering College* (湖南工程學院) and graduated from the Huazhong Institute of Science and Technology* (華中理工大學) with a degree in Master of Economics in March 2000. Mr Xiao has 11 years of experience in this industry and has held management positions at sales planning, marketing and dairy products companies since 1997. From December 2003 to present, he is the director of marketing of our Group and is primarily responsible for all marketing activities of our Group. Mr Xiao has not held any directorship position in any other listed company in the last three years.

Dai Lianyu (戴聯宇), aged 40, is the vice president of Ausnutria Hunan and the head of the finance department. He joined our Group on 27 December 2005. Mr Dai graduated from Hunan Finance and Economy College* (湖南財經學院) and is a chartered accountant. From April 2005 to December 2005, Mr Dai was employed at Changsha Xindaxin Group Company* (長沙新大新集團有限公司) as the vice manager in the auditing department. From February 2006 to present, he is the chief financial controller of Ausnutria Hunan and is primarily responsible for overseeing the financial affairs of the Group. He has approximately two years of experience in the industry. Mr Dai has not held any directorship position in any other listed company in the last three years.

Liu Yuehui (劉躍輝), aged 46, is the vice president of Ausnutria Hunan and the head of the human resources and administration department. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr Liu studied dairy techniques at the Inner Mongolia Light Manufacturing School* (內蒙古輕工業學校). Mr Liu has held management positions in various dairy factories and has approximately eight years of experience in the industry. During January 2001 to October 2003, Mr Liu was the assistant of the chief executive officer of Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司), a company owned by Hunan Ava Holding Co. Ltd.* (湖南亞華種業股份有限公司) at the time, and established in the PRC whose shares are listed on the Shenzhen Stock Exchange. From 2003 to present, Mr Liu is the vice president of

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Ausnutria Hunan and is primarily responsible for recruitment, human resourcing and administrative functions of our Group. Mr Liu has not held any directorship position in any other listed company in the last three years.

Dai Zhiyong (戴智勇), aged 34, is the vice president of Ausnutria Hunan and the head of the research and technology department. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr Dai graduated from Xiang Tan University* (湘潭大學) with a degree in Bachelor of Chemistry in July 1997. Mr Dai held a management position in a dairy products company for a few years and has nine years of experience in the industry. From April 2000 to March 2001, Mr Dai was employed by Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司) as the vice factory manager of Inner Mongolia Ya Ke Shi Ru Factory* (內蒙古牙克石乳廠). From March 2001 to September 2003, he was the person in charge of the research and development department and engaged in milk powder research and development works in the same company. From August 2005 to November 2006, and also from July 2008 to present, Mr Dai has been the chief engineer of Ausnutria Hunan. Mr Dai is primarily responsible for managing the daily operations of the technical department of our Group and for ensuring the overall compliance status of the Group's new products and their development. He will also supervise Hou Yanmei (侯豔梅)'s work as a compliance officer to oversee the compliance status of our operations and report to Chen Yuanrong, our chief executive officer from time to time. Mr Dai has not held any directorship position in any other listed company in the last three years.

Li Wei (李偉), aged 32, is the vice president of Ausnutria Hunan and the head of the production department. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr Li graduated from Hunan Agriculture University* (湖南農業大學) with a degree in Bachelor of Food Technique in July 2000. Prior to joining our Group, Mr Li held management positions at a dairy products company. Mr Li has eight years of experience in the dairy industry. During September 2001 to August 2002, he was employed by Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司), a company owned by Hunan Ava Holding Co Ltd* (湖南亞華種業股份有限公司) at the time, a company established in the PRC whose shares are listed on the Shenzhen Stock Exchange, as the supervisor of the quality control centre. Hunan Ava Nanshan Dairy Products Company Limited is a company principally engaged in production and distribution of dairy products. It has its own pasture for cattle rearing which provides source of its dairy products. From August 2002 to December 2002, he became the external supervisor for quality control. From December 2002 to November 2003, he was the external vice department head of the same company. From December 2003 to present, he is the general manager of the production department of our Group and is primarily responsible for managing the plant and production at Ausnutria Hunan. Mr Li has not held any directorship position in any other listed company in the last three years.

Yang Mingqing (楊明清), aged 44, is the assistant to the chief executive officer and also the general manager of the finance department. Mr Yang graduated from Hunan Forestry School* (湖南省林業學校). He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Prior to joining our Group, Mr Yang was in charge of the accounting department of various companies and has eight years of experience in this industry. From July 2000 to December 2000, he was employed by Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司) as the chief accountant of the finance department. From January 2001 to August 2003, he was the vice department head of the finance department. From September 2003 to present, he has been the department manager as well as the assistant to the chief executive officer and general manager of the

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finance department of Ausnutria Hunan and is primarily responsible for accounting and financial matters relating to our Group. Mr Yang has not held any directorship position in any other listed company in the last three years.

COMPANY SECRETARIES

Ng Siu Hung (吳少虹), aged 40, is a joint company secretary. She works for our Company on a full-time basis. Her biographical details are set out under the section headed “Directors, Senior Management and Employees — Executive Directors” above.

Li Wing Sum Steven (李永森), aged 52, is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr Li was appointed as a joint company secretary on 19 September 2009. Mr Li has over 25 years’ experience in auditing, accounting, company secretarial services, taxation and financial management. Mr Li had worked in an international accounting firm and had been employed as financial controller of various companies including a Hong Kong listed company as well as a multinational organisation. Mr Li was an independent non-executive director and an executive director of Dynamic Global Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from 9 September 2004 to 6 July 2005 and from 6 January 2006 to 30 June 2009 respectively. Since July 2000, Mr Li has been the Qualified Accountant and the Company Secretary of Shanghai Fudan Microelectronics Company Limited, a company whose shares are listed on the Growth Enterprises Market of the Stock Exchange.

DIRECTORS’ WAIVERS FROM THE STOCK EXCHANGE

Waiver from Rule 8.12 of the Listing Rules

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under Rule 8.12 in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waivers From Strict Compliance With The Listing Rules” in this prospectus.

Waiver from Rule 8.17 of the Listing Rules

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver under Rule 8.17 in relation to the requirement on the qualifications of company secretary in respect of Ms Ng. For details of the waiver, please see the section headed “Waiver From Strict Compliance With The Listing Rules — Waiver From Rule 8.17 of The Listing Rules” in this prospectus.

COMPLIANCE ADVISER

Our Company has appointed China Merchants Securities (HK) Co., Ltd as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to our Company pursuant to the requirements thereunder. China Merchants Securities (HK) Co., Ltd will, *inter alia*, advise our Company with due care and skill on a timely basis when consulted by our Company in the following circumstances:

- before the publication by our Company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;

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- where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus;
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;
- if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in the foregoing paragraphs above; and
- assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent the compliance adviser forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as training.

The term of the appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

AUDIT COMMITTEE

The Board has established an audit committee on 19 September 2009 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of our Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference.

The audit committee currently comprises three independent non-executive Directors, namely Chan Yuk Tong, Qiu Weifa and Jason Wan. Chan Yuk Tong is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Board has established a remuneration committee on 19 September 2009 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to consider and recommend to the Board the emoluments and other benefits paid by us to our Directors and to assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum Shareholder benefit from the retention of talented individuals.

The remuneration committee currently comprises one executive Director, namely Mr Wu, and three independent non-executive Directors, namely Chan Yuk Tong, Qiu Weifa and Jason Wan. Mr Wu is the chairman of the remuneration committee.

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NOMINATION COMMITTEE

The Board has established a nomination committee on 19 September 2009 with written terms of reference as recommended in paragraph A4.5 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management and to recommend suitable candidates for Directors and senior management to the Board.

The nomination committee currently comprises one executive Director, namely Mr Wu, and three independent non-executive Directors, namely Chan Yuk Tong, Qiu Weifa and Jason Wan. Mr Wu is the chairman of the nomination committee.

DIRECTORS' REMUNERATION

Our Directors receive remuneration in the forms of fees, salaries, allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf.

The aggregate remuneration paid to our Directors for each of the three financial years ended 31 December 2008, and the six months ended 30 June 2009 was approximately RMB285,000 and RMB580,000, RMB580,000 and RMB250,000, respectively.

The annual Directors' fee and other emoluments paid by our Group for the year ended 31 December 2008 were approximately RMB580,000. The expected annual Directors' fee and other emoluments to be paid by our Group for the year ending 31 December 2009 will be approximately RMB544,000.

The Directors' remuneration is subject to review by the remuneration committee and the Board at the end of each financial year of our Company.

Particulars of the service agreements and appointment letters are set out in the section headed "Appendix VI — Statutory and General Information — Further information about Directors, management and staff — Particulars of Directors' service agreements and letters of appointment" in this prospectus.

NON-COMPETITION

Each of the Controlling Shareholder, Directors and their respective associates has confirmed that none of them is interested in any business which competes or is likely to compete with that of our Group.

EMPLOYEES

As at 30 June 2009, we had a total of 272 full-time employees. The following table provides the number of our Group's full-time employees by function:

	<u>Number of employees</u>
Sales and marketing	165
Production	73
Quality assurance	11
Research and development	5
Human resources	6
Accounts and finance	<u>12</u>
Total	<u><u>272</u></u>

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STAFF BENEFITS

Our employees in Hong Kong have joined a Mandatory Provident Fund retirement benefit scheme (“**MPF Scheme**”) in accordance with the arrangements prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

In the PRC, in accordance with the relevant national and local labour and social welfare laws and regulations, we are required to pay, in respect of our employees in the PRC, various social insurance including pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance. In accordance with applicable PRC regulations on housing funds, we are also required to contribute to a housing fund plan for our employees. We have made provisions for the payment of the various social insurance and the housing fund which were payable by us during the Track Record Period. We currently make full payments in respect of the various social insurance and the housing fund in accordance with applicable PRC laws and regulations.

The contributions by us for each of the three financial years ended 31 December 2008, and the six months ended 30 June 2009 were approximately RMB0.95 million, RMB1.1 million, RMB1.47 million and RMB0.79 million, respectively.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are set out in the section headed “Appendix VI — Statutory and General Information — Share Option Scheme” in this prospectus.

Pursuant to the Regulations on the Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996 and amended on 5 August 2008, the Measures for Individual Foreign Exchange Administration (《個人外匯管理辦法》), which was promulgated by the PBOC on 25 December 2006 and became effective on 1 February 2007, the Implementing Rules for the Measures for Individual Foreign Exchange Administration (《個人外匯管理辦法實施細則》), which was promulgated by SAFE on 5 January 2007 and became effective on 1 February 2007 and Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and 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》) which was issued by SAFE on 6 April 2007, if any of our PRC employees intends to participate in the Share Option Scheme after the Listing, they are required to, through their employer companies or other qualified PRC agents, obtain approval from SAFE or its local branch and complete certain procedures related to the share option. Under the Share Option Scheme, the Company will not grant an option if doing so would cause the Company to be in breach of any relevant laws and regulations. In addition, for an employee who is a PRC resident, the employee may not exercise the option unless (i) the employee is in compliance with PRC legal or regulatory restrictions or conditions on such issuances; and (ii) the employee represents and warrants to the Company that he or she satisfies the relevant legal and regulatory requirements on foreign exchange control in exercising such options.

SUBSTANTIAL SHAREHOLDERS

So far as we are aware, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company:

<u>Name</u>	<u>Number of Shares held after the Global Offering</u>	<u>Nature of interest</u>	<u>Percentage of shareholding after the Global Offering</u>
All Harmony ⁽¹⁾	107,000,000	Registered owner	10.70%
Brave Leader ⁽²⁾	333,000,000	Registered owner	33.30%
Silver Castle ⁽³⁾	60,000,000	Registered owner	6.00%
Ausnutria BVI ⁽⁴⁾	200,000,000	Registered owner	20.00%
Mr Chen ⁽¹⁾	107,000,000	Interest of controlled corporation	10.70%
Mr Wu ^(2, 3, 4)	593,000,000	Interest of controlled corporation	59.30%
Mrs Y Wu ⁽⁵⁾	593,000,000	Family interest	59.30%

Notes:

- (1) All Harmony is owned as to 49.22% by Mr Chen and 20 former and present employees of our Group.
- (2) Brave Leader is owned as to 59.57% by Mr Wu, 30.67% by Ms X Wu and 9.76% by Mr Yan.
- (3) Silver Castle is owned as to 59.57% by Mr Wu, 30.67% by Ms X Wu and 9.76% by Mr Yan.
- (4) Ausnutria BVI is owned as to 60% by Mr Wu, 30% by Mr Yan and 10% by Mrs Y Wu.
- (5) Mrs Y Wu is the spouse of Mr Wu and is deemed to be interested in the Shares held by Mr Wu, Brave Leader, Silver Castle and Ausnutria BVI pursuant to the SFO.

Except as disclosed above, we are not aware of any other person who will, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The authorised share capital of our Company immediately before the Global Offering is HK\$150,000,000, divided into 1,500,000,000 Shares with a nominal value of HK\$0.10 per Share.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Aggregate nominal value of Shares</u>
		(HK\$)
1,000	Shares in issue at the date of this prospectus	100
799,999,000*	Shares to be issued under the Capitalisation Issue	79,999,900
<u>200,000,000</u>	Shares to be issued under the Global Offering	<u>20,000,000</u>
<u>1,000,000,000</u>	Total	<u>100,000,000</u>

* After the Capitalisation Issue, 800,000,000 Shares will be in issue, 100,000,000 of which will be the Sale Shares to be offered by the Selling Shareholders. All Sale Shares will be offered for sale by the Selling Shareholders under the International Offering.

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

ASSUMPTIONS

The above table assumes that the Capitalisation Issue and the Global Offering become unconditional and will be completed in accordance with the relevant terms and conditions. It, however, takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and any Shares which may be allotted and issued, or repurchased by our Company pursuant to the general mandate to issue new Shares and general mandate to repurchase Shares as described below.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus save with respect to entitlement to the Capitalisation Issue.

Save as disclosed in this prospectus, no share or loan capital of our Company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

GENERAL MANDATE TO ISSUE NEW SHARES

A general unconditional mandate has been granted to our Directors authorising them to exercise our powers to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, provided that the aggregate nominal value of the Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and under the Share Option Scheme).

SHARE CAPITAL

This mandate does not apply to situations where our Directors allot, issue or deal with the Shares under any rights issue, scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date the mandate was granted, or pursuant to the exercise of any options to be granted under the Share Option Scheme or pursuant to the Capitalisation Issue or Global Offering or pursuant to a specific authority granted by our shareholders in general meeting, on behalf of our Company.

This mandate will expire:

- at the conclusion of our next annual general meeting unless the mandate is renewed either unconditionally or subject to conditions by ordinary resolution passed at that meeting; or
- the passing of an ordinary resolution by our shareholders in a general meeting revoking or varying such mandate,

whichever is the earliest.

Particulars of this general mandate are set out in the section headed “Appendix VI — Statutory and General Information — Written resolutions of all Shareholders passed on 19 September 2009” in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate has been granted to our Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other approved stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Appendix VI — Statutory and General Information — Repurchase by our Company of our Shares” in this prospectus.

This mandate will expire:

- at the conclusion of our next annual general meeting unless the mandate is renewed either unconditionally or subject to conditions by ordinary resolution passed at that meeting; or
- the passing of an ordinary resolution by our shareholders in a general meeting revoking or varying such mandate,

whichever is the earliest.

Particulars of this general mandate are set out in the section headed “Appendix VI — Statutory and General Information — Written resolutions of all Shareholders passed on 19 September 2009” in this prospectus.

FINANCIAL INFORMATION

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

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

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

OVERVIEW

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

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

Notes:

- (1) According to data issued by Euromonitor International in June 2009, we ranked 13th based on sales value amongst paediatric milk formula producers in China in 2008. Euromonitor International is an Independent Third Party and we did not commission the preparation of the data which we purchased from Euromonitor International. Based on the information from the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局) as of September and October 2008, there are 109 paediatric milk formula producers in operation in China and approximately 290 standard milk formula and other milk formula producers in China respectively.
- (2) As there is no official industry classification, such classification is determined based on our Directors' knowledge and experience as well as our market research data. For further information, please refer to the section headed "Industry Overview — Market Segment in the PRC Paediatric Milk Formula Market" in this prospectus.

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milk powder for producing our products. We believe our relationships with the Australian-based dairy producers and the PRC trading companies help to ensure a stable supply of high quality milk powder sufficient to enable us to meet our current and future production and sale needs.

We currently sell three different series of paediatric milk formula products, namely, A-choice Series, Best-choice Series and Allnutria Series. Each of these series of products is designed to target consumers of high-priced and/or premium-priced paediatric milk formula products. Our A-choice Series of products also include specialty formula products for consumers with special needs, such as for premature or low birth-weight infants. All our products are marketed and sold under our own “Ausnutria” family of brands, which we believe are recognised for Australian milk powder based paediatric milk formula in the PRC market.

During the Track Record Period, our paediatric milk formula products were subject to the following processes:

- we import milk powder that is produced by Australian dairy producers according to specifications provided by us. The imported milk powder undergoes our production process which primarily involves the mixing, bacteria killing and purification and other quality control processes. The milk powder is imported in bulk-bag form and is used to produce our A-choice Series and Best-choice Series paediatric milk formula in small foil bag and can forms for retail sale;
- our Allnutria Series paediatric milk formula is produced by Tatura and we import the paediatric milk formula in can form ready for retail sale as well as in bulk-bag form. We do not undertake any further processing with respect to the Allnutria Series paediatric milk formula imported in can form, although the product does undergo our quality control process before it is sold to distributors. The milk powder imported in bulk-bag form undergoes our production process to be produced into Allnutria Series paediatric milk formula in small foil bag form for retail sale. The Allnutria Series paediatric milk formula is a product of our research and development efforts in conjunction with Tatura. We have a dedicated research and development team which comprises five full-time researchers who hold degrees relating to food technology. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our research and development expenditures were approximately RMB683,000, RMB831,000, RMB1,016,000 and RMB387,000 respectively, amounting to approximately 0.7%, 0.4%, 0.3% and 0.1% of our revenue respectively; and
- the wholesale distribution and sale of our paediatric milk formula products (whether produced or imported by us for direct resale) to distributors through an extensive distribution network across 20 provinces, four autonomous regions and four municipalities in the PRC. These distributors further distribute and sell our products to retail outlets such as department stores, supermarkets and babies and parenting specialty stores throughout the PRC. We have also appointed an agent to distribute our products online via a website operated by an independent online shopping service provider.

During the three financial years ended 31 December 2006, 2007, 2008, and the six months ended 30 June 2009, our total revenue was RMB93.7 million, RMB186.5 million, RMB405.2 million and RMB321.0 million respectively, and our profit attributable to the owners of our Company during the same periods was RMB11.9 million, RMB22.4 million, RMB70.5 million and RMB65.2 million respectively.

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

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

We seek to increase consumer awareness of our brand and products through advertising and promotional activities. We conduct nationwide marketing campaigns through television advertising and other media. Our marketing team also uses telemarketing strategies to advertise our products and make promotional offers. In addition to our marketing activities, our distributors are responsible for regional marketing efforts, including advertising in retail outlets and arranging paediatric nutrition education seminars.

MAJOR FACTORS AFFECTING OUR PERFORMANCE

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

Demand for Our Products

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

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

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

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Product Mix

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

Pricing of our products

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

Cost of Milk Powder

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

Advertising and Promotion

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

Tax

Our profits are affected by changes in tax rates, particularly the effective tax rates payable in China. PRC enterprise income tax is calculated based on taxable income determined by PRC accounting principles. Pursuant to the then effective relevant PRC income tax laws and regulations, newly

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established foreign-invested enterprises that were engaged in manufacturing activities with the operation period over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT rate reduction holiday. In accordance with the approval from the relevant tax authority, Ausnutria Hunan was granted an EIT exemption from 2004 to 2005, and a preferential EIT rate of 15% in 2006 and 2007 and 12.5% in 2008. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1.2 million in 2008 for part of its local income tax paid in 2006 and 2007.

Seasonality

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

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

CRITICAL ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

Inventories

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

Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

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

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Income Tax

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

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

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

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

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

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

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

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

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

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

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BASIS OF PRESENTATION

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

COMBINED RESULTS OF OPERATIONS

Selected Combined Financial Information

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

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

Revenue

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

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

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

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

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

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

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

Cost of Sales

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

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

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goods imported by the relevant PRC trading companies. We paid aggregate fees of RMB80,000 and RMB738,000 and nil to the PRC trading companies in 2006, 2007 and 2008, respectively and aggregate fees of RMB145,000 during the six months ended 30 June 2009. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the volume of milk powder we procured through the PRC trading companies represented approximately 100%, 86.8%, 12.0% and 21.8% of the total volume of milk powder procured by us respectively. During 2008, we only placed procurement orders with MoveUp and did not place any new order with the PRC trading companies, and milk powder procured through the PRC trading companies in 2008 was ordered in 2007.

In 2007, 2008 and through to May 2009, we also procured milk powder from MoveUp which sourced their milk powder produced by Tatura and Murray Goulburn through the PRC trading companies. We paid an average markup to MoveUp of approximately 26% to 28% during 2007 and 2008 and approximately 6% during the first six months ended 30 June 2009. For the three financial years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, the volume of milk powder we procured through MoveUp (which in turn procured through the PRC trading companies) represented approximately nil, 13.2%, 88.0% and 78.2% of the total volume of milk powder procured by us respectively. Payments to MoveUp were settled by bank transfer and the credit period granted by MoveUp to us was normally up to 30 days. Prior to the termination of the Equity Purchase Agreement and the Equity Purchase Deed, it was anticipated that, upon completion of the transactions contemplated by the Equity Purchase Agreement and the Equity Purchase Deed, MoveUp would become part of the same business group as Ausnutria Hunan. Accordingly, Mr Chen (our chief executive officer) determined that, in light of certain tax benefits available to MoveUp, it would be beneficial to the anticipated group if the procurement of milk powder was made through MoveUp, notwithstanding the higher fees charged by MoveUp. The amounts of the markup provided to MoveUp during the relevant periods were determined by reference to the potential amount of tax that MoveUp would incur and the potential amount of tax benefits to be enjoyed by MoveUp for a given period. We paid MoveUp RMB4,408,000 and RMB67,801,000 in 2007 and 2008, respectively, and RMB5,884,000 during the six months ended 30 June 2009. Our PRC legal advisers advised us that, as there was no association between MoveUp and us during the period from entering into the Equity Purchase Agreement to the date of Termination Approval, the transactions between MoveUp and us during the relevant periods do not constitute transfer pricing under PRC law. A similar confirmation has been obtained from the competent local tax administration bureau. Since May 2009, however, we have ceased to procure milk powder through MoveUp. For further information in relation to MoveUp and its relationship with us, please refer to the section headed “History and Corporate Structure” in this prospectus.

