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Web Proof Information Pack of

Biostime International Holdings Limited
合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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SUMMARY

OVERVIEW

We provide premium pediatric nutritional and baby care products in China. Our family of products includes premium probiotic supplements for children, infant formulas and dried baby food products marketed under the brand name *Biostime*™. According to *Euromonitor International*, our *Biostime*™ products occupied approximately 85.4% market share in terms of retail sales in the children's probiotic supplements market, and approximately 13.1% market share in terms of retail sales in the supreme-tier infant formula market in China in 2009. Leveraging our market position in premium pediatric nutritional products, we began marketing baby care products under our newly-introduced *BMcare*™ brand in May 2010 and at the same time launching baby diapers as our key baby care product; in July 2010, we further introduced nursing pads as a supplement product in this category.

Our Products

During the Track Record Period, our range of products included probiotic supplements, infant formulas, dried baby food and baby care products. The following table sets out our revenue and the percentage of our total revenue by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements[1]	172.2	91.4	253.8	78.0	265.9	47.6	122.5	54.3	138.5	27.9
Infant formulas[2]	—[3]	—[3]	40.8	12.5	238.1	42.6	81.8	36.3	287.8	58.0
Dried baby food	16.1	8.6	30.9	9.5	55.0	9.8	21.3	9.4	42.7	8.6
Baby care products	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	27.1	5.5
Total revenue	**188.3**	**100.0**	**325.5**	**100.0**	**559.0**	**100.0**	**225.6**	**100.0**	**496.1**	**100.0**

(1) Include probiotic supplements exclusively for expectant mothers.

(2) Include milk formulas for expectant and nursing mothers.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

SUMMARY

We launched our *Biostime*™ probiotic supplement products in 2003, followed by dried baby food products in 2007 and infant formula products in 2008. In May 2010, leveraging our market position in premium pediatric nutritional products, we began marketing baby care products, such as baby diaper and toiletry kits for infants, children and nursing mothers under our newly-introduced *BMcare*™ brand. According to *Euromonitor International*, the value of China's infant formula market is expected to increase at a higher rate than the corresponding increase in retail sales volume of infant formulas; the growth of the total retail sales volume and retail sales value from 2010 to 2014 are estimated to represent a CAGR of 14.9% and 17.2%, respectively. While revenue generated from our infant formula products increased substantially since 2008 due to the increased sales volume, sales of our other products, including probiotic supplements were relatively stable during the Track Record Period. For the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, the revenue of our infant formula products accounted for 12.5%, 42.6% and 58.0% of our total revenue, respectively. While we expect that our infant formula products will become our main source of income, we have no intention to focus on any particular product segment in the foreseeable future. However, our strategy is to continue maintain and further strengthen our position in China as a significant provider of premium pediatric nutritional products and expand our market share in the baby care products sector.

Information of our product categories are as follows:

Product category	Product name	Material/product supplier(s)	Product manufacturing details and our role
Probiotic Supplements	Probiotic sachet, tablets and capsules	Lallemand	— Main ingredients such as probiotic powder are imported from France — The manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes
Infant Formulas	Infant and mother formulas	Laiterie de Montaigu	— Finished products are imported from France with original packaging — Bar code affixing for this product take place in our Guangzhou Plant
Dried Baby Food Products	Baby cereals	Kerry Ingredients & Flavors	— Finished products are imported from USA with original packaging — Bar code affixing for this product take place in our Guangzhou Plant

Product category	Product name	Material/product supplier(s)	Product manufacturing details and our role
	Assorted fruit, vegetable, meat and other food powder	Diana Naturals, Naturex AG and Seagarden ASA	— Main ingredients such as food powder are imported from France, Switzerland and Norway — The manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes
Baby Care Products	Baby diapers	First Quality	— Finished products are imported from USA with original packaging — Bar code affixing and external packaging for this product take place in our Guangzhou Plant
	Shampoo, bath gel and baby oil	Sarbec	— Finished products are imported from France with original packaging — Bar code affixing and external packaging for this product take place in our Guangzhou Plant
	Nursing pads	Flawa	— Finished products are imported from Switzerland with original packaging — Bar code affixing and external packaging for this product take place in our Guangzhou Plant