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

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

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Selling and Distribution Expenses

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

Administrative Expenses

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

Tax

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

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

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

Revenue

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

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Cost of Sales

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

Gross Profit

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Profit before Tax

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

Tax

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

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Profit for the Year

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

REVIEW OF HISTORICAL OPERATING RESULTS 2008 COMPARED TO 2007

Revenue

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

Cost of Sales

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

Gross Profit

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

Selling and Distribution Expenses

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

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Administrative Expenses

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

Profit before Tax

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

Tax

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

Profit for the Year

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

REVIEW OF HISTORICAL OPERATING RESULTS 2007 COMPARED TO 2006

Revenue

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

Cost of Sales

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

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Gross Profit

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Profit before Tax

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

Tax

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

Profit for the Year

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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Cash Flows

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

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

Cash flows from Operating Activities

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

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

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

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

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

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

Cash flows from Investing Activities

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

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

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

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

Cash flows from Financing Activities

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

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

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

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

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Inventories, Receivables and Payables

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

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

Notes:

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

Inventories

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

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

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

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

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

Receivables

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

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

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

Payables

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

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

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

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

Prepayments, Deposits and other Receivables

Our prepayment, deposits and other receivables primarily included prepayments to suppliers and amount due from related parties. As at 31 December 2006, 2007 and 2008 and 30 June 2009, our prepayment to suppliers were RMB10.9 million, RMB30.0 million, RMB13.7 million and RMB43.0 million respectively. The balance of prepayments to suppliers included advances to our packaging supplier of

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RMB5.0 million and RMB10.0 million as at 31 December 2007 and 2008, respectively. The amounts were advanced to our suppliers in order to secure a stable supply of packaging materials which is important for our business operations. The advances bore the interest rates ranging from 2% to 5% per annum and had no fixed term of repayment. Since 1 January 2009, we no longer charge any interest.

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

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

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

Other Payables and Accruals

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

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

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

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

CAPITAL EXPENDITURES

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

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

INDEBTEDNESS

Bank and Other Borrowings

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

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

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

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

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

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

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NET CURRENT ASSETS/LIABILITIES

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

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

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

Except for the contractual obligations set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our audited combined financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an uncombined entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us. Our Directors are of the view that since 31 August 2009, there has been no material change in our indebtedness and contingent liabilities to 17 September 2009, being the latest practicable date prior to the printing of this prospectus.

FINANCIAL INFORMATION

MAJOR FINANCIAL RATIOS

Gearing ratio

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

Return on equity

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

Return on assets

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

Current ratio

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

DIVIDEND AND DIVIDEND POLICY

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

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

FINANCIAL INFORMATION

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

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

MARKET RISKS

Interest Rate Risk

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

Credit Risk

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

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

Foreign Exchange Risk

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group as of 30 June 2009 is based on the audited combined net tangible assets of the Group as of 30 June 2009, included in Appendix I to this prospectus and adjusted as follow:

	Audited combined net tangible assets attributable to the equity shareholders of the Company as at 30 June 2009 ⁽¹⁾	Estimated net proceeds from the offer of new Shares ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company as at 30 June 2009 ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$3.60 per Share	67,681	606,461	674,142	0.67	0.76
Based on an Offer Price of HK\$5.10 per Share	<u>67,681</u>	<u>862,986</u>	<u>930,667</u>	<u>0.93</u>	<u>1.06</u>

Notes:

- (1) The audited combined net tangible assets attributable to the equity holders of the Company as of 30 June 2009 represents the net assets of the Group of RMB68,220,000 as at that date as set out in the Accountants' Report of the Group, the text of which is set out in Appendix I to this prospectus, after subtracting the intangible assets of RMB359,000 as at 30 June 2009.
- (2) The estimated net proceeds from the offer of 200,000,000 new Shares are based on the Offer Price of HK\$3.60 and HK\$5.10 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company as at 30 June 2009 per Share is based on 1,000,000,000 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering). No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.

FINANCIAL INFORMATION

PROFIT FORECAST

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

Based on the profit forecast set out above, our forecast earnings per Share information is as follows:

Pro forma forecast earnings per Share⁽¹⁾ not less than RMB18.0 cents
(approximately HK\$20.4 cents)

OWNED PROPERTIES AND PROPERTY VALUATION

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

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

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

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

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE UNDER CHAPTER 13 OF THE HONG KONG LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there have been no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

Notes:

⁽¹⁾ The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2009, assuming that our Company had been listed since 1 January 2009 and a total of 1,000,000,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option will not be exercised and the Shares to be issued pursuant to the Global Offering were issued on 1 January 2009.

USE OF PROCEEDS

USE OF PROCEEDS

Based on an Offer Price of HK\$4.35 per Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of approximately HK\$833.5 million from the 200,000,000 Offer Shares to be offered by the Company, after deducting underwriting fees and expenses payable by us and assuming the Over-allotment Option is not exercised. We intend to use these net proceeds for the following purposes:

- approximately 30% of the net proceeds (approximately HK\$250.0 million) to explore and undertake potential investment opportunities for investing in or acquiring upstream milk powder related assets and/or operations, including potential investments in overseas cattle farms and/or milk powder producers; and to explore and undertake potential cooperation with milk powder producers in order to increase the number of our suppliers, which will in turn help to diversify our risk profile to ensure a stable supply of milk powder and provide us with more opportunities to source different kinds of paediatric milk formula or nutrition products. As at the Latest Practicable Date, we have not entered into any legally binding agreement or arrangement with respect to these upward integration opportunities. However, we have identified an investment opportunity and are currently in discussions with an organisation in Australia about our potential investment in its milk powder production operations. Please refer to the section headed “Business — Business Strategies” in this prospectus for further information;
- approximately in aggregate 30% of the net proceeds (approximately HK\$250.0 million) to expand our distribution network and strengthen our brand building, marketing and promotional initiatives, in which approximately 12% of the net proceeds (approximately HK\$100.0 million) for efforts in expanding our distribution network, as well as approximately 18% of the net proceeds (approximately HK\$150.0 million) to finance our brand building, marketing and promotional initiatives. Please refer to the sections headed “Business — Business Strategies” and “Business — Branding and Marketing” for further details on our strategies in expanding our distribution network and increasing investment in our brand building, marketing and promotional initiatives;
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for enhancing our research and development efforts. We intend to build a stronger and larger team and enhance our technological capability by recruiting more qualified research personnel and by purchasing newer and more advanced laboratory equipment. We believe this will increase our ability to develop and produce a wider range of higher quality paediatric milk formula products, with a main focus on bringing our paediatric milk formula products closer to the attributes of mother’s breast milk. Please refer to the sections headed “Business — Business Strategies” and “Business — Research and Development” in this prospectus for further information;
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for complementing our efforts in introducing our new series of organic paediatric nutrition products (including organic paediatric milk formula and organic infant supplements) and new products, and further expanding the range and quality of this series of products. We intend to make investments to ensure our organic paediatric milk formula products satisfy the requirements to obtain the necessary industry certifications and to cooperate with international organic products producers for the developments of other organic paediatric nutrition products and quality enhancement. Please refer to the sections headed “Business — Business Strategies” and “Business — Research and Development” in this prospectus for further information;

USE OF PROCEEDS

- approximately 10% of the net proceeds (approximately HK\$83.3 million) to establish two new production lines and to construct a new storage warehouse adjacent to our existing production plant to cater for our anticipated business expansion, as well as other supporting facilities. Please refer to the section headed “Business — Business Strategies” in this prospectus for further information; and
- approximately 10% of the net proceeds (approximately HK\$83.3 million) for general working capital purposes.

The proceeds from the Global Offering are proposed to be invested in the PRC by ways of, including but not limited to, the following means: (i) increasing the registered capital of Ausnutria Hunan, the existing foreign-invested enterprise of our Group; and (ii) establishing new foreign-invested enterprises in the PRC principally engaged in the production of paediatric milk formula or other paediatric nutrition products.

Our PRC legal advisers have advised that, upon the compliance of the relevant approval and registration procedures in the PRC, there would be no legal impediments for the making of the abovementioned increase in capital and establishment of new enterprises in the PRC by using proceeds from the Global Offering.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$5.10 per Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$145.5 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$3.60 per Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$145.5 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of approximately HK\$855.5 million at the lower-end of the Offer Price range of HK\$3.60 per Offer Share and HK\$1,212.0 million at the higher-end of the Offer Price range of HK\$5.10 per Offer Share, after deducting the estimated underwriting fees and expenses payable by us. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

Macquarie Capital Securities Limited

BOCI Asia Limited

Co-Managers

CMB International Capital Corporation Limited

First Shanghai Securities Limited

INTERNATIONAL UNDERWRITERS

Joint Lead Managers

Macquarie Capital Securities Limited

BOCI Asia Limited

Co-Managers

CMB International Capital Corporation Limited

First Shanghai Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

We are offering the Hong Kong Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be offered pursuant to the Hong Kong Public Offer as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change in local, national, regional or international financial, political, military, industrial, economic, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation of the Renminbi or Hong Kong dollars against any foreign currencies respectively) in or affecting Hong Kong, China, the United States, the United Kingdom, the European Union, Japan, the Cayman Islands or any jurisdiction considered by the Joint Bookrunners to be relevant (the “Relevant Jurisdictions”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs (whether or not covered by insurance), fire, explosion, flooding, earthquake, epidemics, pandemics, outbreaks of infections, diseases, civil commotion, economic sanction, public disorder, social or political crisis, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Hong Kong, China or the Cayman Islands, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
 - (vi) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions adversely affecting an investment in the Shares; or
 - (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
 - (viii) any litigation or claim being threatened or instigated against any member of our Group; or

UNDERWRITING

- (ix) the commencement by any governmental, regulatory or political body or organisation of any action against a Director or any member of our Group or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
 - (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
 - (xi) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
 - (xii) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity and which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole,
and which, in any such case and in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters),
 - (A) is or will be or may or is likely to be adverse to, or prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or
 - (B) has or will have or may or is likely to have an adverse effect on the success of the Global Offering and/or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offer and/or the Global Offering to be performed or implemented as envisaged; or
 - (C) makes or will or may or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Joint Bookrunners or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice or any announcements issued by us in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any respect, or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice or any announcements issued by us in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) are not fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom; or

UNDERWRITING

- (iii) any of the representations and warranties given by the Controlling Shareholder, Mr Chen, Mr Yan, Ms Wu, Mrs Xiong Fanyi, the Selling Shareholders and Ausnutria BVI (the “Warrantors”) and us in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue or misleading; or
- (iv) any change or development involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (v) any event, act or omission which gives, or is likely to give rise to any liability of us or the Warrantors pursuant to the indemnities given by us and the Warrantors under the Hong Kong Underwriting Agreement; or
- (vi) any breach of any of the obligations or undertakings of us, and the Warrantors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, which, in the sole and absolute discretion of the Joint Bookrunners has a material adverse effect on the Global Offering; or
- (vii) any adverse change or development or prospective adverse change in the assets and liabilities, condition, business, financial or otherwise, or in the earnings, business, operations, trading position or prospects of our Group as a whole; or
- (viii) any breach of, or any event rendering untrue or incorrect, any of the warranties given in the Hong Kong Underwriting Agreement by us and the Warrantors; or
- (ix) approval for listing of, and permission to deal in, the Shares in issue and the Shares to be offered under the Global Offering, and any Shares which may be issued upon the exercise of options granted pursuant to the Share Option Scheme, either unconditionally or subject only to allotment of the Shares and dispatch of the certificates in respect thereof and other normal requirements to file documents after allotment and issue of those Shares, is refused or not granted on or before the Listing Date, or if granted, such approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (x) we withdraw this prospectus (and any other documents used in connection with the subscription and sale of the Offer Shares) or the Global Offering; or
- (xi) non-compliance of this prospectus (or any other documents used in connection with the subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws or regulation by us; or
- (xii) the issue or requirement to issue by us of any supplement or amendment to this prospectus (or to any other documents used in connection with the subscription and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC.

UNDERWRITING

Undertakings to the Stock Exchange Pursuant to the Hong Kong Listing Rules

(a) *Undertaking by us*

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Share Option Scheme.

(b) *Undertaking by the Controlling Shareholder*

In accordance with Rule 10.07(1)(a) of the Listing Rules, the Controlling Shareholder has undertaken to the Stock Exchange that except pursuant to the Global Offering, (i) he will not, at any time during the period commencing from the Listing Date and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) he will not, at any time during the period of six months from the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would then cease to be our controlling shareholder.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

The Controlling Shareholder has further undertaken to the Stock Exchange that he will, within a period of 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- (i) any pledges or charges of any of our Shares or securities of our Company beneficially owned by him in favour of any authorised institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (ii) any indication received by him, either verbal or written, from any pledgee or chargee of any of our Shares or other securities of our Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

Upon receiving the above information in writing from the Controlling Shareholder, we will also, as soon as practicable, notify the Stock Exchange and make a public disclosure of such information by way of an announcement pursuant to the Listing Rules.

UNDERWRITING

Undertakings pursuant to the Hong Kong Underwriting Agreement

(a) *Undertaking by us*

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Joint Global Coordinators and the Hong Kong Underwriters that, except pursuant to the Global Offering, we will not, and will procure that our subsidiaries will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement to the expiry of the six months from the Listing Date:

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, and in the event of us doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six month period after the Listing Date, we will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

(b) *Undertaking by the Warrantors*

Each of the Warrantors, jointly and severally, hereby agrees and undertakes with the Joint Global Coordinators and the Hong Kong Underwriters that, except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, the Stock Borrowing Agreement, none of the Warrantors will not and, will procure that none of its associates will, without the prior written consent of the Joint Global Coordinators, at any time during the Initial Twelve-month Period (as defined below):

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein

UNDERWRITING

(including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly or indirectly by the Warrantors (including holding as a custodian) or with respect to which any of the Warrantors has beneficial ownership (collectively the “Lock-up Shares”) (the foregoing restriction is expressly agreed to preclude the Warrantors from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Warrantors, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in clauses (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

The initial lock-up period (the “Initial Twelve-month Period”) will commence on the date of the Hong Kong Underwriting Agreement up to and including the date falling twelve months after the Listing Date. Additionally, during the period of twenty-four months commencing on the date on which the Initial Twelve-month Period expires (the “Subsequent Twenty-four-month Period”), the Controlling Shareholder will not enter into any of the foregoing transactions in (i), (ii), (iii) and (iv) or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transaction, the Controlling Shareholder will cease to be a controlling shareholder of our Company.

Subject to the restrictions above, until the expiry of the Subsequent Twenty-four-month period, in the event that the Controlling Shareholder enters into any of the foregoing transactions in (i), (ii), (iii) and (iv) or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he will take all reasonable steps to ensure that he will not create a disorderly or false market in the Shares or other securities of our Company.

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Indemnity

We and the Warrantors have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including, among other things, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement (other than losses which are attributable to actions of the Hong Kong Underwriters) and any breach by us of the provisions of the Hong Kong Underwriting Agreement.

Commissions and Expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by our Company and the Selling Shareholders in relation to the new Shares to be issued in relation to the Global Offering and the Sale Shares to be offered in the Global Offering, respectively. We agree to pay to the International Underwriters a gross commission equal to 2.5% of the Offer Price per Share in respect of the Offer Shares and any additional Shares to be delivered by us pursuant to the Over-allotment Option under the International Underwriting Agreement. We and the Selling Shareholders further agree to pay the Joint Global Coordinators an incentive fee equal to 0.5% of the Offer Price per Share in respect of the Offer Shares and any additional Shares to be delivered by us pursuant to the Over-allotment Option. In addition, we may, at our discretion, pay an additional incentive fee of up to 0.5% of the Offer Price per Share in respect of the Offer Shares and any additional Shares to be delivered by us pursuant to the Over-allotment Option to the Joint Global Coordinators.

The aggregate commissions (exclusive of any discretionary incentive fees), together with listing fees, the SFC transaction levy and the Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$833.5 million (assuming an Offer Price of HK\$4.35, which is the midpoint of the indicative offer price range and that the Over-allotment Option is not exercised) in total and are payable by us. The Selling Shareholders will pay commissions and incentive fees (if any), SFC transaction levy and Stock Exchange trading fee and buyers' and sellers' stamp duties in respect of the Sale Shares.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Underwriters and International Underwriters (together referred to as "**Syndicate Members**") may each individually undertake, and which do not form part of the underwriting or the stabilising process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for Macquarie Capital Securities Limited and/or its affiliates and as the Stabilisation Manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into

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any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described in the section headed “Structure of the Global Offering — Stabilisation” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Underwriters’ Interest in Us

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the stock borrowing arrangements that may be entered into between the Stabilisation Manager or its agent with Brave Leader, none of the Underwriters has any shareholding interests in us or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us.

Sponsors’ Independence

Macquarie Capital Securities Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

BOC International Holdings Limited (the holding company of BOCI) and/or its subsidiaries have provided a bridge loan in the amount of US\$16.5 million to the Selling Shareholders (including the Controlling Shareholder). The bridge loan will be repaid shortly after the Listing and the funding of repayment of the bridge loan will be sourced from proceeds raised by the Selling Shareholders from

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their sales of the Sale Shares as part of the Global Offering. Accordingly, BOCI is not considered to be independent pursuant to Rule 3A.07 of the Listing Rules. For further details for the bridging loan, please refer to the section headed “History and Corporate Structure” in this prospectus.

International Offering

International Underwriting Agreement

In connection with the International Offering, we, the Selling Shareholders, Ausnutria BVI, Mr Chen, Mr Wu, Mr Yan, Mrs Y Wu, Ms X Wu and the International Underwriters expect to enter into the International Underwriting Agreement. Under the International Underwriting Agreement, the International Underwriters to be named therein will severally agree to purchase or procure purchasers for the International Offer Shares.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators, on behalf of the International Underwriters, at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, the Joint Global Coordinators or its agent will have the right to require us to allot and issue up to an aggregate of 45,000,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. Macquarie Capital Securities Limited and BOCI are the Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers of the Global Offering. The Global Offering consists of (subject to the Over-allotment Option):

- the Hong Kong Public Offer of 30,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under the paragraph headed “The Hong Kong Public Offer”; and
- the International Offering of 270,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) in the United States with QIBs in reliance on Rule 144A, and outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to QIBs in the United States in reliance on Rule 144A, as well as to institutional and professional investors and other investors and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

The number of Hong Kong Offer Shares to be offered under the Hong Kong Public Offer and the number of International Offer Shares to be offered under the International Offering respectively may be subject to reallocation as described under the paragraph headed “Pricing and Allocation” below.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Wednesday, 30 September 2009 and in any event, no later than Tuesday, 6 October 2009.

The Offer Price will be not more than HK\$5.10 per Offer Share and is expected to be not less than HK\$3.60 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters and with the consent of our Company and the Selling Shareholders) considers the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range inappropriate, the Joint Bookrunners (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and

STRUCTURE OF THE GLOBAL OFFERING

in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer on Tuesday, 29 September 2009, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. The Offer Price, if agreed upon, will be fixed within such revised offer price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the offer price range as stated in this prospectus.

The Shares to be offered in the Hong Kong Public Offer and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares — IX. Publication of Results; Despatch/Collection of Share Certificates and Refunds of Application Monies — Publication of results” in this prospectus from Wednesday, 7 October 2009.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offer will be conditional upon:

- (a) the granting by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme;
- (b) the Offer Price being duly determined between us, the Selling Shareholders, the Joint Bookrunners (on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent that such conditions are validly waived on or before such dates and times) and in any event not later than Saturday, 24 October 2009, being the 30th day after the date of this prospectus. If for any reason, the Offer Price is not agreed by Tuesday, 6 October 2009 between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offer and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE HONG KONG PUBLIC OFFER

Number of Shares Initially Offered and Their Allocation

We are initially offering 30,000,000 Shares at the Offer Price, representing approximately 10% of the 300,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offer will represent 10% of our total issued share capital immediately after completion of the Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong

STRUCTURE OF THE GLOBAL OFFERING

Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allocated Offer Shares in the Hong Kong Public Offer.

For allocation purposes only, the total number of Hong Kong Offer Shares initially available for subscription by the public under the Hong Kong Public Offer, on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service (subject to any adjustment of the Shares between the International Offering and the Hong Kong Public Offer) will be divided equally (to the nearest board lot) into two pools for allocation purposes: Pool A and Pool B. The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with a total subscription amount of HK\$5 million or below (excluding brokerage, the SFC transaction levy and the Stock Exchange trading fee payable). The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with a total subscription amount of more than HK\$5 million (excluding brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total initial value of Pool B.

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. The applicant can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within Pool A or Pool B.

In the case of over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer, both in relation to Pool A and Pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications and any application for more than 50% of the Hong Kong Offer Shares initially being offered for subscription by the public (that is, to apply for more than 15,000,000 Shares) are liable to be rejected.

The allocation of Shares between the Hong Kong Public Offer and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offer, the total number of Offer Shares available under the Hong Kong Public Offer will be increased to 90,000,000, 120,000,000 and 150,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “Mandatory Reallocation”. In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B in the Hong Kong Public Offer.

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If the Hong Kong Public Offer is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators may, at their sole discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offer to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offer, regardless of whether the Mandatory Reallocation is triggered.

Applications

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Our Company, our Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who have received Shares in the International Offering and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offer.

The Offer Price will be not more than HK\$5.10 and is expected to be not less than HK\$3.60. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum Offer Price of HK\$5.10 per Offer Share plus 1.0% brokerage fee, 0.004% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$5.10, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered and Their Allocation

The number of Shares to be initially offered for subscription or sale under the International Offering will be 270,000,000 Shares (subject to adjustment and the Over-allotment Option) of which 170,000,000 Shares are to be issued by us and 100,000,000 Shares are to be offered for sale by the Selling Shareholders, representing approximately 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offer being unconditional.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process

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described in “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Joint Global Coordinators in order to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offer.

OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offer, being 29 October 2009. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require us to allot and issue up to an aggregate of 45,000,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilisation Manager may choose to borrow, whether on its own or through its affiliates and agents, up to 45,000,000 Shares from Brave Leader pursuant to a stock borrowing arrangement (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercise of the Over-allotment Option.

If such stock borrowing arrangement with Brave Leader is entered into, it will only be effected by the Stabilisation Manager or its agent for settlement of over-allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with:

- (a) the stock borrowing arrangement with Brave Leader will only be effected for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from Brave Leader will be limited to the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed (if any) must be returned to Brave Leader or its nominees (as the case may be), no later than three Business Days after the earlier of (i) the last day on which the Over-allotment Option may be exercised; and (ii) the day on which the Over-allotment Option is exercised in full;

STRUCTURE OF THE GLOBAL OFFERING

- (d) the stock borrowing arrangement will be effected in compliance with all applicable laws, Listing Rules and regulatory requirements; or
- (e) no payments will be made to Brave Leader by the Stabilisation Manager, in related to the stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilisation Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, being 29 October 2009. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilisation Manager or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilisation Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer, being 29 October 2009. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 45,000,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules, Chapter 571W of the Laws of Hong Kong. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; and (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in our Shares should note that:

- the Stabilisation Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilisation Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilisation Manager may have an adverse impact on the market price of our Shares;

STRUCTURE OF THE GLOBAL OFFERING

- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 29 October 2009, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilisation Manager may over-allocate up to and not more than an aggregate of 45,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Joint Global Coordinators on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilisation Manager may borrow up to 45,000,000 Shares from Brave Leader, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Brave Leader by the Stabilisation Manager in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 8 October 2009, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on 8 October 2009.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

We expect that we will, on or about 30 September 2009, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

METHODS TO APPLY FOR HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may either:

- (i) use a **WHITE** or **YELLOW** Application Form;
- (ii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf; or
- (iii) use the **White Form eIPO** method by submitting applications online through the designated website at www.eipo.com.hk.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by any of the above methods.

I. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares by means of **White Form eIPO**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Joint Global Coordinators (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators, or our respective agents or the designated **White Form eIPO** Service Provider (where applicable) have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as “associate” is defined in the Listing Rules) or U.S. persons (as defined in Regulation S) or persons who do not have a Hong Kong address or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Offer Shares under the International Offering, but may not do both.

Our Offer Shares are not available to our Directors, chief executive or any of their respective associates.

II. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.

Where to collect Application Forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Thursday, 24 September 2009 until 12:00 noon on Tuesday, 29 September 2009 from any of the following offices of the Hong Kong Underwriters:

Macquarie Capital Securities Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

or

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

or

CMB International Capital Corporation Limited
Units 1803–4, 18th Floor
Bank of America Tower
12 Harcourt Road
Hong Kong

or

First Shanghai Securities Limited
1905, Wing On House
71 Des Voeux Road
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of Bank of China (Hong Kong) Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (Kiu Fai Mansion) Branch	413–415 King’s Road, North Point
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Quarry Bay Branch	Parkvale, 1060 King’s Road, Quarry Bay
	Chai Wan Branch	Block B, Walton Estate, 341–343 Chai Wan Road, Chai Wan
	Shek Tong Tsui Branch	534 Queen’s Road West, Shek Tong Tsui
	Sheung Wan Branch	252 Des Voeux Road Central
Kowloon	Kwun Tong Branch	20–24 Yue Man Square, Kwun Tong
	Mong Kok Branch	589 Nathan Road, Mong Kok
	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
New Territories	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Castle Peak Road (Tsuen Wan) Branch	201–207 Castle Peak Road, Tsuen Wan
	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Thursday, 24 September 2009 until 12:00 noon on Tuesday, 29 September 2009 from:

the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong;

or

your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheques(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

By signing on the Application Form, you should note, among other thing, that you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (a) confirm that you have only relied on the information and representations in this prospectus and the Application Form in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (b) agree that we, our Directors, the Selling Shareholders, the Joint Global Coordinators, the Underwriters and other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (c) undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest for, applied for or taken up any of the International Offer Shares; and
- (d) agree to disclose to our Company, the Selling Shareholders, our Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators and its respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- (a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (b) If the application is made by an individual CCASS Investor Participant:
 - (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) If the application is made by a joint individual CCASS Investor Participant:
 - (i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and
 - (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) If the application is made by a corporate CCASS Investor Participant:
 - (i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorised attorney, our Company and the Joint Global Coordinators, may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. Our Company and the Joint Global Coordinators will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

How to make payment for the application

Each completed **WHITE** or **YELLOW** application form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the application form.

If you pay by cheque, the cheque must:

- (a) be in Hong Kong dollars;
- (b) be drawn on your Hong Kong dollar bank account in Hong Kong;
- (c) bear your account name (or, in the case of joint applicants, the name of the first-named applicant) either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorised signatory of the bank on which it is drawn, which must be the same as the name on your application form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- (d) be made payable to "Bank of China (Hong Kong) Nominees Limited — AUSNUTRIA Public Offer";
- (e) be crossed "Account Payee Only"; and
- (f) not be post dated.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- (a) be in Hong Kong dollars;
- (b) be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- (c) be made payable to "Bank of China (Hong Kong) Nominees Limited — AUSNUTRIA Public Offer";
- (d) be crossed "Account Payee Only"; and
- (e) not be post dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Tuesday, 29 September 2009. We will not give you a receipt for your payment. We will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) using the procedures contained in HKSCC's "An Operating Guide for Investor participants" in effect from time to time.

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

Giving Electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) on behalf of each such person, HKSCC Nominees:
 - (i) agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Offering;
 - (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
 - (vi) understands that the above declaration will be relied upon by us, our Directors, the Selling Shareholders and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
 - (vii) authorises us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that neither our Company, our Directors, the Selling Shareholders, the Joint Global Coordinators, the Underwriters, or any of the parties involved in the Global Offering will have any liability for any such other information or representation;
- (x) agrees that our Company, the Selling Shareholders, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (xi) agrees to disclose that person's personal data to our Company, the Selling Shareholders, our Hong Kong Share Registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer made by our Company;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(xvi) agrees with our Company, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance and the Articles of Association; and

(xvii) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, and the related brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

For more details, please refer to the section headed “Terms and Conditions of the Hong Kong Public Offer — Effect of Making Any Application” in this prospectus.

Minimum application amount and permitted numbers

You may use the Application Forms to subscribe for a minimum of 1,000 Hong Kong Offer Shares or for one of the numbers in the table in the Application Forms. You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us, our Hong Kong Share Registrar, receiving bankers, the Selling Shareholders, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Selling Shareholders, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 29 September 2009 or such later time as described in the paragraph headed “V. When May Applications Be Made — Effect of bad weather on the opening of the application lists” below.

IV. APPLYING THROUGH WHITE FORM eIPO

General

- (a) You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk if you satisfy the relevant eligibility criteria for this as set out in the subsection headed “I. Who Can Apply for Hong Kong Offer Shares” in this section and on the same website. If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to the Company.
- (c) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorised the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (d) In addition to the terms and conditions set out in this prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (e) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (f) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (g) You may submit your application to the designated White Form eIPO Service Provider through the designated website www.eipo.com.hk from 9:00 a.m. on Thursday, 24 September 2009 until 11:30 a.m. on Tuesday, 29 September 2009 or such later time as described under the sub-paragraph headed “Effect of bad weather on electronic applications under White Form eIPO service” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 29 September 2009, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the sub-paragraph headed “Effect of bad weather on electronic application under White Form eIPO service” below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

- (h) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Tuesday, 29 September 2009, or such later time as described under the paragraph headed “Effect of bad weather on electronic applications under White Form eIPO service” below, the designated White Form eIPO Service Provider will reject your application and your application monies will be refunded to you in the manner described in the designated website at www.eipo.com.hk.**
- (i) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (j) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. **We, our Directors, the Selling Shareholders, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated White Form eIPO Service Provider, will contribute HK\$2 per each “AUSNUTRIA DAIRY CORPORATION LTD” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS.

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and the White Form eIPO designated website at www.eipo.com.hk subject to the Articles of Association;
- **undertakes** and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that it is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** application form or by giving **electronic application instruction** to HKSCC or to the White Form eIPO Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;

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- **undertakes and confirms** that the applicant and the person for whose benefit the applicant is applying has not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, nor otherwise participate in the International Offering;
- **understands** that such declaration and representation will be relied upon by our Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **authorises** our Company to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this prospectus) to send any Share certificate(s) by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the White Form eIPO designated website at www.eipo.com.hk and this prospectus;
- **requests** that any refund payment instructions be despatched to the application payments bank account where the applicants had paid the application moneys from a single bank account;
- **requests** that any refund cheque(s) be made payable to the applicant who had used multi-bank accounts to pay the application monies;
- **has read** the terms and conditions and application procedures set out on the White Form eIPO designated website at www.eipo.com.hk and this prospectus and **agrees** to be bound by them;
- **represents, warrants and undertakes** that the applicant, and any persons for whose benefit the applicant are applying are non-U.S. person(s) outside the United States (as defined in Regulation S), when completing and submitting the application or is a person described in paragraph (h)(3) of Rule 902 of Regulation S or the allotment of or application for the Hong Kong Offer Shares to or by whom or for whose benefit the application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the law of Hong Kong.

Effect of bad weather on electronic application under White Form eIPO service

The latest time for submitting an application to the designated White Form eIPO Service Provider through **White Form eIPO** service will be 11:30 a.m. on Tuesday, 29 September 2009 and the latest time for completing full payment of application monies will be 12:00 noon on Tuesday, 29 September 2009. If:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a "black" rainstorm warning signal,

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is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 29 September 2009, the latest time to complete the application and the latest time to complete payment will be postponed to 11:30 a.m. and 12:00 noon respectively on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

If the application lists of the Hong Kong Public Offer do not open and close on Tuesday, 29 September 2009 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. A press announcement will be made in such event in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).

Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an electronic application instruction through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- instruct and authorise our Company and the Joint Global Coordinators as agent for our Company (or its respective agents or nominees) to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the White Form eIPO designated website at www.eipo.com.hk;
- confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- agree that our Company and our Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

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- (if the application is made for your own benefit) warrant that it is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service;
- (if you are an agent for another person) warrant reasonable enquiries have been made of that other person that it is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorised to submit the application as that other person's agent;
- undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Offering;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- agree to disclose to our Company, our Hong Kong Share Registrar, receiving bankers, the Joint Global Coordinators and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- agree with our Company and each shareholder, and our Company agrees with each of the shareholders, to observe and comply with the Companies Ordinance, the Memorandum and Articles of Association;
- agree with our Company and each shareholder that the Shares are freely transferable by the holders thereof;
- authorise our Company to enter into a contract on your behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum and Articles of Association;
- represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);
- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the application or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and the White Form eIPO designated website at www.eipo.com.hk and agree to be bound by them;
- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under your application; and

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- if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and the White Form eIPO designated website at www.eipo.com.hk.

Our Company, the Joint Global Coordinators, the Underwriters and their respective directors, officers, employees, partners, agents, advisors, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Power of attorney

If your application is made by a duly authorised attorney, our Company or the Joint Global Coordinators, as its agent, may accept it at its discretion and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of application monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any application monies payable to you due to a refund for other reasons are set out in the subsection headed “IX. Publication of Results; Despatch/Collection of Share Certificates and Refunds of Application Monies” below.

V. WHEN MAY APPLICATIONS BE MADE

Applications on WHITE or YELLOW Application Forms

Completed **WHITE** and **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon Tuesday, 29 September 2009, or, if the application lists are not open on that day, then by 12:00 noon on the next day that the lists are open.

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Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banker listed under the subsection headed “II. Applying by Using an Application Form — Where to collect Application Forms” above at the following times:

Thursday, 24 September 2009 — 9:00 a.m. to 5:00 p.m.
Friday, 25 September 2009 — 9:00 a.m. to 5:00 p.m.
Saturday, 26 September 2009 — 9:00 a.m. to 1:00 p.m.
Monday, 28 September 2009 — 9:00 a.m. to 5:00 p.m.
Tuesday, 29 September 2009 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 29 September 2009.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until the closing of the application lists. No allotment of any of the Hong Kong Offer Shares will be made later than the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong).

Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Thursday, 24 September 2009 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 25 September 2009 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 26 September 2009 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, 28 September 2009 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 29 September 2009 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These dates and times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 24 September 2009 until 12:00 noon on Tuesday, 29 September 2009 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Tuesday, 29 September 2009, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal “number 8” or above; or

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- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 29 September 2009. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offer do not open and close on Tuesday, 29 September 2009 or if there is a tropical cyclone warning signal “number 8” or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made in such event.

VI. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications or suspected multiple applications are liable to be rejected. You may not make more than one application for Hong Kong Offer Shares unless: you are a nominee, in which case you may both give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for *each* beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to a **WHITE** or **YELLOW** Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service; or

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- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorised to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service; or
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service; or
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service for more than 15,000,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offer; or
- have indicated an interest for or have been or will be placed any of the International Offer Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company; or
- control more than one half of the voting power of the company; or
- hold more than one half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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VII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- (a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service you agree that your application or the application made by HKSCC Nominees on your behalf or the White Form eIPO Service Provider cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application or submit your **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf or the White Form eIPO Service Provider has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- (b) Full discretion of our Company, the Joint Global Coordinators or our or the Joint Global Coordinators' respective agents or nominees to reject or accept:

We, the Joint Global Coordinators or White Form eIPO Service Provider or our or its respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

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(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** application form) will be void if the Listing Committee does not grant permission to list the Hong Kong Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares. By filling in any of the Application Forms or submitting electronic application instructions to HKSCC or to the White Form eIPO Service Provider via the White Form eIPO service, you agree not to apply for or indicate an interest for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- you apply for more than 15,000,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offer);
- our Company believes that by accepting your application, we would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located;
- the Underwriting Agreements do not become unconditional; or
- the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement are/is terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Offering, but may not do both.

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VIII. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$5.10 per Hong Kong Offer Share. You must also pay a brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Hong Kong Offer Shares, you will pay approximately HK\$5,151.46. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for. You must pay the maximum Offer Price and related brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms or this prospectus.

If your application is successful, the brokerage fee will be paid to participants of the Stock Exchange or the Stock Exchange, the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy collected by the Stock Exchange on behalf of the SFC).

IX. PUBLICATION OF RESULTS; DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

Publication of results

We expect to announce the Offer Price, an indication of the level of interest in the International Offering, the level of applications under the Hong Kong Public Offer, the basis of allocation of the Hong Kong Offer Shares and the results of applications under the Hong Kong Public Offer no later than 9:00 a.m. on Wednesday, 7 October 2009 and in the manner specified below:

- on the website of the Stock Exchange at www.hkexnews.hk; and
- on the website of our Company at www.ausnutria.com.hk for at least five consecutive days.

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Offering, the level of applications of the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares will be published by us on Wednesday, 7 October 2009 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

In addition, we expect to announce the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offer will be available from our designated results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Wednesday, 7 October 2009 to 12:00 midnight on Tuesday, 13 October 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;

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- Results of allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 7 October 2009 to Saturday, 10 October 2009; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 7 October 2009 to Friday, 9 October 2009 at all the receiving bank branches and sub-branches at the addresses set out in the section headed “How to Apply for Hong Kong Offer Shares — II. Applying by Using an Application Form — Where to collect Application Forms” in this prospectus.

Despatch/collection of share certificates/e-Refund payment instructions/refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- (a) for applications on **WHITE** application forms or by giving electronic application instructions through **White Form eIPO** service:
 - (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** application forms: Share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** application forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the final Offer Price and the maximum Offer Price per Hong Kong Offer Share paid on application in the event that the Offer Price is less than the offer price per Offer Share

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initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

- (c) for applicants apply through the **White Form eIPO** service by paying the application monies through a single bank account and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on applicant's application, e-Refund payment instructions (if any) will be despatched to application payment bank account on or around Wednesday, 7 October 2009.
- (d) for applicants apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on applicant's application, refund cheque(s) will be sent to the address specified in applicant's application instructions to the designated White Form eIPO Service Provider on or around Wednesday, 7 October 2009, by ordinary post and at applicant's own risk.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **WHITE** or **YELLOW** application forms and Share certificates for wholly and partially successful applicants under **WHITE** application forms or by giving electronic application instructions through **White Form eIPO** service are expected to be posted on or around Wednesday, 7 October 2009. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 8 October 2009 provided that the Hong Kong Public Offer has become unconditional in all respects and the rights of termination described in the paragraph headed "Grounds for Termination" in the section headed "Underwriting" in this prospectus have not been exercised. You will receive one Share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** application form or by **electronic application instructions** to HKSCC where Share certificates will be deposited in CCASS).

WHITE application form

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have indicated on your application form that you will collect your Share certificate(s) (where applicable) and/or refund cheque (if any) in person, you may collect it/them from:

HOW TO APPLY FOR HONG KONG OFFER SHARES

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on Wednesday, 7 October 2009 or any other date notified by our Company in the newspapers as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques.

If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must, in any event, produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your Share certificate(s) (if any) and/or refund cheque (if any) within the time for collection specified above, they will be sent to you by ordinary post to the address as specified in your application form (or the address of the first-named applicant in case of a joint application) and at your own risk shortly after the time for collection.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your Share certificate(s) (if any) and/or refund cheque (if any) in person; or if you have applied for less than 1,000,000 Hong Kong Offer Shares; or if your application is rejected, not accepted or accepted in part only; or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus, or if any application is revoked or any allotment pursuant thereto has become void, then your Share certificate(s) (where applicable) and/or refund cheque (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, the SFC transaction levy and the Stock Exchange trading fee (without interest) will be sent to the address on your Application Form (or the address of the first-named applicant in case of a joint application) by ordinary post and at your own risk on the date of despatch.

If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 October 2009.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk on Wednesday, 7 October 2009 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to your application payment bank account on or around Wednesday, 7 October 2009.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider on or around Wednesday, 7 October 2009, by ordinary post and at your own risk.

YELLOW application form

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** application form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** application form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offer — Conditions of the Hong Kong Public Offer" in this prospectus, or if any application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) in respect of the application monies or the appropriate parties thereof, together with the related brokerage, the SFC transaction levy and the Stock Exchange trading fee (without interest) will be sent to the address on your application form by ordinary post and at your own risk.

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Wednesday, 7 October 2009, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of the Hong Kong Offer Shares allotted to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are applying as a CCASS investor participant:

- our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Wednesday, 7 October 2009. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 October 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the "CCASS Phone System" and "CCASS Internet System" (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply by giving electronic application instructions to HKSCC

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant's stock account at the close of business on Wednesday, 7 October 2009, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

Our Company will publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, where supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner described in the paragraph headed "Publication of results" in this section above on Wednesday, 7 October 2009.

You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 October 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 7 October 2009. Immediately after the credit of the relevant portion of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and

HOW TO APPLY FOR HONG KONG OFFER SHARES

Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 7 October 2009. No interest will be paid thereon.

Refund of application monies

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including related brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Offer Share (excluding brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Wednesday, 7 October 2009 in accordance with the various arrangements as described above.

X. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 8 October 2009. The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 1717.

XI. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

GENERAL

If you apply for Hong Kong Offer Shares in the Hong Kong Public Offer you will be agreeing with our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) as set out below.

If you electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees is applying for the Hong Kong Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC and references to making applications electronically by submitting an application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk for the White Form eIPO service.

Applicants should read this prospectus carefully, including other terms and conditions of the Hong Kong Public Offer set out in this prospectus, and in the relevant Application Form or imposed by HKSCC prior to making an application for Hong Kong Offer Shares.

OFFER TO ACQUIRE THE HONG KONG OFFER SHARES

You offer to purchase from us at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form or inputted via CCASS electronically as the case may be (or any smaller number in respect of which the application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

For applicants using Application Forms, where applicable, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the Offer Price and the maximum offer price (including, in each case, the related brokerage, the SFC transaction levy and the Stock Exchange trading fee), is expected to be sent to you at your own risk to the address stated on your Application Forms on or before Wednesday, 7 October 2009.

Details of the procedure for refunds relating to each of the Hong Kong Public Offer methods are contained in the section headed “How to Apply for Hong Kong Offer Shares — IX. Publication of Results; Despatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus.

Any application may be rejected in whole or in part.

Applicants under the Hong Kong Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

ACCEPTANCE OF YOUR OFFER

The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the Offer Price, the level of applications in the Hong Kong Public Offer, the basis of allocations of the Hong Kong Offer Shares and the final number of the Hong Kong Offer Shares comprised in the Hong Kong Public Offer in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, 7 October 2009.

The results of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offer, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registrations numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Wednesday, 7 October 2009 in the manner described in the section headed “How to Apply for Hong Kong Offer Shares — IX. Publication of Results; Despatch/ Collection of Share Certificates and Refunds of Application Monies” in this prospectus.