Our Key Suppliers

We use quality ingredients that we import from France, other European countries such as Norway and Switzerland, and the United States to better ensure product quality for the final production of children's probiotic supplements and certain of our dried baby food products in our GMP-certified plant in China. We consider final production to be an important process for transforming raw materials into consumable and marketable food products through the sieving, blending and packaging processes. We engage quality international product suppliers to manufacture our infant formulas and certain dried baby food products, including baby cereal, as well as baby care products, and import them with original packaging. For instance, we engage a product supplier in France to produce infant formula products based on our proprietary formula. Our practice of consistently sourcing key raw materials and engaging product suppliers from European countries and the United States distinguishes us from our PRC competitors who either produce or source key raw materials domestically. We always strive to produce products of high quality and maintain such quality standards. Taking our organic baby cereal products as an example, our product supplier and we voluntarily comply with the organic food production requirements and standards set out in *the US Organic Food Production Act of 1990*. We further believe that the strength of our brands allows us to foster and maintain consumer loyalty to our product portfolio at different stages of pediatric development.

SUMMARY

The following table shows the breakdown of the sources of our revenue by each of our product categories during the Track Record Period:

	Year ended December 31,						Six months ended June 30,	
	2007		2008		2009		2010	
	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%
Products manufactured in the GMP-certified plant								
— Probiotic supplements[1] ..	172,163	91.4	253,859	78.0	265,886	47.6	138,492	27.9
— Assorted vegetable, fruit and meat powder[2]	16,134	8.6	30,869	9.5	37,730	6.7	20,130	4.1
Sub-total	188,297	100.0	284,728	87.5	303,616	54.3	158,622	32.0
Finished products imported with original packaging								
— Infant formulas	—[3]	—[3]	40,812	12.5	238,108	42.6	287,864	58.0
— Baby cereals[2]	—	—	—	—	17,245	3.1	22,556	4.5
— Baby care products	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	27,098	5.5
Sub-total	—	—	40,812	12.5	255,353	45.7	337,518	68.0
Total	**188,297**	**100.0**	**325,540**	**100.0**	**558,969**	**100.0**	**496,140**	**100.0**

Note:

(1) Prior to November 2009, we imported probiotic supplements produced by Lallemand with their original packaging.

(2) Assorted vegetable, fruit and meat powder and baby cereals are products under the other baby food category.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category in May 2010.

We use a variety of raw materials in our products. The following table sets forth the key raw materials of each category of our products, the key material suppliers, their locations, our total purchases and the percentage of the purchases to our total purchases for the periods indicated:

Supplier	Product category	Key raw material	Country	For the year ended December 31,						For the six months ended June 30,	
				2007		2008		2009		2010	
				RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Lallemand	Probiotic supplements	Probiotic powder[1]	France	35,655	67.2	55,922	48.9	46,400	23.8	27,295	14.1
Diana Naturals	Dried baby food	Vegetable and fruit powder	France	3,122	5.9	3,692	3.2	2,247	1.2	496	0.3

Note:

(1) Prior to November 2009, we imported probiotic supplements produced by Lallemand with their original packaging.

We also engage a number of product suppliers, such as Laiterie de Montaigu, Sarbec, First Quality and Kerry Ingredients & Flavors, to produce our products based on our designs and formulas. The following table sets forth our key products imported from our product suppliers, their locations, our total purchases and the percentage of the purchases to our total purchases for the periods indicated:

Supplier	Product category	Country	In the year ended December 31,						In the six months ended June 30,	
			2007		2008		2009		2010	
			RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Laiterie de Montaigu	Infant formulas and mother's nutritional formulas	France	—	—	27,963	24.5	99,509	51.0	86,992	44.8
Sarbec	Baby care products for infants and children	France	—	—	—	—	—	—	1,705	0.9
First Quality	Diapers	US	—	—	—	—	—	—	30,837	15.9
Kerry Ingredients & Flavors	Dried baby food — rice, oat and multi-grain cereal powder	US	—	—	—	—	6,405	3.3	8,206	4.2