We may accept your offer to purchase (if the application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to subscribe for the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

EFFECT OF MAKING ANY APPLICATION

All applications

By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- instruct and authorise our Company and/or the Joint Global Coordinators (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our Articles of Association;
- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form and you are not a U.S. person (as defined in Regulation S);
- confirm that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making the application, and not on any other information or representation concerning our Company and you agree that none of our Company,

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

the Joint Global Coordinators or the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering will have any liability for any such other information or representations;

- agree (without prejudice to any other rights which you may have) that once the application has been accepted, you may not rescind it because of an innocent misrepresentation;
- if the application is made for your own benefit, warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service;
- if the application is by an agent on your behalf, warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service, and that you are duly authorised to sign the Application Form or to give electronic application instructions as that other person's agent;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- warrant the truth and accuracy of the information contained in your application;
- agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bankers and the Joint Global Coordinators and their respective agents any personal data and information about you or the person(s) for whose benefit you have made the application;
- agree that the application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- agree that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offer made available by our Company;
- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in the Application Form that you will collect the Share certificate(s) (where applicable) and/or refund cheque (as applicable) in person, and you have collected the Share certificate(s) and refund cheque (where applicable) in accordance with the terms set out in this prospectus);

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- understand that these declarations and representations will be relied upon by our Company and the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators or the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to acquire, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- agree with us, for ourselves and the benefit of each of our shareholders, and we agree with each of our shareholders, to observe and comply with the Cayman Companies Law, the laws of Hong Kong, our Memorandum of Association and Articles of Association;
- agree with us, for ourselves and for the benefit of each of our shareholders, that the Shares are freely transferable by our shareholders;
- authorise us to enter into a contract on your behalf with each of our Directors and officers under which such Directors and officers undertake to observe and comply with their obligations to shareholders stated in our Memorandum of Association and our Articles of Association; and
- confirm that you are aware of the restrictions on offering of the Hong Kong Offer Shares described in this prospectus.

Applications using a YELLOW Application Form

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in the subsection above entitled “All applications”, you (and in the case of joint applicants, each of you jointly and severally) agree that:

- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
- each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion:
 - (i) not to accept any or part of the Hong Kong Offer Shares allocated to you in the name of HKSCC Nominees or not to accept such allocated Hong Kong Offer Shares for deposit into CCASS;
 - (ii) to cause such allocated Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, in the case of joint applicants, to the name of the first-named applicant) at your own risk and costs; and
 - (iii) to cause such allocated Hong Kong Offer Shares to be issued in your name (or, in the case of joint applicants, to the first-named applicant) and in such a case, to post the Share certificates for such allocated Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
- each of HKSCC and HKSCC Nominees may adjust the number of the Hong Kong Offer Shares issued in the name of HKSCC Nominees;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

Electronic application instructions

By giving **electronic application instructions** to HKSCC or instructing a broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC via CCASS, you (and in the case of joint applicants, each of you jointly and severally) are deemed to do the following additional things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of such things:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instruct and authorise HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the maximum offer price, refund the appropriate portion of the application money by crediting your designated bank account; and
- where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for Hong Kong Offer Shares, in addition to the confirmations and agreements set out in the subsection above headed “All applications” instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following and any other thing which it is stated to do on your behalf in the **WHITE** Application Form:
 - (i) agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - (ii) undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (iii) undertake and confirm that you have not applied for or taken up any International Offer Shares under the International Offering nor otherwise participated in the International Offering;
 - (iv) (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (v) (if you are an agent for another person) declare that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person’s agent;
 - (vi) understand that the above declaration will be relied upon by our Company, our Directors and the Joint Global Coordinators in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

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- (vii) authorise our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send Share certificates and/or refund monies in accordance with arrangements separately agreed between our Company and HKSCC;
- (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (ix) confirm that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker/custodian to give **electronic application instructions** on your behalf;
- (x) agree that our Company, the Joint Global Coordinators, the Underwriters and any other parties involved in the Hong Kong Public Offer are liable only for the information and representations contained in this prospectus;
- (xi) agree without prejudice to any other rights which you may have that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- (xii) agree to disclose your personal data to our Company, the Joint Global Coordinators, our Hong Kong Share Registrar, the receiving bankers, their respective agents and advisors together with any information about you which they require;
- (xiii) agree that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- (xiv) agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offer made available by our Company;
- (xv) agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;

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- (xvi) agree with us, for ourselves and the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the laws of Hong Kong, our Memorandum of Association and our Articles of Association;
- (xvii) agree with us, for ourselves and for the benefit of each of our shareholders, that the Shares are freely transferable by our shareholders;
- (xviii) authorise us to enter into a contract on your behalf with each of our Directors and officers under which such Directors and officers undertake to observe and comply with their obligations to shareholders stated in our Memorandum of Association and our Articles of Association; and
- (xix) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Reliance on warranty, representation or declarations made in any applications

Our Company, the Joint Global Coordinators, the Underwriters, any other parties involved in the Hong Kong Public Offer and their respective directors, officers, employees, partners, agents and advisors are entitled to rely on any warranty, representation or declaration made by you in your application.

Joint and several liability

All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

PERSONAL DATA — PERSONAL INFORMATION COLLECTION STATEMENT

The main provisions of the Personal Data (Privacy) Ordinance (the “Ordinance”) came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of Hong Kong Offer Shares, of the policies and practices of our Company and our Hong Kong Share Registrar in relation to personal data and the Ordinance.

Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and our Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of our Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being delayed or your application may not be considered. It may also prevent or delay registration or transfer of the securities which you have successfully applied for and/or the despatch of Share certificate(s), and/or the despatch of e-Refund payment instruction/refund cheque(s) to which you are entitled.

It is important that holders of securities inform us and our Hong Kong Share Registrar immediately of any inaccuracies in the data supplied.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

Purposes

The personal data of applicants and holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- Processing of your application and e-Refund payment instruction/refund cheque(s), where applicable, and verification of compliance with the terms and application procedures set out in this prospectus and the Application Forms and announcing results of allocations of Hong Kong Offer Shares;
- Registering new issues or transfers into or out of the name of holders of securities including, where applicable, HKSCC Nominees;
- Maintaining or updating the register of holders of securities of our Company;
- Conducting or assisting to conduct signature verifications, any verification or exchange of information;
- Establishing benefit entitlements of holders of securities of our Company, such as dividends, right issues and bonus issues etc.;
- Distributing communications from our Company and our subsidiaries;
- Compiling statistical information and investor profiles;
- Enabling compliance with all applicable laws, rules and regulations (whether statutory or otherwise) in Hong Kong or elsewhere;
- Disclosing relevant information to facilitate claims on entitlements; and
- Any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and/or any other purposes to which the holders of securities may from time to time agree.

Transfer of personal data

Personal data (including Hong Kong identity card details) held by our Company and our Hong Kong Share Registrar relating to the applicant and the holders of securities will be kept confidential but our Company and our Hong Kong Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or transfer (whether within or outside Hong Kong) the personal data of you and the holders of securities to, from or with any and all of the following persons and entities:

- Our Company or our appointed agents such as financial advisors and receiving bankers;
- Where applicants for Hong Kong Offer Shares request deposit into CCASS, to HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- Any broker whose company chop or other identification number has been placed on the Application Form;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFER

- Any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company or our Hong Kong Share Registrar in connection with the operation of their respective businesses;
- The Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies in Hong Kong or elsewhere; and
- Any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

24 September 2009

The Directors

Ausnutria Dairy Corporation Ltd
Macquarie Capital Securities Limited
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the years ended 31 December 2006, 2007 and 2008, and the six-month period ended 30 June 2009 (the “Relevant Periods”), and the six-month period ended 30 June 2008 (the “30 June 2008 Financial Information”), prepared on the basis of presentation set forth in note 2 of Section II, for inclusion in the initial public offering document of the Company dated 24 September 2009 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. On 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited, a company incorporated in the British Virgin Islands, which is the holding company of the other subsidiaries comprising the Group as set out in note 1 of Section II pursuant to a group reorganisation (the “Reorganisation”). Apart from the aforesaid acquisition, the Company has not commenced any business or operation since its incorporation.

The Group is principally engaged in the production, distribution and sale of high-priced and premium-priced paediatric milk formula products in the People’s Republic of China (the “PRC”).

The financial information set out in this report, including the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for each of the Relevant Periods, and the combined statement of financial position of the Group as at 31 December 2006, 2007 and 2008, and 30 June 2009, together with the notes thereto (collectively referred to as the “Financial Information”), has been prepared based on the combined financial statements of the Group in accordance with International Financial Reporting Standards (the “IFRSs”, which include all International Financial Reporting Standards, International Accounting Standards (the “IAS”) and Interpretations) issued by the International Accounting Standards Board (the “IASB”) and is presented on the basis set out in note 2 of Section II which was audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In preparing this report, no adjustments were considered necessary to restate the audited combined financial statements of the Group.

Respective Responsibilities of Directors and Reporting Accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

The Financial Information set out in this report has been prepared based on the audited combined financial statements of the Group as if the Reorganisation had been completed as at the beginning of the Relevant Periods.

The 30 June 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

Procedures Performed in Respect of the Financial Information

We have audited the combined financial statements of the Group for the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009, which were prepared by the directors of the Company in accordance with IFRSs. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have examined the audited combined financial statements of the Group for the Relevant Periods, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists principally of making enquiries of the management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in Respect of the Financial Information

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007 and 2008, and 30 June 2009 and that of the Company as at 30 June 2009, and of the Group's combined comprehensive income and the combined cash flows for each of the Relevant Periods in accordance with IFRSs.

Review conclusion in Respect of the 30 June 2008 Financial Information

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that 30 June 2008 Financial Information does not give a true and fair view of the combined comprehensive income and cash flows of the Group for the six-month period ended 30 June 2008 in accordance with IFRSs.

I. FINANCIAL INFORMATION

Combined Statement of Comprehensive Income

The following is a summary of the combined statement of comprehensive income of the Group for each of the Relevant Periods and six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II:

	Notes	Year ended 31 December			Six-month period ended	
					30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
REVENUE	6	93,716	186,526	405,166	174,634	320,972
Cost of sales		(48,443)	(107,729)	(259,163)	(108,258)	(184,711)
Gross profit		45,273	78,797	146,003	66,376	136,261
Other revenue and gains	6	60	1,045	836	484	4,547
Selling and distribution costs		(21,877)	(43,335)	(56,628)	(27,271)	(44,717)
Administrative expenses		(4,731)	(8,039)	(9,162)	(4,433)	(4,720)
Other expenses		(3,300)	(234)	(695)	(607)	(121)
Finance costs	7	(536)	(493)	(859)	—	(4,181)
Profit before tax	8	14,889	27,741	79,495	34,549	87,069
Tax	11	(3,036)	(5,368)	(8,966)	(4,370)	(21,908)
PROFIT FOR THE YEAR/ PERIOD		11,853	22,373	70,529	30,179	65,161
Other comprehensive income:						
Exchange difference on translating foreign operations		—	(5)	25	—	(10)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD		<u>11,853</u>	<u>22,368</u>	<u>70,554</u>	<u>30,179</u>	<u>65,151</u>
Profit attributable to:						
Owners of the Company		<u>11,853</u>	<u>22,373</u>	<u>70,529</u>	<u>30,179</u>	<u>65,161</u>
Total comprehensive income attributable to:						
Owners of the Company		<u>11,853</u>	<u>22,368</u>	<u>70,554</u>	<u>30,179</u>	<u>65,151</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY — basic (RMB)	13	<u>1.48 cents</u>	<u>2.80 cents</u>	<u>8.82 cents</u>	<u>3.77 cents</u>	<u>8.15 cents</u>

I. FINANCIAL INFORMATION — continued

Combined Statement of Financial Position

The following is a summary of the combined statement of financial position of the Group as at the end of each of the Relevant Periods, prepared on the basis set out in note 2 of Section II:

	Notes	As at 31 December			As at
		2006	2007	2008	30 June
		<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>2009</u>
				<u>RMB'000</u>	
NON-CURRENT ASSETS					
Property, plant and equipment	14	2,237	22,369	26,434	27,045
Lease prepayments for land use rights	15	—	2,427	2,370	2,342
Intangible assets	16	453	460	393	359
Total non-current assets		<u>2,690</u>	<u>25,256</u>	<u>29,197</u>	<u>29,746</u>
CURRENT ASSETS					
Inventories	17	8,531	28,824	79,965	48,119
Trade and bills receivables	18	5,702	4,544	6,355	24,470
Prepayments, deposits and other receivables	19	11,886	33,084	33,865	46,768
Cash and cash equivalents	20	<u>21,448</u>	<u>24,939</u>	<u>77,659</u>	<u>138,843</u>
Total current assets		<u>47,567</u>	<u>91,391</u>	<u>197,844</u>	<u>258,200</u>
CURRENT LIABILITIES					
Trade payables	21	2,755	2,267	14,480	12,868
Other payables and accruals	22	45,344	71,680	69,889	188,738
Interest-bearing bank loan	23	—	—	30,000	—
Tax payable		<u>2,930</u>	<u>7,706</u>	<u>7,124</u>	<u>18,120</u>
Total current liabilities and total liabilities		<u>51,029</u>	<u>81,653</u>	<u>121,493</u>	<u>219,726</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>(3,462)</u>	<u>9,738</u>	<u>76,351</u>	<u>38,474</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
NET ASSETS/(LIABILITIES).		<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
EQUITY					
Equity attributable to the owners of the Company and total equity					
Issued capital	24	—	—	—	—
Retained earnings/ (accumulated losses)		(11,161)	10,091	73,567	138,728
Other components of equity		<u>10,389</u>	<u>24,903</u>	<u>31,981</u>	<u>(70,508)</u>
Total equity		<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>

I. FINANCIAL INFORMATION — continued

Combined Statement of Changes in Equity

The movements in the combined statement of changes in equity of the Group for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II, are as follows:

	Attributable to owners of the Company and total equity					Total
	Issued capital	Capital reserves	Statutory surplus reserve	Exchange fluctuation reserve*	Retained earnings/ (accumulated losses)	
	(note (ii))*	(note (iii))*				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	10,008	33	—	(22,666)	(12,625)
Total comprehensive income for the year	—	—	—	—	11,853	11,853
Transfer to statutory surplus reserves	—	—	348	—	(348)	—
At 1 January 2007	—	10,008	381	—	(11,161)	(772)
Total comprehensive income for the year	—	—	—	(5)	22,373	22,368
Transfer to statutory surplus reserves	—	—	1,121	—	(1,121)	—
Contribution from the owners (note (i))	—	13,398	—	—	—	13,398
At 1 January 2008	—	23,406	1,502	(5)	10,091	34,994
Total comprehensive income for the year	—	—	—	25	70,529	70,554
Transfer to statutory surplus reserves	—	—	7,053	—	(7,053)	—
At 31 December 2008	—	23,406	8,555	20	73,567	105,548
Total comprehensive income for the period	—	—	—	(10)	65,161	65,151
Distribution to the owners (note (iv))	—	(102,479)	—	—	—	(102,479)
At 30 June 2009	—	(79,073)	8,555	10	138,728	68,220
Six-month period ended 30 June 2008 (unaudited)						
At 1 January 2008	—	23,406	1,502	(5)	10,091	34,994
Total comprehensive income for the period	—	—	—	—	30,179	30,179
At 30 June 2008	—	23,406	1,502	(5)	40,270	65,173

* These components of equity comprise the other components of equity of RMB10,389,000, RMB24,903,000, RMB31,981,000 and RMB(70,508,000) in the combined statement of financial position as at 31 December 2006, 2007 and 2008, and 30 June 2009, respectively. A subsidiary of the Company received capital injection of RMB102.5 million from the Company's shareholders by way of cash in July 2009.

I. FINANCIAL INFORMATION — continued***Combined Statement of Changes in Equity — continued****Notes:*

- (i) In November 2007, Hunan Mornring Foodstuff Co., Ltd. (“Mornring”), a fellow subsidiary of the Company, transferred items of property, plant and equipment and a lease prepayment for land use rights with an aggregate net carrying value of RMB16,339,000 to the Group at nil consideration through local government authorities (the “Transfer”). The contribution from the owners of the Group represents the net carrying value of items of property, plant and equipment and the lease prepayment for land use rights transferred to the Group after subtracting a tax provision of RMB2,941,000 incurred directly from the Transfer.
- (ii) Capital reserves represent the aggregate issued paid-in capital of subsidiaries comprising the Group and contribution from the owners as mentioned in note (i) above after subtracting the distribution to the owners as mentioned in note (iv) below.
- (iii) In accordance with the PRC Company Law, the Company’s subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years’ losses) determined in accordance with generally accepted accounting principles in the PRC (the “PRC GAAP”) to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity’s registered capital. The statutory surplus reserve can be utilised to offset prior years’ losses or to increase capital, provided the remaining balance of the statutory surplus reserve is not less than 25% of registered capital.
- (iv) The distribution to the owners represented payables to the then equity holders of Ausnutria Dairy (Hunan) Co., Ltd. (“Ausnutria Hunan”), a subsidiary of the Company, to transfer the legal titles of 75% equity interests in Ausnutria Hunan to the Group pursuant to the Reorganisation. Since the 75% equity interests in Ausnutria Hunan were ultimately owned by the shareholders of the Company both before and after the transfer of 75% equity interests in Ausnutria Hunan to the Group, the transfer was accounted for as a distribution to the owners of the Company. The payables were fully settled by capital injections to the Group from its shareholders in July 2009.

I. FINANCIAL INFORMATION — continued

Combined Statement of Cash Flows

The combined statement of cash flows of the Group for each of the Relevant Periods and six-month period ended on 30 June 2008, prepared on the basis set out in note 2 of Section II, are as follows:

	Notes	Year ended 31 December			Six-month period ended	
					30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		14,889	27,741	79,495	34,549	87,069
Adjustments for:						
Finance costs	7	536	493	859	—	4,181
Interest income	6	(60)	(669)	(836)	(484)	(4,054)
Depreciation	8	399	643	2,089	875	1,239
Loss on disposal of property, plant and equipment	8	—	—	—	—	16
Impairment of trade and bills receivables	8	1,560	—	—	—	—
Amortisation of intangible assets	8	58	65	67	34	34
Amortisation of lease prepayments for land use rights	8	—	5	57	28	28
		17,382	28,278	81,731	35,002	88,513
(Increase)/decrease in inventories		(5,337)	(20,293)	(51,141)	(27,117)	31,846
(Increase)/decrease in trade and bills receivables		(5,284)	1,158	(1,811)	(1,072)	(18,115)
(Increase)/decrease in prepayments, deposits and other receivables		(7,842)	(21,554)	18,183	15,824	(31,763)
Increase/(decrease) in trade payables		153	(488)	12,213	320	(1,612)
Increase/(decrease) in other payables and accruals		19,308	21,379	(4,050)	(17,053)	17,467
Cash generated from operations		18,380	8,480	55,125	5,904	86,336
Interest paid		(536)	(493)	(859)	—	(4,181)
Interest received		60	669	836	484	4,054
PRC tax paid		(235)	(3,533)	(9,548)	(3,840)	(10,912)
Net cash inflow from operating activities		17,669	5,123	45,554	2,548	75,297
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(100)	(7,096)	(6,079)	(1,057)	(1,852)
Purchase of intangible assets	16	(37)	(72)	—	—	—
(Increase)/decrease in amounts due from related parties included in prepayments, deposits and other receivables		(543)	453	(17,995)	(17,995)	18,003
Net cash inflow/(outflow) from investing activities		(680)	(6,715)	(24,074)	(19,052)	16,151
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans	23	—	—	30,000	—	160,000
Repayment of bank loans		—	—	—	—	(190,000)
Increase/(decrease) in amounts due to related parties included in other payables and accruals		(964)	5,088	1,215	(18)	(254)
Net cash inflow/(outflow) from financing activities		(964)	5,088	31,215	(18)	(30,254)
NET INCREASE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		5,423	21,448	24,939	24,939	77,659
Effect of foreign exchange rate changes, net		—	(5)	25	—	(10)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		21,448	24,939	77,659	8,417	138,843
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents	20	21,448	24,939	77,659	8,417	138,843

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate Information and The Reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The authorised share capital of the Company was HK\$150,000,000 divided into 1,500,000,000 shares of HK\$0.10 each. The registered office of the Company is located at Room 305, 3rd Floor, Arion Commercial Centre, 2–12 Queen's Road West, Hong Kong.

During the Relevant Periods, the Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed "Corporate reorganisation" in Appendix VI "Statutory and General Information" of the Prospectus.

At the date of this report, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	indirect	
Spring Choice Limited (i) . . .	British Virgin Islands 22 April 2009	US\$200	100	—	Investment holding
Ausnutria Dairy Co., Ltd. ("Ausnutria Hong Kong") (iii)	Hong Kong 25 January 2007	HK\$1	—	100	Investment holding
Ausnutria Australia Dairy Pty Ltd. ("Ausnutria Australia") (i)	Australia 7 October 2003	A\$500,000	—	100	Investment holding
Ausnutria Dairy Hunan Co., Ltd 澳優乳品湖南有限公司 ("Ausnutria Hunan") (ii) .	PRC 15 September 2003	RMB10,000,000	—	100	Production, marketing and distribution of paediatric nutrition products
Ausnutria Dairy (HK) Company Limited (iv) . . .	Hong Kong 3 November 2008	HK\$100	—	100	Investment holding

All companies comprising the Group have adopted 31 December as their financial year end date.

- (i) No statutory audited financial statements have been prepared since its date of incorporation as it is not subject to any statutory audit requirements in its jurisdiction of incorporation.
- (ii) The statutory audited financial statements for each of the years ended 31 December 2006, 2007 and 2008 prepared in accordance with the PRC GAAP were audited by Hunan Licheng Certified Public Accountants (湖南里程會計師事務所) registered in the PRC, Changsha Xiang'an United Certified Public Accountants (長沙湘安聯合會計師事務所) registered in the PRC and Hunan Licheng Certified Public Accountants, respectively.

II. NOTES TO THE FINANCIAL INFORMATION — continued

1. Corporate Information and The Reorganisation — continued

- (iii) The statutory audited financial statements for the period from 25 January 2007 (date of incorporation) to 31 December 2007 and for the year ended 31 December 2008 prepared in accordance with Small and Medium-sized Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants were audited by Lee Wai Ming Certified Public Accountants incorporated in Hong Kong.
- (iv) Ausnutria Dairy (HK) Company Limited was acquired by the Group on 5 July 2009 from independent third parties at cash consideration of HK\$100. Ausnutria Dairy (HK) Company Limited did not carry out any business since its establishment.

2. Basis of Presentation

Pursuant to the Reorganisation, the Company became the ultimate holding company of the companies now comprising the Group since 15 September 2009. Since Mr Wu Yueshi controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as reorganisation under common control in a manner similar to the pooling of interests. As a result, the Group's financial information during the Relevant Periods is prepared under the basis as if the Reorganisation had been completed at the beginning of the Relevant Periods.

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

3. Summary of Significant Accounting Policies

Basis of preparation

The Financial Information has been prepared in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. This report has been prepared on a historical cost basis. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The IASB and IFRIC have issued a number of new and revised IFRSs and interpretations, which are generally effective for accounting periods beginning on or after 1 January 2006. The Group has early adopted the new IFRSs throughout the Relevant Periods as follows:

IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 21 Amendment	<i>Net Investment in a Foreign Operation</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 11	<i>IFRS 2 — Group and Treasury Share Transactions</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued**

Apart from the above, the Group has early adopted Improvements to IFRSs* issued by IASB, except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009

* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued***Property, plant and equipment and depreciation*

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

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

Buildings	25 years
Leasehold improvements	8 years
Machinery	5–8 years
Office equipment	5 years
Motor vehicles	5 years

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

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

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

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

Intangible asset (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued***Leases*

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Lease prepayments for land use rights

Lease prepayments for land use rights represent land use rights paid to the PRC government authorities. Land use rights are initially stated at cost and subsequently charged to the combined statement of comprehensive income on the straight-line basis over the respective periods of the rights of 50 years. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and building as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium-priced on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued***Impairment of financial assets*

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued*****Financial liabilities at amortised cost (including interest-bearing loans)***

Financial liabilities including trade, bills and other payables and interest-bearing bank borrowings are initially stated at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the statement of comprehensive income.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Inventories

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

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued*****Revenue recognition***

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

- (i) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Retirement benefit schemes

The Group's subsidiaries which operate in Mainland China participate in defined contribution retirement benefit schemes organised by the local government authorities in the PRC. These subsidiaries are required to make contributions to the retirement benefit schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the statement of comprehensive income of the Group as they become payable in accordance with the rules of the schemes.

Income tax

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

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

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

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

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

II. NOTES TO THE FINANCIAL INFORMATION — continued**3. Summary of Significant Accounting Policies — continued***Income tax — continued*

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

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

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

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

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

Foreign currencies

The Financial Information of the Group is presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas entities are currencies other than the RMB. As at the financial position date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of each of the Relevant Periods, and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the combined statement of cash flows, the cash flows of overseas entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3.1 Impact of issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i> ¹
IFRS 3 (Revised)	<i>Business Combinations</i> ¹
IAS 27 (Revised)	<i>Combined and Separate Financial Statements</i> ¹
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ¹
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i> ¹
IFRIC 18	<i>Transfers of Assets from Customers</i> ¹
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 “ <i>Reassessment of Embedded Derivatives</i> ” and IAS 39 “ <i>Financial Instruments: Recognition and Measurement</i> ” ²

Apart from the above, the Group has not adopted the amendment to IFRS 5 effective for the annual periods on or after 1 July 2009, which is one of the Improvements to IFRSs issued by IASB.

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods ending on or after 30 June 2009.

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statements in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the combined financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

IFRS 1 (Revised) introduces a number of changes to improve the readability of the standard. The exemptions from full retrospective application of IFRS have been moved from the body of the standard into three appendices for exemptions relating to financial instruments/investments, business combinations and other IFRSs, respectively. A new appendix has been added to accommodate future exemptions that may be needed. As the Group is not a first-time adopter of IFRSs, the IFRS 1 (Revised) is not applicable to the Group.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Group expects to adopt IFRS 3 (Revised) from 1 January 2010. The changes introduced by this revised standard must be applied prospectively and will affect future acquisitions.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rate*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The Group expects to adopt IAS27 (revised) from 1 January 2010.

II. NOTES TO THE FINANCIAL INFORMATION — continued**3.1 Impact of issued but not yet effective IFRSs — continued**

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedge, the amendment is unlikely to have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognise such assets.

The Amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial assets out of the fair value through profit or loss category; and the assessment to be made on the basis of the circumstances that existed on the later of the date when the entity first became a party to the contract, and the date of a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract. IAS 39 is also amended to state that, if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss.

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not yet adopted the amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group anticipates that these changes will have no material effect on the financial statements.

In April 2009, the IASB issued its second omnibus of amendments to its standards. Improvements to IFRSs issued in April 2009 contains amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, Appendix to IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to IAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard. The Group anticipates that these improvements will have no material effect on the financial statements.

II. NOTES TO THE FINANCIAL INFORMATION — continued**4. Significant Accounting Judgements and Estimates**

The preparation of this report requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in this report:

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. The impairment losses recognised during each of the Relevant Periods and the six-month period ended 30 June 2008 were RMB1,560,000, nil, nil, nil and nil, respectively. Further details are contained in note 8 of Section II.

II. NOTES TO THE FINANCIAL INFORMATION — continued

4. Significant Accounting Judgements and Estimates — continued

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The depreciation provided during each of the Relevant Periods and the six-month period ended 30 June 2008 were RMB399,000, RMB643,000, RMB2,089,000, RMB1,239,000 and RMB875,000, respectively. Further details are contained in note 14 of Section II.

5. Segment Information

During the Relevant Periods, all of the Group's revenue and operating profit are generated from the production, marketing and distribution of high-priced and premium-priced paediatric nutrition products in the PRC. Accordingly, the Group's operating activities are attributable to a single business segment and location, and no segment information has been presented. All of the Group's non-current assets were located in the PRC during the Relevant Periods. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during each of the Relevant Periods.

6. Revenue, Other Revenue and Gains

Revenue represents the net invoiced value of goods sold, after deduction of allowances for returns and trade discounts.

An analysis of the Group's revenue, other revenue and gains for each of the Relevant Periods and six-month period ended 30 June 2008 is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue					
Sale of goods	93,716	186,526	405,166	174,634	320,972
Other revenue and gains					
Interest income	60	669	836	484	4,054
Others	—	376	—	—	493
Total other revenue and gains .	60	1,045	836	484	4,547

II. NOTES TO THE FINANCIAL INFORMATION — continued

7. Finance Costs

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on amount due to a related party wholly repayable within five years	536	493	—	—	—
Interest on a bank loan wholly repayable within five years . . .	—	—	859	—	4,181
	<u>536</u>	<u>493</u>	<u>859</u>	<u>—</u>	<u>4,181</u>

8. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Notes	Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)		
Cost of inventories sold		48,443	107,729	259,163	108,258	184,711
Depreciation	14	399	643	2,089	875	1,239
Amortisation of lease prepayments for land use rights	15	—	5	57	28	28
Amortisation of intangible assets*	16	58	65	67	34	34
Minimum lease payments under operating leases		309	375	420	210	210
Loss on disposal of property, plant and equipment		—	—	—	—	16
Impairment of trade and bills receivables	18	1,560	—	—	—	—
Advertising and promotion expenses**		14,391	33,168	41,027	20,040	33,330
Employee benefit expenses (including directors' emoluments (note 10)):						
Wages, salaries and staff welfare		4,223	7,651	9,966	5,326	5,953
Retirement benefit contributions	9	503	575	784	392	420
		<u>4,726</u>	<u>8,226</u>	<u>10,750</u>	<u>5,718</u>	<u>6,373</u>

* The amortisation of intangible assets is included in "Administrative expenses" on the face of the combined statement of comprehensive income.

** The advertising and promotion expenses are included in "Selling and distribution costs" on the face of the combined statement of comprehensive income.

9. Retirement Benefits

The aggregate contributions of the Group to the retirement benefit schemes were approximately RMB503,000, RMB575,000 and RMB784,000 RMB392,000 and RMB420,000 for each of the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2008 and 2009, respectively.

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration

Details of directors' remuneration during the Relevant Periods and the six-month period ended 30 June 2008 are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments					
Salaries, allowances and benefits in kind	282	575	575	248	248
Retirement benefit contributions	3	5	5	2	2
Total	<u>285</u>	<u>580</u>	<u>580</u>	<u>250</u>	<u>250</u>

- (a) The fees and other emoluments during the Relevant Periods and the six-month period ended 30 June 2008 related to an executive director of the Company.

There were no fees and other emoluments payable to non-executive directors and independent non-executive directors during the Relevant Periods and the six month period ended 30 June 2008.

- (b) The name of the directors and the remuneration for each of the Relevant Periods and the six-month period ended 30 June 2008 are set out below:

	Fees	Salaries, allowances and benefit in kind	Retirement benefit contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	282	3	285
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	<u>—</u>	<u>282</u>	<u>3</u>	<u>285</u>
Year ended 31 December 2007				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	575	5	580
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	<u>—</u>	<u>575</u>	<u>5</u>	<u>580</u>
Year ended 31 December 2008				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	575	5	580
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	<u>—</u>	<u>575</u>	<u>5</u>	<u>580</u>

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration — continued

(b) — continued

	<u>Fees</u>	<u>Salaries, allowances and benefit in kind</u>	<u>Retirement benefit contributions</u>	<u>Total remuneration</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Six months ended 30 June 2009				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	248	2	250
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	<u>—</u>	<u>248</u>	<u>2</u>	<u>250</u>
Six-month period ended 30 June 2008 (unaudited)				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	248	2	250
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	<u>—</u>	<u>248</u>	<u>2</u>	<u>250</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(c) *Five highest paid employees*

The five highest paid employees included one director for each of the years ended 31 December 2006, 2007 and 2008 and six-month period ended 30 June 2008 and 2009. His remuneration detail is set out in note (b) above. Details of the remuneration of the remaining four highest paid employees for each of the Relevant Periods are as follows:

	<u>Year ended 31 December</u>			<u>Six-month period ended 30 June</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Salaries, allowances and benefits in kind	428	806	820	362	362
Retirement benefit contributions	<u>12</u>	<u>19</u>	<u>19</u>	<u>10</u>	<u>10</u>
Total	<u>440</u>	<u>825</u>	<u>839</u>	<u>372</u>	<u>372</u>

(Unaudited)

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration — continued

(c) *Five highest paid employees — continued*

The remuneration of each of the above highest paid individuals for each of the Relevant Periods fell within the range of nil to HK\$1,000,000 (equivalent to RMB881,530).

During the Relevant Periods and the six-month period ended 30 June 2008, no remuneration was paid by the Group to any of the directors of the Company or any of the highest paid employees (who are not directors) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Tax

The Group is subject to income tax on an individual legal entity basis on profit arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operates. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

The Company's subsidiary, Ausnutria Hunan, is subject to enterprise income tax ("EIT") at the statutory tax rate of 33% (comprising an enterprise income tax rate of 30% and a local income tax rate of 3%) in 2006 and 2007, and 25% in 2008 and thereafter under the then effective and current PRC income tax laws.

Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with the operation period over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authority, Ausnutria Hunan was granted an EIT exemption from 2004 to 2005, and a preferential EIT rate of 15% in 2006 and 2007 and 12.5% in 2008. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1,157,000 in 2008 for part of its local income tax paid in 2006 and 2007.

The determination of income tax in the combined statement of comprehensive income of the Group is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax	3,036	5,368	8,966	4,370	21,908

II. NOTES TO THE FINANCIAL INFORMATION — continued

11. Tax — continued

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Group and its subsidiaries are domiciled to tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

	Year ended 31 December						Six-month period ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	14,889		27,741		79,495		34,549		87,069	
Income tax at the statutory income tax rate	4,913	33.0	9,155	33.0	19,874	25.0	8,637	25.0	21,767	25.0
Tax effects on preferential tax rates	(2,233)	(15.0)	(4,161)	(15.0)	(9,937)	(12.5)	(4,319)	(12.5)	—	—
Tax refunds	—	—	—	—	(1,157)	(1.5)	(121)	(0.4)	—	—
Expenses not deductible for tax	722	4.8	374	1.4	186	0.3	173	0.5	141	0.2
Tax losses utilised	(366)	(2.4)	—	—	—	—	—	—	—	—
Tax charged at the Group's effective rate	3,036	20.4	5,368	19.4	8,966	11.3	4,370	12.6	21,908	25.2

12. Dividends

No dividends were declared or paid during the Relevant Periods and the six-month period ended 30 June 2008.

In August 2009, an interim dividend of RMB30 million was declared by the Group. In the opinion of the Directors, the interim dividend will be settled prior to the Listing.

13. Earnings per Share Attributable to Ordinary Owners of the Company

The calculation of basic earnings per share for each of the Relevant Periods and the six-month period ended 30 June 2008 is based on the profit attributable to owners of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008 and on the assumption that 800,000,000 shares of HK\$0.10 each issued and issueable, comprising 1,000 shares in issue as at the date of the Prospectus and 799,999,000 shares to be issued pursuant to the capitalisation issue as if the shares had been in issue throughout the Relevant Periods. Further details of the Reorganisation are described in Appendix VI "Statutory and General Information" to the Prospectus.

There were no potential dilutive ordinary shares in existence during the Relevant Periods and the six-month period ended 30 June 2008 and therefore, no diluted earnings per share amounts have been presented.

II. NOTES TO THE FINANCIAL INFORMATION — continued

14. Property, Plant and Equipment

	<u>Buildings</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Leasehold improvement</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2006							
At 1 January 2006							
Cost	—	1,581	296	693	163	—	2,733
Accumulated depreciation	—	(239)	(88)	(208)	(11)	—	(546)
Net carrying amount . . .	<u>—</u>	<u>1,342</u>	<u>208</u>	<u>485</u>	<u>152</u>	<u>—</u>	<u>2,187</u>
At 1 January 2006, net of accumulated depreciation							
depreciation	—	1,342	208	485	152	—	2,187
Additions	—	416	3	30	—	—	449
Depreciation provided during the year	—	(198)	(57)	(133)	(11)	—	(399)
At 31 December 2006, net of accumulated depreciation							
depreciation	<u>—</u>	<u>1,560</u>	<u>154</u>	<u>382</u>	<u>141</u>	<u>—</u>	<u>2,237</u>
At 31 December 2006,							
Cost	—	1,997	299	723	163	—	3,182
Accumulated depreciation	—	(437)	(145)	(341)	(22)	—	(945)
Net carrying amount . . .	<u>—</u>	<u>1,560</u>	<u>154</u>	<u>382</u>	<u>141</u>	<u>—</u>	<u>2,237</u>
31 December 2007							
At 1 January 2007							
Cost	—	1,997	299	723	163	—	3,182
Accumulated depreciation	—	(437)	(145)	(341)	(22)	—	(945)
Net carrying amount . . .	<u>—</u>	<u>1,560</u>	<u>154</u>	<u>382</u>	<u>141</u>	<u>—</u>	<u>2,237</u>
At 1 January 2007, net of accumulated depreciation							
depreciation	—	1,560	154	382	141	—	2,237
Contribution from the owners	13,850	—	—	—	—	—	13,850
Additions	—	1,213	697	73	—	4,942	6,925
Depreciation provided during the year	(53)	(295)	(145)	(140)	(10)	—	(643)
At 31 December 2007, net of accumulated depreciation							
depreciation	<u>13,797</u>	<u>2,478</u>	<u>706</u>	<u>315</u>	<u>131</u>	<u>4,942</u>	<u>22,369</u>
At 31 December 2007,							
Cost	13,850	3,210	996	796	163	4,942	23,957
Accumulated depreciation	(53)	(732)	(290)	(481)	(32)	—	(1,588)
Net carrying amount . . .	<u>13,797</u>	<u>2,478</u>	<u>706</u>	<u>315</u>	<u>131</u>	<u>4,942</u>	<u>22,369</u>

II. NOTES TO THE FINANCIAL INFORMATION — continued

14. Property, Plant and Equipment — continued

	<u>Buildings</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Leasehold improvement</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2008							
At 1 January 2008							
Cost	13,850	3,210	996	796	163	4,942	23,957
Accumulated depreciation	(53)	(732)	(290)	(481)	(32)	—	(1,588)
Net carrying amount . . .	<u>13,797</u>	<u>2,478</u>	<u>706</u>	<u>315</u>	<u>131</u>	<u>4,942</u>	<u>22,369</u>
At 1 January 2008, net of accumulated depreciation							
13,797	2,478	706	315	131	4,942	22,369	
Additions	—	37	1,042	133	—	4,942	6,154
Transfers	3,575	6,309	—	—	—	(9,884)	—
Depreciation provided during the year							
(755)	(904)	(273)	(147)	(10)	—	(2,089)	
At 31 December 2008, net of accumulated depreciation							
16,617	7,920	1,475	301	121	—	26,434	
At 31 December 2008,							
Cost	17,425	9,556	2,038	929	163	—	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	—	(3,677)
Net carrying amount . . .	<u>16,617</u>	<u>7,920</u>	<u>1,475</u>	<u>301</u>	<u>121</u>	<u>—</u>	<u>26,434</u>
30 June 2009							
At 1 January 2009							
Cost	17,425	9,556	2,038	929	163	—	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	—	(3,677)
Net carrying amount . . .	<u>16,617</u>	<u>7,920</u>	<u>1,475</u>	<u>301</u>	<u>121</u>	<u>—</u>	<u>26,434</u>
At 1 January 2009, net of accumulated depreciation							
16,617	7,920	1,475	301	121	—	26,434	
Additions	—	1,739	—	127	—	—	1,866
Disposal	—	—	—	(16)	—	—	(16)
Depreciation provided during the period							
(408)	(572)	(194)	(60)	(5)	—	(1,239)	
At 30 June 2009, net of accumulated depreciation							
16,209	9,087	1,281	352	116	—	27,045	
At 30 June 2009,							
Cost	17,425	11,295	2,038	769	163	—	31,690
Accumulated depreciation	(1,216)	(2,208)	(757)	(417)	(47)	—	(4,645)
Net carrying amount . . .	<u>16,209</u>	<u>9,087</u>	<u>1,281</u>	<u>352</u>	<u>116</u>	<u>—</u>	<u>27,045</u>

The Group's properties are situated in the PRC.

As at 30 June 2009, the Group's buildings with a net book value of RMB16,209,000 were pledged to secure a revolving credit up to RMB30,000,000 from 25 July 2008 to 25 July 2011 granted by Changsha Commercial Bank. As at 30 June 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

II. NOTES TO THE FINANCIAL INFORMATION — continued

15. Lease Prepayments for Land Use Rights

	31 December		As 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	—	2,484	2,427
Contribution from the owners	2,489	—	—
Recognised during the year	(5)	(57)	(28)
Carrying amount at 31 December	2,484	2,427	2,399
Less: current portion, included in prepayments, deposits and other receivables	(57)	(57)	(57)
Non-current portion	2,427	2,370	2,342

The leasehold land is held under long term leases and is situated in the PRC.

As at 30 June 2009, the Group's lease prepayments for land use rights of RMB2,329,000 were pledged to secure a revolving credit up to RMB30,000,000 from 25 July 2008 to 25 July 2011 granted by Changsha Commercial Bank. As at 30 June 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

16. Intangible Assets

Intangible assets comprised acquired non-patent technologies and trademarks with useful lives of 10 years. The movements of intangible assets are analysed as follows:

	Non-patent technology	Trademarks	Total
	RMB'000	RMB'000	RMB'000
31 December 2006			
Cost at 1 January 2006, net of accumulated amortisation	420	54	474
Additions	—	37	37
Amortisation	(50)	(8)	(58)
At 31 December 2006, net of accumulated amortisation	370	83	453
At 31 December 2006			
Cost	500	101	601
Accumulated amortisation	(130)	(18)	(148)
Net carrying amount	370	83	453
31 December 2007			
Cost at 1 January 2007, net of accumulated amortisation	370	83	453
Additions	—	72	72
Amortisation	(50)	(15)	(65)
At 31 December 2007, net of accumulated amortisation	320	140	460
At 31 December 2007			
Cost	500	173	673
Accumulated amortisation	(180)	(33)	(213)
Net carrying amount	320	140	460

II. NOTES TO THE FINANCIAL INFORMATION — continued

16. Intangible Assets — continued

	<u>Non-patent technology</u>	<u>Trademarks</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	320	140	460
Amortisation	<u>(49)</u>	<u>(18)</u>	<u>(67)</u>
At 31 December 2008, net of accumulated amortisation	<u>271</u>	<u>122</u>	<u>393</u>
At 31 December 2008			
Cost	500	173	673
Accumulated amortisation	<u>(229)</u>	<u>(51)</u>	<u>(280)</u>
Net carrying amount	<u>271</u>	<u>122</u>	<u>393</u>
30 June 2009			
Cost at 1 January 2009, net of accumulated amortisation	271	122	393
Amortisation	<u>(25)</u>	<u>(9)</u>	<u>(34)</u>
At 30 June 2009, net of accumulated amortisation	<u>246</u>	<u>113</u>	<u>359</u>
At 30 June 2009			
Cost	500	173	673
Accumulated amortisation	<u>(254)</u>	<u>(60)</u>	<u>(314)</u>
Net carrying amount	<u>246</u>	<u>113</u>	<u>359</u>

17. Inventories

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

18. Trade and Bills Receivables

The Group normally allows a credit period of not more than 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are interest-free.

II. NOTES TO THE FINANCIAL INFORMATION — continued

18. Trade and Bills Receivables — continued

An aged analysis of the trade and bills receivables of the Group as at the end of each of the Relevant Periods, based on the invoice date is as follows:

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

The carrying amounts of the trade and bills receivables approximate to their fair values.

The details of trade receivables and bills receivable as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Trade receivables	7,062	1,219	6,355	8,158
Bills receivable	200	3,325	—	16,312
Total	<u>7,262</u>	<u>4,544</u>	<u>6,355</u>	<u>24,470</u>

The movements in the provision for impairment of trade and bills receivables as at the end of each of the Relevant Periods, are as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
As at 1 January	—	1,560	—	—
Impairment loss recognised	1,560	—	—	—
Write-off	—	(1,560)	—	—
At 31 December	<u>1,560</u>	<u>—</u>	<u>—</u>	<u>—</u>

The individually impaired trade and bills receivables as at 31 December 2006 related to customers that were long outstanding over 180 days. The Group did not hold any collateral or other credit enhancements over these balances.

II. NOTES TO THE FINANCIAL INFORMATION — continued

18. Trade and Bills Receivables — continued

The aged analysis of the trade and bills receivables that are not considered to be impaired as at the end of each of the Relevant Periods is as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	4,737	3,521	6,319	24,411
Within 90 days past due	965	1,023	—	40
Over 90 days past due	—	—	36	19
Total	5,702	4,544	6,355	24,470

Receivables that were neither past due or impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in the credit quality of the individual debtors and the balances are considered fully recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

19. Prepayments, Deposits and Other Receivables

	31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	10,903	30,033	13,681	43,047
Due from related parties	543	90	18,085	82
Others	440	2,961	2,099	3,639
	11,886	33,084	33,865	46,768

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to entities which have no recent history of default.

Included in the balance of prepayments to suppliers were advances to a supplier of RMB5,000,000 and RMB10,000,000 at 31 December 2007 and 2008 respectively. The advances bore the interest at rates ranging from 2% to 5% per annum and had no fixed term of repayment.

Included in the balance due from related parties as at 31 December 2008 was a loan of RMB18,000,000 to Hunan Xin Da Xin Joint Co., Ltd (“Xin Da Xin”), a fellow subsidiary of the Company. The loan was interest-free and had no fixed terms of repayment. The loan was fully settled in April 2009.

II. NOTES TO THE FINANCIAL INFORMATION — continued

20. Cash and Cash Equivalents

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Cash and bank balances	21,448	24,939	77,659	138,843

The Group's cash and bank balances denominated in RMB amounted to RMB21,446,000, RMB24,931,000, RMB77,653,000 and RMB138,829,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively, which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances approximate to their fair values.

21. Trade Payables

An aged analysis of the trade payables of the Group as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

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

Trade payables are interest-free and normally settled on 45-day terms.

22. Other Payables and Accruals

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Advances from customers	20,230	38,767	31,825	36,121
Customer deposits	9,136	9,779	8,478	8,330
Due to related parties*	7,804	12,892	14,107	116,332
Accrued salary and welfare	2,610	3,946	6,718	5,065
Other tax payables	3,212	1,588	1,076	3,717
Others	2,352	4,708	7,685	19,173
	45,344	71,680	69,889	188,738

* Included in the balance as at 31 December 2006 were loans of RMB6,500,000 from Xin Da Xin, a fellow subsidiary of the Company. The loans bore interest at rates ranging from 5.58% to 7% per annum and had no fixed terms of repayment. The loans were fully repaid in November 2007.

II. NOTES TO THE FINANCIAL INFORMATION — continued

23. Interest-bearing Bank Loan

On 5 August 2008, the Group borrowed a bank loan of RMB30,000,000 from Changsha Commercial Bank. The bank loan bore interest at a monthly rate of 0.6225% and is repayable on 25 July 2009. The bank loan was secured by certain buildings and a lease prepayment for land use rights of the Group with carrying value of RMB16,617,000 and RMB2,427,000 respectively as at 31 December 2008. The carrying amount of the bank loan approximated to its fair value as at 31 December 2008. The bank loan was fully repaid on 22 June 2009.

On 12 March 2009, the Group borrowed a bank loan of RMB160,000,000 from China Construction Bank. The bank loan was guaranteed by Xin Da Xin and bore an interest at the rate of 10.87% per annum. The bank loan was repaid in May 2009.

24. Share Capital

The Company was incorporated in the Cayman Islands on 8 June 2009, with authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each, with one ordinary share issued and allotted to Codan Trust Company (Cayman) Limited. On the same day, the one ordinary share was transferred to Brave Leader Limited. On 17 June 2009, a total of 99 ordinary shares were allotted and issued for cash at par as to 16 ordinary shares to All Harmony Limited, 49 ordinary shares to Brave Leader Limited, 9 ordinary shares to Silver Castle and 25 ordinary shares to Ausnutria Holding Co Ltd.

On 15 September 2009, the authorised share capital of the Company was increased from HK\$380,000 to HK\$150,000,000 divided into 1,500,000,000 ordinary shares of HK\$0.10 each.

25. Contingent Liabilities

At the end of each of the Relevant Periods, the Group did not have any significant contingent liabilities.

26. Operating Lease Arrangements

As lessor

As at the end of each of the Relevant Periods, the Group did not have future minimum lease receivables under non-cancellable operating leases.

As lessee

At the end of each of the Relevant Periods, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

II. NOTES TO THE FINANCIAL INFORMATION — continued

27. Commitments

The Group had the following commitments, principally for the purchase of items of property, plant and equipment as at the end of each of the Relevant Periods:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Contracted, but not provided for				
Within one year	—	2,621	—	—

28. Related Party Transactions

(a) The Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 December			Six-month	
		2006	2007	2008	period ended 30 June	
		RMB'000	RMB'000	RMB'000	2008	2009
				RMB'000	RMB'000	
(Unaudited)						
Continuing transactions:						
Office rental expense to						
Changsha Xin Da Xin Real						
Estate Management Co.,						
Ltd. (“Xin Da Xin Real						
Estate”)	(i)	174	252	420	210	210
Provision of guarantee						
to the Group	(v)	—	—	—	—	27,328
Discontinued transactions:						
Sales of merchandise to						
Xin Da Xin.	(ii)	36	122	52	7	51
Rental expense to Mornring .	(iii)	135	123	—	—	—
Loan from Xin Da Xin.	(iv)	2,000	—	—	—	—
Repayments of loans to						
Xin Da Xin.	(iv)	3,500	6,500	—	—	—
Interest expenses	(iv)	536	493	—	—	—
Interest income	(vi)	—	—	—	—	3,286
Provision of guarantee to the						
Group	(vi)	—	—	—	—	160,000
Sales of merchandise to						
Hunan Aubrand Food						
Co., Ltd. (“Aubrand”) . . .	(vii)	—	—	—	—	1,846

- (i) The Group rents certain premises of an office building located in Changsha from Xin Da Xin Real Estate, a fellow subsidiary of the Company. During the Relevant Periods, the rental expenses were determined on mutually agreed terms on an annual basis. In the opinion of the directors, the rental expenses were determined by reference to the prevailing market rental of comparable premises.

II. NOTES TO THE FINANCIAL INFORMATION — continued**28. Related Party Transactions — continued**

- (ii) The sales prices were determined by reference to sales prices to major independent third party customers.
- (iii) The Group rents certain plants in Changsha from Mornring, a fellow subsidiary of the Company. The rental expenses were determined on mutually agreed terms at a fixed rate of RMB135,000 per annum. The plants and associated lease prepayments for land use rights with an aggregate net carrying value of RMB16,339,000 were transferred to the Group at nil consideration in November 2007.
- (iv) The Group borrowed loans of RMB8,000,000 and RMB2,000,000 respectively in 2004 and 2006 from Xin Da Xin. The loans bore interest at rates ranging from 5.58% to 7% per annum and had no fixed terms of repayment. RMB3,500,000 and RMB6,500,000 were repaid in 2006 and 2007 respectively.
- (v) In June 2009, the Group was granted a line of credit of US\$4 million (equivalent to RMB27,328,000) by Bank of China. The line of credit was guaranteed by Xin Da Xin.
- (vi) On 12 March 2009, the Group borrowed a bank loan of RMB160,000,000 from China Construction Bank. The bank loan was guaranteed by Xin Da Xin and bore an interest at the rate of 10.87% per annum. The bank loan was repaid in May 2009 and the guarantee was released accordingly.

In the opinion of the directors of the Company, the bank loan was solely for the purpose of providing finance to Xin Da Xin and therefore the entire interest of RMB3,286,000 from the bank loan was fully charged to Xin Da Xin. The Group provided aggregate finance support of RMB143 million to Xin Da Xin in March 2009 which was fully settled in May 2009.

- (vii) Aubrand, a company established in the PRC on 11 June 2008, is a 56% owned subsidiary of Mornring. In January 2009, the Group discontinued selling olive oil and disposed the remaining olive oil worth RMB1,846,000 to Aubrand at purchase cost. Aubrand is principally engaged in the sale of vegetable oil (such as olive oil and walnut oil), dairy products, rice cereal and protein powder.

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business, on normal commercial terms and in accordance with the terms of the underlying agreements entered into between the Group and the related parties.

II. NOTES TO THE FINANCIAL INFORMATION — continued

28. Related Party Transactions — continued

(b) Balances with related parties

	Notes	As at 31 December			As at
		2006	2007	2008	30 June
		RMB'000	RMB'000	RMB'000	2009
				RMB'000	
Trade receivables:					
Xin Da Xin		111	28	75	19
Prepayments, deposits and other receivables:					
Morning		543	90	85	82
Xin Da Xin		—	—	18,000	—
Other payables and accruals:					
Morning (i)		—	12,540	5,540	5,540
Xin Da Xin (ii)		7,804	352	—	80,617
Chen Yuanrong (ii)		—	—	—	21,862
Hunan Aubrand Food Co., Ltd. (“Aubrand”). (i)		—	—	8,567	8,313

Notes:

- (i) The balances due to Morning and Aubrand at 30 June 2009 represented interest-free advances to the Group, which were fully settled in July 2009.
- (ii) The balances at 30 June 2009 represented payables to Xin Da Xin and Chen Yuanrong to transfer the legal titles of their respective 59% and 16% equity interests in Ausnutria Hunan to the Group. The balances were fully settled in July 2009.

(c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	282	575	575	248	248
Retirement benefit contributions	3	5	5	2	2
Total compensation paid to key management personnel	285	580	580	250	250

II. NOTES TO THE FINANCIAL INFORMATION — continued**29. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise interest-bearing bank borrowings, amounts due to related parties and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bill receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's comprehensive income is affected by changes in interest rates due to the impact of such changes on interest expenses from interest-bearing bank loans and other interest-bearing borrowings. The Group's policy is to obtain the most favorable interest rates available. The effective interest rates and terms of repayment of other interest-bearing borrowings and the interest-bearing bank borrowings of the Group are set out in note 22 and note 23 respectively to this report. During the Relevant Periods, the Group did not have debt obligations with floating interest rates. Accordingly, the Group had no significant interest rate risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's cash and bank balances are placed with reputable financial institutions.

II. NOTES TO THE FINANCIAL INFORMATION — continued

29. Financial Risk Management Objectives and Policies — continued

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	<u>As at 31 December 2006</u>			
	<u>On demand</u>	<u>Less than three months</u>	<u>Three to less than 12 months</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	120	2,635	—	2,755
Other payables and accruals	14,044	5,055	193	19,292
Total	<u>14,164</u>	<u>7,690</u>	<u>193</u>	<u>22,047</u>
	<u>As at 31 December 2007</u>			
	<u>On demand</u>	<u>Less than three months</u>	<u>Three to less than 12 months</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	—	2,267	—	2,267
Other payables and accruals	22,285	4,118	976	27,379
Total	<u>22,285</u>	<u>6,385</u>	<u>976</u>	<u>29,646</u>
	<u>As at 31 December 2008</u>			
	<u>On demand</u>	<u>Less than three months</u>	<u>Three to less than 12 months</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bank loan	—	—	30,000	30,000
Trade payables	—	14,480	—	14,480
Other payables and accruals	16,924	10,913	2,433	30,270
Total	<u>16,924</u>	<u>25,393</u>	<u>32,433</u>	<u>74,750</u>
	<u>As at 30 June 2009</u>			
	<u>On demand</u>	<u>Less than three months</u>	<u>Three to less than 12 months</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	—	12,868	—	12,868
Other payables and accruals	22,783	118,371	2,681	143,835
Total	<u>22,783</u>	<u>131,239</u>	<u>2,681</u>	<u>156,703</u>

Credit risk

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

At the end of each of the Relevant Periods, there was no significant concentration of credit risk.

II. NOTES TO THE FINANCIAL INFORMATION — continued

29. Financial Risk Management Objectives and Policies — continued

Foreign currency risk

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

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes of the Group's capital management policy during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt is calculated as the sum of an interest-bearing bank loan, trade payables and other payables and accruals, less cash and bank balances. Total equity represents equity attributable to the equity holders of the Company. The Group's policy is to maintain the gearing ratio at a reasonable level.

The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loan	—	—	30,000	—
Trade payables	2,755	2,267	14,480	12,868
Other payables and accruals	45,344	71,680	69,889	188,738
Less: Cash and cash equivalents	<u>(21,448)</u>	<u>(24,939)</u>	<u>(77,659)</u>	<u>(138,843)</u>
Net debt	26,651	49,008	36,710	62,763
Equity	<u>(772)</u>	<u>34,994</u>	<u>105,548</u>	<u>68,220</u>
Equity and net debt	<u>25,879</u>	<u>84,002</u>	<u>142,258</u>	<u>130,983</u>
Gearing ratio	<u>103%</u>	<u>58%</u>	<u>26%</u>	<u>48%</u>

II. NOTES TO THE FINANCIAL INFORMATION — continued**30. Notes to the Combined Statements of Cash Flows***Major non-cash transactions*

- (a) In November 2007, Mornring, a fellow subsidiary of the Company, transferred items of property, plant and equipment and a lease prepayment for land use rights with an aggregate net carrying value of RMB16,339,000 to the Group at nil consideration through local government authorities. A contribution from the owners of RMB13,398,000 was recorded, representing the net carrying value of items of property, plant and equipment and the lease prepayment for land use rights transferred to the Group after subtracting a tax provision of RMB2,941,000 incurred directly from the Transfer.
- (b) On 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited, a company incorporated in the British Virgin Islands, which was the then holding company of the other subsidiaries comprising the Group, through a series of share swap agreements, whereby the Company issued 144, 450, 81 and 225 common shares to All Harmony Limited, Brave Leader Limited, Silver Castle Limited and Ausnutria Holding Co Ltd, respectively, in exchange for their respective shareholding interests in Spring Choice Limited. After the share swap transactions, Spring Choice Limited was 100% owned by the Company and the Company became the holding company of the Group.

31. Net Assets of the Company

The Company was incorporated on 8 June 2009. As at 30 June 2009, other than the capital injection of HK\$10 by way of cash, the Company did not have any assets and liabilities. Pursuant to the Reorganisation, the Company became the holding company of the Group on 15 September 2009.

32. Subsequent Events

Save as disclosed in note 12 and note 30(b) above, the Group had the following subsequent event:

Pursuant to a written resolution dated 19 September 2009, the directors of the Company were authorised to capitalise HK\$79,999,900 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 799,999,000 shares allotment and issue to All Harmony Limited of 127,999,840 shares, Brave Leader Limited of 399,999,500 shares, Silver Castle Limited of 71,999,910 shares and Ausnutria Holding Co., Ltd. of 199,999,750 shares.

33. Subsequent Financial Statements

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide the investors with further information about (i) how the proposed listing might have affected the net tangible assets of the Group as if the Global Offering had occurred on 30 June 2009; and (ii) how the proposed listing might have affected the forecast earnings per share of the Group for the year ending 31 December 2009 as if the Global Offering had taken place on 1 January 2009. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerns.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of the Company have been prepared based on the audited combined net tangible assets of the Company attributable to the equity holders of the Company as at 30 June 2009 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

The unaudited pro forma adjusted combined net tangible assets of the Company have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of the Company.

The following unaudited pro forma adjusted combined net tangible assets of the Company have been prepared to show the effect on the combined net tangible assets of the Company as at 30 June 2009 as if the Global Offering had occurred on 30 June 2009.

	Audited combined net tangible assets attributable to the equity shareholders of the Company as at 30 June 2009⁽¹⁾	Estimated net proceeds from the offer of new Shares⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company as at 30 June 2009⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$3.60 per Share	67,681	606,461	674,142	0.67	0.76
Based on an Offer Price of HK\$5.10 per Share	<u>67,681</u>	<u>862,986</u>	<u>930,667</u>	<u>0.93</u>	<u>1.06</u>

Notes:

- (1) The combined net tangible assets attributable to equity holders of the Company as at 30 June 2009, was determined based on the Accountants' Report of the Group as at 30 June 2009, the text of which is set out in Appendix I to this prospectus, which is based on the audited combined net assets attributable to the equity holders as at 30 June 2009 of RMB68,220,000 with an adjustment for intangible assets of RMB359,000 as at 30 June 2009.
- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$3.60 per Share or HK\$5.10 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the Over-

allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of HK dollars into Renminbi was made at the rate of HK\$1 to RMB0.88153, the exchange rate prevailing on 30 June 2009.

- (3) The unaudited pro forma adjusted combined net tangible assets per Share is determined after the adjustments as described in note (2) above and on the basis that 1,000,000,000 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed “Written resolutions of all shareholders passed on 19 September 2009” in Appendix VI to this prospectus.
- (4) Details of the valuations of our Company’s properties as at 31 July 2009 are set out in “Appendix IV — Property Valuation” in this Prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of our Company amounting to RMB35.6 million. The revaluation surplus of properties included in buildings held for own use and land use rights will not be incorporated in the Company’s financial statements for the year ending 31 December 2009. If the revaluation surplus was recorded in the Company’s financial statements, the annual depreciation expense for the year ending 31 December 2009 would increase by approximately RMB1.1 million.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the year ending 31 December 2009 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2009. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give true and fair picture of the financial results of the Group following the Global Offering.

Forecasted combined net profit attributable to equity

holders of the Company for the year ending

31 December 2009 (*Note 1*)not less than RMB180 million

Unaudited pro forma forecast earnings per share on a

fully diluted basis (*Note 2*)not less than RMB18.0 cents

Notes:

- (1) The forecasted combined net profit attributable to equity holders of the Company for the year ending 31 December 2009 is extracted from the section headed “Financial information — Profit Forecast” in the prospectus. The bases on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarised in Appendix III to this prospectus.

The Group’s forecasted combined profit attributable to equity holders of the Company for the year ending 31 December 2009 prepared by the Directors is based on the Group’s audited combined results for the six months ended 30 June 2009 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set forth in Appendix I to this prospectus.

- (2) The unaudited pro forma forecast earnings per share on a fully diluted basis is calculated by dividing the forecasted combined net profit attributable to equity holders of the Company for the year ending 31 December 2009 by 1,000,000,000 Shares assumed to be issued and outstanding during the entire year ending 31 December 2009, adjusted, as if the Global Offering had occurred on 1 January 2009, but without taking into account any Share which may be issued upon exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed “Written resolutions of all shareholders passed on 19 September 2009” in Appendix VI to this prospectus.

(C) COMFORT LETTER ON UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following is the text of a report from the reporting accountants to the Company, Ernst & Young, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma adjusted combined net tangible assets and the unaudited pro forma forecast earnings per share.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

24 September 2009

The Directors

Ausnutria Dairy Corporation Ltd
Macquarie Capital Securities Limited
BOCI Asia Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets and unaudited pro forma forecasted earnings per share (collectively referred to as the “Pro Forma Financial Information”) of Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company (the “Directors”) for illustrative purpose only, to provide information about how the global offering of 300,000,000 shares of HK\$0.10 each of the Company might have affected the relevant financial information presented, for inclusion in section (A) and (B) of Appendix II to the prospectus of the Company dated 24 September 2009. The basis of preparation of the Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial

information with source documents, considering the evidence supporting the adjustments, and discussing the Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board and, accordingly, should not be relied upon as if it had been carried out in accordance with those standards.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 or any future date; or
- the forecast earnings per share of the Group for the financial year ending 31 December 2009 or any future periods.

Opinion

In our opinion:

- a. the Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- b. such bases are consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

The forecast of the Group's combined profit attributable to equity holders of the Company for the year ending 31 December 2009 is set out in the section headed "Financial Information — Profit Forecast" in this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the Group's combined profit attributable to equity holders of the Company for the year ending 31 December 2009 on the basis of the results shown in the audited combined results of the Group for the six months ended 30 June 2009, unaudited combined results of the Group for the two months ended 31 August 2009 and a forecast of the combined results of the Group for the remaining four months ending 31 December 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in Appendix I to this prospectus and is based on the following principal assumptions:

- there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which the Group carries on its business or from which it buys or to which it sells the products or sources its materials;
- there will be no changes in government policies, legislation, regulations or rules in the PRC or any other country or territory where the Group carries on its business or with which it has arrangements or agreements, which may have a material adverse effect on its business;
- there will be no material changes in the bases or rates of taxation or duties in the PRC or any other country or territory where the Group carries on its business, except as otherwise disclosed in this Prospectus; and
- there will be no material changes in inflation rate, interest rates or foreign currency exchanges rates from those prevailing as at the last audited balance sheet date.

(B) LETTER

Set out below are texts of letters received by the directors from Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, and from the Joint Sponsors in connection with the forecast of the combined profit attributable to the equity holders of the Group for the financial year ending 31 December 2009.

(a) *Letter from the reporting accountants*



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

24 September 2009

The Directors
Ausnutria Dairy Corporation Ltd
Macquarie Capital Securities Limited
BOCI Asia Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit attributable to owners of Ausnutria Dairy Corporation Ltd (the “Company” together with its subsidiaries, hereafter collectively referred to as the “Group”) for the year ending 31 December 2009 (the “Profit Forecast”), as set out in the subsection headed “Profit Forecast” under the section headed “Financial Information” in the prospectus of the Company dated 24 September 2009 (the “Prospectus”) for which the directors of the Company are solely responsible.

The Profit Forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2009, unaudited combined results of the Group for the two months ended 31 August 2009 and a forecast of the combined results of the Group for the remaining four months ending 31 December 2009.

In our opinion, the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 24 September 2009, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(b) *Letter from the Joint Sponsors*

Macquarie Capital Securities Limited
Level 18, One International Finance Centre,
1 Harbour View Street,
Central, Hong Kong



BOCI Asia Limited
26/F, Bank of China Tower,
1 Garden Road,
Central, Hong Kong

The Directors
Ausnutria Dairy Corporation Ltd

24 September 2009

Dear Sirs,

We refer to the forecast of the combined profit attributable to the equity holders of Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December 2009 (the “Profit Forecast”) as set out in the Prospectus issued by the Company dated 24 September 2009 (the “Prospectus”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the six months ended 30 June 2009, unaudited combined results for the two months ended 31 August 2009 and a forecast of the combined results of the Group for the remaining four months ended 31 December 2009.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 24 September 2009 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Macquarie Capital Securities Limited

William Je
Senior Managing Director

Debora Cheng
Managing Director

For and on behalf of
BOCI Asia Limited

Raymond Leung
Executive Director

Thomas Man
Vice President

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 July 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

24 September 2009

The Board of Directors
Ausnutria Dairy Corporation Ltd
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiary (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 July 2009 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the property interest in Group I and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interest in Group II, which is rented by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including a State-owned Land Use Rights Certificate, Building Ownership Certificates relating to the property interests and have made relevant enquiries in the PRC. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Jingtian & Gongcheng Attorneys at law, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
1.	A parcel of land, 8 buildings and various structures No. 2 Wang Wang East Road Gaotangling Town Wangcheng County Hunan Province The PRC	54,098,000	100%	54,098,000
Sub-total:		<u>54,098,000</u>		<u>54,098,000</u>

Group II — Property interest rented and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
2.	Level 9 of Tower A, Xindaxin Mansion No. 168 Huangxing Middle Road Furong District Changsha City Hunan Province The PRC	No commercial value	100%	No commercial value
Sub-total:		<u>Nil</u>		<u>Nil</u>
Grand total:		<u>54,098,000</u>		<u>54,098,000</u>

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
1.	A parcel of land, 8 buildings and various structures No. 2 Wang Wang East Road Gaotangling Town Wangcheng County Hunan Province The PRC	The property comprises a parcel of land with a site area of approximately 44,334 sq.m. and eight buildings and various ancillary structures erected thereon which were completed in various stages between October 2001 and August 2006. The buildings have a total gross floor area of approximately 21,936.41 sq.m. The buildings mainly include an industrial building, two office buildings, three guardhouses, a boiler room and a bathroom. The structures mainly include sculptures, walls, roads and landscape gardening. The land use rights of the property have been granted for a term expiring on 31 July 2051 for industrial use.	The property is currently occupied by the Group for production, ancillary and office purposes.	54,098,000 100% interest attributable to the Group: RMB54,098,000

Notes:

1. Ausnutria Dairy (Hunan) Company Limited (“Ausnutria Hunan”) is an indirect wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate — Wang Bian Geng Guo Yong (2007) Di No. 620 (望變更國用(2007)第620號), the land use rights of a parcel of land with a site area of approximately 44,334 sq.m. have been granted to Ausnutria Hunan for a term expiring on 31 July 2051 for industrial use.
3. Pursuant to eight Building Ownership Certificates — Wang Fang Quan Zheng Gao Zi Di Nos. 00030022 to 00030029 (望房權證高字第00030022號至00030029號), eight buildings with a total gross floor area of approximately 21,936.41 are owned by Ausnutria Hunan.
4. Pursuant to a Real Estate Mortgage Contract — Wang Fang Ya Zi No. 2008-(1760–1767) (望房押字2008-(1760–1767)) dated 25 July 2008 entered into between Ausnutria Hunan and Dongtang Branch of Bank of Changsha (長沙市商業銀行東塘支行), the land use rights of a parcel of land with a site area of

approximately 44,334 sq.m. and eight buildings with a total gross floor area of approximately 21,936.41 sq.m. are subject to a mortgage for a term of 36 months commencing from 25 July 2008 and expiring on 25 July 2011 with the maximum loan amount of RMB30,000,000.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Ausnutria Hunan has legally obtained the land use rights and the building ownership rights of the property and has the legal rights to use, occupy, transfer, let, mortgage and otherwise dispose of the property;
 - b. Saved for the mortgage disclosed above, the property is not subject to mortgage, sequestration, guaranty or any other encumbrances; and
 - c. Ausnutria Hunan should obtain the written consent from the mortgagee in advance when transferring, letting, remortgaging or otherwise disposing of the property.

VALUATION CERTIFICATE

Group II — Property interest rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 July 2009</u> RMB
2.	Level 9 of Tower A, Xindaxin Mansion No. 168 Huangxing Middle Road Furong District Changsha City Hunan Province The PRC	<p>The property comprises the whole of Level 9 of a 24-storey commercial & residential building completed in about June 2001.</p> <p>The property has a total lettable area of approximately 1,200 sq.m.</p> <p>The property is rented to Ausnutria Dairy (Hunan) Company Limited for a term of two years commencing from 1 December 2008 and expiring on 30 November 2010 at a monthly rent of RMB35,000, inclusive of management fees, maintenance fees for elevator, drinking water, water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Ausnutria Dairy (Hunan) Company Limited (“Ausnutria Hunan”) is an indirect wholly-owned subsidiary of the Company.
- Pursuant to a Tenancy Agreement, the property is rented to Ausnutria Hunan from Changsha Xin Da Xin Real Estate Management Co., Ltd. (“Xin Da Xin Real Estate”, a connected party to the Company), for a term of two years commencing from 1 December 2008 and expiring on 30 November 2010 at a monthly rent of RMB35,000, inclusive of management fees, maintenance fees for elevator, drinking water, water and electricity charges.
- Pursuant to a Building Ownership Certificate — Chang Fang Quan Zheng Fu Rong Zi Di No. 00581490 (長房權証芙蓉字第00581490號), a portion of Xindaxin Mansion with a gross floor area of approximately 14,907.25 sq.m. (including the property) is owned by Changsha Xin Da Xin Real Estate Company (the “Owner”, 長沙新新大新置業有限公司).
- Pursuant to an Asset Entrustment Management Agreement dated 1 January 2003 entered into among the Owner, Changsha Xin Da Xin Group Company (長沙新新大新集團有限公司, the parent company of the Owner) and Xin Da Xin Real Estate, Xin Da Xin Real Estate has the rights to rent the portion mentioned in note 3 on behalf of the Owner and Changsha Xin Da Xin Group Co., Ltd.

5. Pursuant to a Building Tenancy Certificate — Fu Rong Chang Fang Zu Zheng Zi Di No. 090157 (芙蓉長房租証字第090157號) dated 5 June 2009 issued by Changsha Real Estate Administration Bureau, the Tenancy Agreement has been registered with a term of one year commencing from 1 January 2009 and expiring on 31 December 2009.
6. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Xin Da Xin Real Estate has obtained a written letter of authority from the Owner of the property and hence has the legal rights to rent the property to Ausnutria Hunan; and
 - b. The Tenancy Agreement is consistent with the PRC laws and is valid, binding and enforceable on both signing parties.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 June 2009 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 19 September 2009. The following is a summary of certain provisions of the Articles:

(a) *Directors*

(i) **Power to allot and issue shares and warrants**

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares

or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise

thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associate(s) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third-party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associate(s) are not in aggregate beneficially interested in five per cent. (5%) or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associate(s) is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and to employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any

executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third-party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) *Special resolution-majority required*

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or (in the case of corporations) by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) *Voting rights*

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) *Requirements for annual general meetings*

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) *Notices of meetings and business to be conducted thereat*

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspapers or by any other means in accordance with the requirements of the Designated Stock Exchange (as defined in the Articles) to that effect, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) *Power for the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) *Power for any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) *Dividends and other methods of distribution*

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) *Call on shares and forfeiture of shares*

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) *Inspection of register of members*

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) *Rights of the minorities in relation to fraud or oppression*

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) *Procedures on liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) *Untraceable members*

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) *Subscription rights reserve*

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. **CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) *Operations*

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) *Share capital*

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) *Financial assistance to purchase shares of a company or its holding company*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) *Purchase of shares and warrants by a company and its subsidiaries*

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum

or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) *Dividends and distributions*

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) *Protection of minorities*

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) *Management*

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) *Accounting and auditing requirements*

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) *Exchange control*

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) *Taxation*

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30 June 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) *Stamp duty on transfers*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) *Loans to directors*

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) *Inspection of corporate records*

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) *Winding up*

A company may be wound up compulsorily by order of the Court; voluntarily; or; under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) *Reconstructions*

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) *Compulsory acquisition*

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) *Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents deliver to the Registrar of the Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. *Incorporation***

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 8 June 2009. We have established a principal place of business in Hong Kong at Room 305, 3rd Floor, Arion Commercial Centre, 2–12 Queen’s Road West, Hong Kong and registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 18 August 2009. Ms Ng and Li Wing Sum Steven have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operation is subject to the Cayman Companies Law and its constitutional documents comprising the Memorandum of Association and the Articles of Association. A summary of certain relevant provisions of its constitution and relevant aspects of the Cayman Companies Law are set out in Appendix V to this prospectus.

2. *Changes in share capital of our Company*

At the date of incorporation of our Company, the authorised share capital of our Company was HK\$380,000 divided into 3,800,000 Shares, one Share was transferred from Codan Trust Company (Cayman) Limited to Brave Leader on 8 June 2009 at par. On 17 June 2009, a total of 99 Shares were allotted and issued for cash at par as to 16 Shares to All Harmony, 49 Shares to Brave Leader, 9 Shares to Silver Castle and 25 Shares to Ausnutria BVI.

On 15 September 2009, pursuant to the corporate reorganisation as mentioned under the paragraph headed “Corporate reorganisation” below, All Harmony, Brave Leader, Silver Castle and Ausnutria BVI transferred their respective shareholdings in Spring Choice (which constituted the entire issued share capital of Spring Choice) to our Company in return for the allotment and issue of 144 Shares, 450 Shares, 81 Shares, and 225 Shares, credited as fully paid. Immediately following such transfer, All Harmony, Brave Leader, Silver Castle and Ausnutria BVI became the legal and beneficial owners of our Company which owned 16%, 50%, 9% and 25% issued share capital of our Company respectively.

Pursuant to the written resolutions of all Shareholders passed on 15 September 2009, the authorised share capital of our Company was increased from HK\$380,000 to HK\$150,000,000 by the creation of an additional 1,496,200,000 Shares with a par value of HK\$0.10 each.

Assuming that the Global Offering becomes unconditional, the Capitalisation Issue is completed and the Offer Shares are issued but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$150,000,000 divided into 1,500,000,000 Shares fully paid or credited as fully paid, with 500,000,000 Shares remaining unissued.

On the basis that the Over-allotment Option is exercised in full, 1,045,000,000 Shares will have been allotted and issued fully paid or credited as fully paid and 455,000,000 Shares will remain unissued.

Save as disclosed herein and as mentioned in the following paragraphs respectively headed “Written resolutions of all Shareholders passed on 19 September 2009” and “Corporate reorganisation”, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. *Written resolutions of all Shareholders passed on 19 September 2009*

On 19 September 2009, written resolutions of all Shareholders were passed pursuant to which, *inter alia*:

- (a) we approved and adopted the Articles of Association;
- (b) conditional on the same conditions as stated in the section headed “Structure of the Global Offering — The Global Offering” in this prospectus:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to approve the allotment and issue of the Offer Shares pursuant to the Global Offering and of such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Board was authorised at its discretion to implement the same, grant options to subscribe for Shares thereunder up to the limit referred to in the Share Option Scheme, and to allot, issue and deal with Shares pursuant to the exercise of any options granted thereunder and do all such acts and things as our Board may consider necessary, desirable or expedient to give effect to the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise HK\$79,999,900 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 799,999,000 Shares for allotment and issue to our shareholders whose names appear on our register of members at the close of business on 23 September 2009 (or as they may direct) in the following manner:

<u>Name of Shareholder</u>	<u>Number of Shares to be allotted and issued pursuant to the Capitalisation Issue</u>
All Harmony	127,999,840
Brave Leader	399,999,500
Silver Castle	71,999,910
Ausnutria BVI	199,999,750

- (iv) a general unconditional mandate was given to our Directors authorising them to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, whether during the continuance of such mandate or thereafter (otherwise than pursuant to a rights issue, any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the

Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution or pursuant to the exercise of any options to be granted under the Share Option Scheme or pursuant to the Capitalisation Issue or the Global Offering or pursuant to a specific authority granted by our shareholders in general meeting, on behalf of our Company), provided that the aggregate nominal value of our Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Global Offering (but excluding any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:

- (aa) the conclusion of our next annual general meeting unless the mandate is renewed either unconditionally or subject to conditions by ordinary resolution passed at that meeting; or
 - (bb) the passing of an ordinary resolution by our shareholders in a general meeting revoking or varying such mandate;
- (v) a general unconditional mandate was given to our Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase our Shares on the Stock Exchange or on any other approved stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:
- (aa) the conclusion of our next annual general meeting unless the mandate is renewed either unconditionally or subject to conditions by ordinary resolution passed at that meeting; or
 - (bb) the passing of an ordinary resolution by our shareholders in a general meeting revoking or varying such mandate; and
- (vi) subject to the passing of resolutions set out in paragraphs (iv) and (v) above, the unconditional general mandate mentioned in paragraph (iv) above was extended to include the aggregate nominal value of Shares repurchased by us pursuant to the mandate to repurchase Shares referred to in paragraph (v) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) was approved.

4. *Corporate reorganisation*

In preparation for the listing of our Shares on the Stock Exchange, our Group underwent a Reorganisation which involved the following:

- (a) On 9 April 2009, All Harmony was incorporated in the BVI. On 4 June 2009, a total of 100 shares of US\$1.00 each in the capital of All Harmony were allotted and issued to the following persons for cash at par as to 49.22 shares to Mr Chen, 3.125 shares to Zhu Zhonghua (朱中華), 3.125 shares to Gong Jingming (龔京明), 1.56 shares to Zhu Junxiang (朱軍祥), 3.125 shares to Xiao Guoxiong (肖國雄), 5.49 shares to Xiao Shihu (肖詩弧), 3.125 shares to Dai Zhiyong (戴智勇), 1.56 shares to Yang Mingqing (楊明清), 3.125 shares to Li Sihua (李四化), 6.25 shares to Cao Xi (曹曦), 3.125 shares to Liu Yuehui (劉躍輝), 3.125 shares to Tan Ningnan (談寧南), 1.56 shares to Wu Zhangwei (吳章魏), 1.56 shares to Qu Zhishao (屈治劭), 1.56 shares to Huang Yongbin (黃勇斌), 3.125 shares to Huang Yongcheng (黃勇誠), 1.56 shares to Huang Mingwen (黃明文), 0.78 shares to Yang Peihao (楊培號), 0.78 shares to Li Wei (李偉), 1.56 shares to Liu Yubiao (劉育標) and 1.56 shares to Sun Jingang (孫金剛).
- (b) On 22 April 2009, Brave Leader was incorporated in the BVI. On 3 June 2009, a total of 100 shares of US\$1.00 each in the capital of Brave Leader were allotted and issued to the following persons for cash at par as to 59.57 shares to Mr Wu, 30.67 shares to Ms X Wu and 9.76 shares to Mr Yan.
- (c) On 22 April 2009, Silver Castle was incorporated in the BVI. On 3 June 2009, a total of 100 shares of US\$1.00 each in the capital of Silver Castle were allotted and issued to the following persons for cash at par as to 59.57 shares to Mr Wu, 30.67 shares to Ms X Wu and 9.76 shares to Mr Yan.
- (d) On 22 April 2009, Spring Choice was incorporated in the BVI. On 17 June 2009, a total of 75 shares of US\$1.00 each in the capital of Spring Choice were allotted and issued for cash at par as to 16 shares to All Harmony, 50 shares to Brave Leader and 9 shares to Silver Castle. On the same day, 25 shares of US\$1.00 each in the capital of Spring Choice were allotted and issued to Ausnutria BVI in consideration and in exchange for which Ausnutria BVI transferred one share of HK\$1.00 in the capital of Ausnutria Hong Kong, being its entire issued share capital and 10,000,000 shares of A\$0.05 each in Ausnutria Australia, being its entire issued share capital, to Spring Choice.
- (e) On 6 May 2009, Mornring, Xin Da Xin and Ausnutria Hunan entered into an equity purchase agreement pursuant to which Xin Da Xin acquired 43% of the equity interests in Ausnutria Hunan held by Mornring for the consideration of RMB150,500,000.
- (f) On 6 May 2009, Mr Chen, Xin Da Xin and Ausnutria Hunan entered into an equity purchase agreement pursuant to which Xin Da Xin acquired 16% of the equity interests in Ausnutria Hunan held by Mr Chen for the consideration of RMB56,000,000.
- (g) On 6 June 2009, Xin Da Xin, Ausnutria Hong Kong and Ausnutria Hunan entered into an equity purchase agreement pursuant to which Ausnutria Hong Kong acquired 59% of the equity interests in Ausnutria Hunan held by Xin Da Xin for the consideration of US\$11,800,000.

- (h) On 6 June 2009, Mr Chen, Ausnutria Hong Kong and Ausnutria Hunan entered into an equity purchase agreement pursuant to which Ausnutria Hong Kong acquired 16% of the equity interests in Ausnutria Hunan held by Mr Chen for the consideration of US\$3,200,000.
- (i) On 30 July 2009, 16 shares, 50 shares and 9 shares of US\$1.00 each in the capital of Spring Choice were allotted and issued to All Harmony, Brave Leader and Silver Castle in consideration of All Harmony, Brave Leader and Silver Castle jointly injecting an amount of US\$15 million to Spring Choice. On the same date, 25 shares were allotted and issued to Ausnutria BVI for cash at par.
- (j) On 15 September 2009, All Harmony, Brave Leader, Silver Castle, Ausnutria BVI as vendors, our Company as purchaser and Mr Wu, Mr Yan and Mr Chen as warrantor entered into a share purchase agreement pursuant to which our Company acquired the entire issued share capital of Spring Choice from All Harmony, Brave Leader, Silver Castle and Ausnutria BVI in consideration of the allotment and issue of 144 Shares, 450 Shares, 81 Shares and 225 Shares by our Company to All Harmony, Brave Leader, Silver Castle and Ausnutria BVI respectively.

5. *Changes in share capital of subsidiaries*

The present subsidiaries of our Company are referred to in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

There has been no alteration in the share capital of any subsidiary of our Company within the two years immediately preceding the date of this prospectus.

6. *Repurchase by our Company of our Shares*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their shares on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases of shares on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to a written resolution passed by all Shareholders on 19 September 2009, a general unconditional mandate ("repurchase mandate") was granted to our Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase our Shares on the Stock Exchange, or on any other approved stock exchange(s) on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate will expire at the conclusion of our next annual general meeting unless the mandate is renewed either unconditional or subject to

conditions by ordinary resolution passed at that meeting or the passing of an ordinary resolution by our shareholders in a general meeting revoking or varying such mandate, whichever is the earliest.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our shareholders as a whole to have a general authority from our shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or our earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our shareholders as a whole.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. We shall not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing position.

(d) Directors' undertaking

Our Directors have made an undertaking to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands, our Memorandum of Association and the Articles of Association.

(e) Disclosure of interests

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates has any present intention, if the repurchase mandate is exercised, to sell any Shares to our Company or our subsidiaries.

No connected person of our Company has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

(f) Takeovers Code consequences

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of shareholders acting in concert, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase under the repurchase mandate.

(g) Share capital

Exercising in full of the repurchase mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, could accordingly result in up to 200,000,000 Shares being repurchased by us during the course of the period prior to the date on which such repurchase mandate expires or terminates as mentioned in the paragraph headed "Further Information about Our Company and Our Subsidiaries — Written resolutions of all Shareholders passed on 19 September 2009" in this appendix.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**7. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) an equity purchase agreement entered into by Mornring, Mr Chen, Ausnutria Hunan and MoveUp dated 25 October 2007 pursuant to which MoveUp agreed to acquire 43% and 32% equity interests in Ausnutria Hunan held by Mornring and Mr Chen for a consideration of RMB150,500,000 and RMB56,000,000 respectively;
- (b) an equity purchase deed entered into by ADY, Ausnutria BVI and Ausnutria Australia dated 7 March 2008 pursuant to which ADY proposed to acquire the entire issued share capital of Ausnutria Australia for a consideration of RMB87,500,000;
- (c) a letter of intent entered into by MoveUp, ADY, Ausnutria Hunan, Mornring, Mr Chen and Xin Da Xin dated 16 December 2008 to record (i) the refund of a total consideration of RMB206,500,000 by MoveUp to Mornring and Mr Chen; (ii) the parties' intention to terminate the equity purchase agreement as mentioned in paragraph (a); and (iii) the acquisition of MoveUp by Xin Da Xin at a consideration of RMB90 million;
- (d) a purchase termination agreement entered into by Mornring, Mr Chen, Ausnutria Hunan and MoveUp dated 26 February 2009 pursuant to which the parties agreed to terminate and revoke the equity purchase agreement as mentioned in paragraph (a);

- (e) an equity purchase agreement entered into by Mornring, Xin Da Xin and Ausnutria Hunan dated 6 May 2009 pursuant to which Xin Da Xin acquired 43% of the equity interests in Ausnutria Hunan held by Mornring for the consideration of RMB150,500,000;
- (f) an equity purchase agreement entered into by Mr Chen, Xin Da Xin and Ausnutria Hunan dated 6 May 2009 pursuant to which Xin Da Xin acquired 16% of the equity interests in Ausnutria Hunan held by Mr Chen for the consideration of RMB56,000,000;
- (g) an equity purchase agreement entered into by Xin Da Xin, Ausnutria Hong Kong and Ausnutria Hunan dated 6 June 2009 pursuant to which Ausnutria Hong Kong acquired 59% of the equity interests in Ausnutria Hunan held by Xin Da Xin for the consideration of US\$11,800,000;
- (h) an equity purchase agreement entered into by Mr Chen, Ausnutria Hong Kong and Ausnutria Hunan dated 6 June 2009 pursuant to which Ausnutria Hong Kong acquired 16% of the equity interests in Ausnutria Hunan held by Mr Chen for the consideration of US\$3,200,000;
- (i) a share purchase agreement entered into by Ausnutria BVI and Spring Choice dated 17 June 2009 pursuant to which Spring Choice acquired the entire issued share capital in Ausnutria Hong Kong held by Ausnutria BVI for the consideration of allotment and issue of 1 share of US\$1.00 each in Spring Choice to Ausnutria BVI;
- (j) a share purchase agreement entered into by Ausnutria BVI and Spring Choice dated 17 June 2009 pursuant to which Spring Choice acquired the entire issued share capital in Ausnutria Australia held by Ausnutria BVI for the consideration of allotment and issue of 24 shares of US\$1.00 each in Spring Choice to Ausnutria BVI;
- (k) a confirmation letter dated 20 July 2009 signed by Leng Youbin (冷友斌), chairman of ADY, confirming the termination of the Equity Purchase Agreement and the Equity Purchase Deed, and other related matters;
- (l) a deed of termination and release dated 5 August 2009 entered into by ADY, Ausnutria BVI and Ausnutria Australia pursuant to which the parties acknowledged and confirmed the Equity Purchase Deed was terminated on 17 March 2008;
- (m) a share purchase agreement dated 15 September 2009 entered into by All Harmony, Brave Leader, Silver Castle, Ausnutria BVI, our Company, Mr Wu, Mr Yan and Mr Chen pursuant to which our Company acquired the entire issued share capital of Spring Choice from All Harmony, Brave Leader, Silver Castle and Ausnutria BVI in consideration of the allotment and issue by our Company of 144 Shares, 450 Shares, 81 Shares and 225 Shares respectively;
- (n) a deed of non-competition dated 23 September 2009 and entered into among Mr Wu, Mr Yan, Mr Chen, Ms Ng, Mr Qiu Weifa, Mr Jason Wan, Mr Chan Yuk Tong, Mr Xiao Shihu, Mr Dai Lianyu, Mr Liu Yuehui, Mr Dai Zhiyong, Mr Li Wei, Mr Yang Mingqing, Xin Da Xin, MoveUp, Mornring and Aubrand in favour of our Company (for itself and on behalf of our subsidiaries), details of which are set out in the section headed “Business — Non-Competition Undertaking” in this prospectus;
- (o) a deed of indemnity dated 24 September 2009 entered into by Mr Wu and Brave Leader with and in favour of our Company (and any of our subsidiaries), pursuant to which each of Mr Wu and Brave Leader has agreed to indemnify our Company against, among others, certain estate duty and tax liabilities; and

(p) the Hong Kong Underwriting Agreement.

8. Particulars of our subsidiaries in the PRC

As at the Latest Practicable Date, we have one subsidiary in the PRC, the particulars of which are as follows:

澳優乳品（湖南）有限公司

Date of establishment	: 15 September 2003
Nature of enterprise	: Wholly foreign owned enterprise
Registered capital	: RMB10,000,000
Paid-up capital	: RMB10,000,000
Percentage of equity interest held by us	: 100%
Registered owners	: Ausnutria Australia — 25% Ausnutria Hong Kong — 75%
Term of operation	: from 15 September 2003 to 14 September 2033
Principal scope of business	: Production and sale of paediatric nutrition food (paediatric milk formula food, paediatric nutrition supplementary food), milk and dairy products (high calcium and high protein formula milk powder, expectant or nursing mother milk powder); sale of olive oil and walnut oil 嬰幼兒食品（嬰幼兒配方食品，嬰幼兒輔助食品）、乳和乳製品（高鈣高蛋白配方奶粉，孕兒優媽媽奶粉）生產，銷售；橄欖油，核桃油的經營
Directors	: Mr Wu, Mr Yan and Mr Chen
Legal representative	: Mr Yan

9. *Our Intellectual Property Rights*(a) **Trademark**

As at the Latest Practicable Date, we have obtained registration for the following material trademarks:

<u>Trademark</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Class⁽¹⁾</u>	<u>Registration Date⁽²⁾</u>	<u>Registration Number</u>
	Ausnutria Hunan	PRC	5, 29	28 August 2008, 28 April 2005	3696287, 3696284
	Ausnutria Hunan	PRC	5, 29, 29, 30	7 January 2006, 28 April 2005, 21 January 2006, 21 March 2006	3696288, 3696285, 3888435, 3888434
	Ausnutria Hunan	PRC	5, 29, 29, 30, 32, 35	7 January 2006, 28 April 2005, 28 November 2005, 14 January 2006, 28 November 2005, 28 June 2006	3696289, 3696286, 3888430, 3888433, 3888432, 3888431,
	Ausnutria Hunan	PRC	29	14 July 2005	3750076
	Ausnutria Hunan	PRC	29	14 July 2005	3750078
	Ausnutria Hunan	PRC	29	28 November 2005	3910380
	Ausnutria Hunan	PRC	29	28 May 2009	5561865
	Ausnutria Hong Kong	Hong Kong	5, 29, 30, 43	6 November 2008	301234719
	Ausnutria Hong Kong	Hong Kong	5, 29, 30	22 December 2008	301261142
	Ausnutria Hong Kong	Hong Kong	5, 29, 30	16 April 2008	301094517
	Ausnutria Hong Kong	Hong Kong	5, 29, 30, 43	16 April 2008	301094526

As at the Latest Practicable Date, we have applied for the registration of the following material trademarks, the registration of which has not yet been granted:

<u>Trademark</u>	<u>Applicant</u>	<u>Place of Application</u>	<u>Class⁽¹⁾</u>	<u>Application Date</u>	<u>Application Number</u>
澳优	Ausnutria Hunan	PRC	3, 5, 8, 9, 10, 11, 12, 16, 20, 21, 24, 25, 28, 41, 43	12 February 2007 for classes 3 to 28, 12 February 2007 for classes 41 to 43	5909911, 5909912, 5909910, 5909909, 5909904, 5909903, 5909902, 5909901, 5909900, 5909899, 5909908, 5909907, 5909906, 5909905, 5909975
	Ausnutria Hunan	PRC		5 24 August 2006	5561866
新生乐	Ausnutria Hunan	PRC		5 26 March 2007	5960403
新生优	Ausnutria Hunan	PRC		5 26 March 2007	5960404
慧能多	Ausnutria Hunan	PRC		5 26 March 2007	5960405
	Ausnutria Hunan	PRC		5, 29 2 April 2007	5972487, 5972488
澳优健优	Ausnutria Hunan	PRC		5 28 May 2007	6074270
澳优爱优	Ausnutria Hunan	PRC		5 28 May 2007	6074271
澳优幼优	Ausnutria Hunan	PRC		5 28 May 2007	6074272
	Ausnutria Hunan	PRC		5 14 March 2008	6597648
	Ausnutria Hunan	PRC		5, 29, 30 28 September 2008	6980325, 6980331, 6980336
	Ausnutria Australia	Australia	29, 30	18 November 2004	982256
Ausnutria	Ausnutria Australia	Ausnutria	29, 30	11 October 2004	979893

Notes:

- (1) Class 3: *Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.*
- Class 8: *Hand tools and implements (hand-operated); cutlery; side arms; razors.*
- Class 9: *Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.*
- Class 10: *Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials.*
- Class 11: *Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.*
- Class 12: *Vehicles; apparatus for locomotion by land, air or water.*
- Class 16: *Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.*
- Class 20: *Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.*
- Class 21: *Household or kitchen utensils and containers; combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steelwool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.*
- Class 24: *Textiles and textile goods, not included in other classes; bed and table covers.*
- Class 25: *Clothing, footwear, headgear.*
- Class 28: *Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.*
- Class 29: *Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs, milk and milk products; edible oils and fats.*
- Class 41: *Education; providing of training; entertainment; sporting and cultural activities.*
- Class 43: *Services for providing food and drink; temporary accommodation.*
- (2) *The validity period for each of the above trademarks is 10 years from the registration date.*

(b) Domain name

As at the Latest Practicable Date, we have registered the following domain names:

<u>Domain Name</u>	<u>Registration Date</u>	<u>Expiration Date</u>
Ausnutria.com	22 June 2006	2 September 2010
ausnutria.com.hk	18 November 2008	18 November 2013
ausnutria.com.au	18 August 2006	17 August 2010
ausnutria.hk	18 November 2008	18 November 2013

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**10. Disclosure of interests****(a) Interests and short positions of our Directors and chief executive in the shares, underlying shares and debentures of our Company or its associated corporations**

Immediately following completion of Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), none of our Directors and chief executive will have interests and/or short positions in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to us and the Stock Exchange once our Shares are listed.

(b) Interests and short positions of the substantial shareholders in the shares and underlying shares

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the shares and underlying shares of our Company which, once our Shares are listed, would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company.

(c) Particulars of Directors' service agreements and letters of appointment

Each of our executive Directors has entered into a service agreement with us for an initial fixed term of three years commencing on the Listing Date.

Pursuant to the service agreements, the director's fee of our executive Directors are as follows:

Director	Remuneration (per annum) (HK\$)
Mr Wu.	100,000
Mr Yan	100,000
Mr Chen	100,000
Ms Ng.	100,000

Each of our independent non-executive Directors has been appointed for an initial fixed term of two years commencing on the Listing Date. The annual remuneration payable to each of our independent non-executive Directors is as follows:

Director	Remuneration (per annum) (HK\$)
Qiu Weifa (仇為發).	100,000
Jason Wan (萬賢生)	100,000
Chan Yuk Tong (陳育棠).	160,000

(d) Directors' remuneration

During the year ended 31 December 2008 and for the six months ended 30 June 2009, the aggregate of the remuneration paid and benefit in kind granted to our Directors by our Company were approximately RMB580,000 and RMB250,000, respectively.

Under the current arrangements, our Directors will receive remuneration of RMB544,000 for the financial year ending 2009.

No Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

(e) Disclaimers

Save as disclosed in this prospectus:

- (i) none of our Directors or chief executive has any interest and/or short position in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO,

to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to us and the Stock Exchange once our Shares are listed;

- (ii) none of our Directors and the experts referred to under the heading “Consents of experts” in this appendix has any direct or indirect interest in the promotion of our Company or any of our subsidiaries, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (iii) none of our Directors and the experts referred to under the heading “Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (iv) none of our Directors has any existing or proposed service contracts with our Company or any of our subsidiaries, excluding contracts which are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation);
- (v) none of the experts referred to under the heading “Consents of experts” in this appendix has any shareholding in our Company or any of our subsidiaries or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries; and
- (vi) none of our Directors, their respective associates (as defined under the Listing Rules), or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers save as contemplated under the Underwriting Agreements.

11. *Agency fees or commissions received*

The Underwriters will receive a commission as mentioned in the paragraph headed “Underwriting — Commissions and Expenses” in this prospectus.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

12. *Related party transactions*

Save as disclosed in the Accountants’ Report set out in Appendix I to this prospectus, we have not engaged in any dealings with our Directors and their associates within the two years immediately preceding the date of this prospectus.

13. *Share Option Scheme*

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009:

(a) *Purpose*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to our Company.

(b) *Who may join*

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares at a price calculated in accordance with subparagraph (f) below:

- (i) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which our Company holds an equity interest;
- (ii) any non-executive Directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to our Company or any of our subsidiaries or any Invested Entity;
- (iv) any customer of our Company or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to our Company or any Invested Entity; and
- (vi) any shareholder of our Company or any of our subsidiaries or any Invested Entity or any holder of any securities issued by our Company or any of our subsidiaries or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly- owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by us for the subscription of Shares or other securities of our Company to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by our Directors from time to time on the basis of the participants’ contribution to the development and growth of our Company.

In order for a person to satisfy our Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as our Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

(c) *Maximum number of Shares*

- (i) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 30% of our issued share capital from time to time. No options may be granted under any schemes of our Company (or the subsidiary of our Company) if such grant will result in the maximum number being exceeded.
- (ii) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in our Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option) (“**General Mandate Limit**”).
- (iii) Subject to (i) above and without prejudice to (iv) below, we may seek approval of our shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of our Company under the limit as “refreshed” must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme and other share option schemes of our Company or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”. We will send a circular to our shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.
- (iv) Subject to (i) above and without prejudice to (iii) above, we may seek separate approval of our shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by us before such approval is sought. We will issue a circular to our shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) *Maximum entitlement of each participant and connected persons*

- (i) Unless approved by our shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (“**Individual Limit**”).
- (ii) Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our shareholders in compliance with the Note to Rule 17.03(4) and Rule

17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of our shareholders in general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before our shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

- (iii) In addition to the shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (iv) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of our Company to such person in the 12-month period up to and including the date of such grant:
 - (a) representing in aggregate more than 0.1% of the Shares in issue; and
 - (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by our shareholders. We must send a circular to our shareholders. All of our connected persons must abstain from voting in favour at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) *Minimum period of holding an option and performance target*

Our Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) *Subscription price for Shares*

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of our Shares; (ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the date of grant of the option; and (iii) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a Business Day). A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

(g) *Rights are personal to grantee*

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

(h) *Time of exercise of option*

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms and conditions of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(i) *Rights on ceasing employment or death*

If the grantee of an option, who is an employee of our Company or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity for any reason other than death, ill-health or retirement in accordance with his contract of employment or certain other grounds, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine, in which case the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which date shall be the last actual working day with our Company or the relevant Invested Entity whether salary is paid in lieu of notice or not. Failing such exercise, the option will lapse.

If the grantee of an option, who is an employee of our Company or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercise of option in full, the grantee or, if appropriate his lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months following the date of cessation of employment (or such longer period as our Directors may determine), failing which it will lapse.

(j) *Rights on dismissal*

If the grantee of an option leaves the service of our Company or Invested Entity by the reason of serious misconduct or on certain other grounds on which an employer would be entitled to lawfully terminate his employment, his option (to the extent not already exercised) will thereupon lapse forthwith and will not in any event be exercisable on or after the date of cessation of employment.

(k) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of takeover offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any

person acting in association or concert with the offeror, we shall use all reasonable endeavours to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional or such scheme or arrangement is formally proposed to our shareholders, a grantee (or his personal representative(s)) shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to us in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

(l) *Rights on winding-up*

In the event of an effective resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee of an option (or his personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to us elect to exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two Business Days prior to the proposed general meeting of our Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his options, to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of our Company.

(m) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of our Memorandum of Association and the Articles of Association for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of exercise of the option. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee of such option has been duly entered on our register of members or the holder thereof.

(n) *Period of the Share Option Scheme*

Unless terminated by us by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(o) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by a resolution of our Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or prospective grantees without the prior sanction of any resolution of our Company in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the applicable requirements under the Listing Rules. Any change to the authority of our Directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by our shareholders in general meeting.

(p) *Effect of alterations to capital*

In the event of any alteration in our capital structure whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of our share capital or otherwise howsoever, we shall instruct our auditors for the time being or an independent financial adviser to our Company to certify in writing that such adjustments satisfy the requirement that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled. Adjustment will be made to the number of Shares being the subject matter of the Share Option Scheme or the option so far as unexercised and/or the subscription price and/or the maximum number of Shares referred to in the sub-paragraph headed “Maximum number of Shares” above provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of our Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; (iv) the issue of Shares or securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and (v) for the avoidance of doubt, any adjustments shall be made in compliance with the Listing Rules and the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rules 23.0(13) and the note immediately after the rule” set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 or other relevant guidance as the Stock Exchange may from time to time issue. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial advisers must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(q) *Cancellation of options*

Our Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as our Directors may in their absolute discretion see fit and in a manner that complies with all applicable legal requirements for

cancellation. Where we cancel any options granted and offer to grant or grant new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the cancelled options) within each of the limit as referred to in the subparagraph headed “Maximum number of Shares” above.

(r) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on the Main Board, which Shares may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme; and (ii) upon the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators) and such obligation not being terminated in accordance with the terms of the Underwriting Agreements.

(s) *Termination of the Share Option Scheme*

We may by resolution in general meeting terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. Details of the options granted, including options exercised or outstanding, under the Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to our shareholders seeking approval of the first new scheme (if any) to be established after such termination.

(t) *Status of the Hong Kong Listing Rules*

The Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

(u) *Present status of the Share Option Scheme*

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. An application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme, as described above.

OTHER INFORMATION**14. *Indemnities*****Deed of indemnity**

Each of Mr Wu and Brave Leader has entered into a deed of indemnity with and in favour of our Company (and any of our present subsidiaries) whereby each of Mr Wu and Brave Leader has given indemnities in connection with, among other things, any liability for estate duty or legislation similar thereto in Hong Kong or any part of the world which might be incurred by our Company or any of our subsidiaries on or before the Listing Date, and other taxation (including all fines, penalties, costs, charges, expenses and interest relating to taxation) which may be made against our Company or any of our subsidiaries in respect of any income, profits or gains earned, accrued or received on or before the Listing Date, save:

- (a) to the extent that a specific provision or reserve has been made for such taxation in the Accountants' Report of our Group as set out in Appendix I to this prospectus;
- (b) to the extent that the liability for such taxation would not have arisen but for any voluntary act of our Company or any of our subsidiaries which our Company or the relevant subsidiary, as applicable, ought reasonably to have known would give rise to such taxation but excluding any act carried out other than pursuant to a legally binding obligation entered into or incurred on or before the Listing Date, pursuant to an obligation imposed by any law, regulation or requirement having the force of law, which has taken place with the written approval of Mr Wu and Brave Leader or pursuant to the Global Offering or any document executed pursuant to the Global Offering, or which has occurred in the ordinary course of business; or
- (c) the taxation arises or is incurred as a result of any retrospective change in the law, rule and regulation or the interpretation or practice thereof by any taxation or other relevant authority coming into force after the date of the deed of indemnity or to the extent such taxation arises or is increased by an increase in rates of taxation after the close of the deed of indemnity with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Company in the Cayman Islands and the BVI.

15. *Litigation*

As at the Latest Practicable Date, we have not been engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us.

16. *Joint Sponsors*

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus, including any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the exercise of the Over-allotment Option.

17. Registration procedures

Subject to the provisions of the Cayman Companies Law, our register of members will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited.

18. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately HK\$42,000 and were paid by us.

19. Qualifications of experts

The following are the qualifications of the experts which have given their opinion or advice which are contained in, or referred to, in this prospectus:

Expert	Qualification
Macquarie Capital Securities Limited	a licensed corporation to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities (as set out in the SFO)
BOCI Asia Limited	a licensed corporation to conduct types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities (as set out in the SFO)
Ernst & Young	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Professional surveyors and valuers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisers on PRC law to our Company
Mallesons Stephen Jaques	Legal advisers on Australian and Hong Kong laws to our Company

20. Consents of experts

Each of Macquarie Capital Securities Limited, BOCI Asia Limited, Ernst & Young, Jones Lang LaSalle Sallmanns Limited, Conyers Dill & Pearman, Jingtian & Gongcheng and Mallesons Stephen Jaques has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports, letters, valuation certificate, opinions or summaries of opinions (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

22. Particulars of the Selling Shareholders

	<u>Description</u>	<u>Registered office</u>	<u>Number of Sale Shares</u>
All Harmony.	A BVI company with limited liability	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands	21,000,000
Brave Leader	A BVI company with limited liability	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands	67,000,000
Silver Castle.	A BVI company with limited liability	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands	12,000,000

23. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

24. No Material Adverse Change

Our Directors confirm that since 30 June 2009, there has been no material adverse change in our financial or trading position or prospects.

25. Promoters

Our Company has no promoter for the purpose of the Listing Rules.

26. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, neither our Company nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;

- (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
 - (iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (v) our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (vi) our Company has no outstanding convertible debt securities or debentures.
- (b) No company within our Group is presently listed on any stock exchange or traded on any trading system.
 - (c) There is no arrangement under which future dividends are waived or agreed to be waived.
 - (d) The Global Offering does not involve the exercise of any right of pre-emption or the transfer of subscription rights.
 - (e) All necessary arrangements have been made enabling our Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed “Appendix VI — Statutory and General Information — Consents of experts” in this prospectus, copies of the material contracts referred to in the section headed “Appendix VI — Statutory and General Information — Further Information About the Business of Our Company — Summary of material contracts” in this prospectus, and a statement of the names, descriptions and addresses of the Selling Shareholders referred to in the section headed “Appendix VI — Statutory and General Information — Particulars of the Selling Shareholders” in this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Mallesons Stephen Jaques, 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Memorandum of Association and the Articles of Association;
- the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- the audited combined financial statements of our Company for the three years ended 31 December 2008 and the six months ended 30 June 2009;
- the letters prepared by Ernst & Young relating to the unaudited pro forma financial information and profit forecast of our Company, the text of which is set out in Appendix II and Appendix III to this prospectus respectively;
- the letter prepared by the Joint Sponsors relating to the profit forecast of our Company, the text of which is set out in Appendix III to this prospectus;
- the full valuation report relating to the property interests of our Company prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this prospectus;
- the letter of advice dated 24 September 2009 prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Companies Law referred to in Appendix V to this prospectus;
- the PRC legal opinion dated 24 September 2009 issued by Jingtian & Gongcheng, our Company’s PRC legal adviser;
- two Australian legal advices dated 6 August 2009 and 28 August 2009 respectively issued by Mallesons Stephen Jaques, our Company’s Australian legal adviser;
- the Hong Kong legal advice dated 28 August 2009 issued by Mallesons Stephen Jaques, our Company’s Hong Kong legal adviser;
- copies of material contracts referred to under the section headed “Appendix VI — Statutory and General Information — Further Information About the Business of Our Company — Summary of material contracts” in this prospectus;
- the written consents referred to under the section headed “Appendix VI — Statutory and General Information — Consents of experts” in this prospectus;

- the service agreements and letters of appointment referred to under the paragraph headed “Appendix VI — Statutory and General Information — Further Information About Directors, Management and Staff” in this prospectus;
- the Cayman Companies Law;
- the rules of the Share Option Scheme; and
- the statement of particulars of the Selling Shareholders including their respective names, addresses and descriptions.