Branding, Sales and Marketing

We market our family of premium pediatric nutritional products in China under our brand name *Biostime*™. As of the Latest Practicable Date, we sold our products to consumers through 266 regional distributors, which further distributed our products to more than 5,000 specialty stores, 1,500 retail sales organizations and a large number of pharmacies across every province, municipality and autonomous region in China. Our nationwide geographic footprint allows us to take advantage of both the mature and the most rapidly growing markets in China. Through our sophisticated real-time logistics management system, we continue tracking the inventory and sales levels of our products at our regional distributors' level to monitor the stability of our distribution system. We require our regional distributors to settle the purchase price before we deliver any of our products to them so as to minimize any impact of accounts receivable on our financial condition and cash flows. To further solidify our relationships with and among our consumers and our sales channels, we have also established the *Mama100 Membership Program*, a key service program that offers our members access to our customer service and nursing consulting hotline, or CNC Hotline, and our *mama100.com* website, a membership points accumulation program. We also offer a monthly magazine subscription and other exclusive services. As of June 30, 2010, we had approximately 1,830,000 registered members in the *Mama100 Membership Program*, including approximately 322,000 active members.

While continuing to focus on the premium pediatric nutritional business, we are also co-developing certain of our baby care products, such as toiletry kits, with our product suppliers. In May 2010, we introduced a variety of baby diapers to our consumers under a new brand name — *BMcare*™. We plan to develop this new business by leveraging our extensive consumer base and well-developed distribution network. Our sales of baby diapers reached RMB27.1 million from their launch in May 2010 to June 30, 2010.

Research and Development

Our research and development approach is mainly focused on joint development or cooperation with our raw material suppliers and product suppliers to integrate innovative technology, high-quality ingredients and advanced production processes to develop premium products for infants, children and mothers, thereby leveraging on our management's biotechnology background, understanding of prevailing market demands and stable relationships with our raw material suppliers and product suppliers. Prior to commercial production, we cooperate with our suppliers to jointly modify the specifications and/or improve the formulas of our products through extensive feasibility studies and laboratory research conducted by our suppliers and us.

During the Track Record Period, achievements of our joint development and cooperation program included ingredient upgrades for our probiotic supplements, and development of special formulas of our infant formulas, new recipes for our baby cereals and our new baby care products product line. For products manufactured entirely by our product suppliers, as the proprietor of our brand of products and the developer and owner of the relevant formulas, we work closely with our product suppliers in the selection of ingredients and control components and usually designate specific ingredients and components for our products pursuant to the supply contracts in order to ensure our standards with respect to output, function, safety, quality and cost for any specific product are met. While we do not hold or possess all of the innovative technologies and ingredients used for the production of our products, through cooperation with our suppliers, we apply or procure the application of these technologies and ingredients in the production of our products. Examples include the adding of β-vegetable oil to our infant formula products and the application of a full-formulation spray drying technique to promote nutrition dissolution. Integration of technology, ingredients and production, particularly for premium health food and infant formula products like ours, is a complicated process that requires biotechnological and nutritional knowledge and experience.

Our research and development team, led by a group of experienced biotechnology specialists, are mainly responsible for the integration of innovative ingredients and advanced technology, currently available and utilized globally, to produce our products.

The following table shows the breakdown of our research and development costs during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Experimental and inspection costs (including material cost)	3,106	465	1,010	268
Staff salaries (including social insurance and fund)	198	998	2,569	1,089
Others	408	709	706	262
Total	3,712	2,172	4,285	1,619

Market Share and Financial Results

According to *Euromonitor International*, our *Biostime*™ products occupied approximately 1.1% market share in terms of retail sales in the overall baby food industry(1) and approximately 1.7% market share in terms of retail sales in the other baby food industry(2) in China in 2009.

We experienced significant growth in our revenue and earnings during the Track Record Period. Our total revenue increased from RMB188.3 million in the year ended December 31, 2007 to RMB325.5 million in the year ended December 31, 2008, and to RMB559.0 million in the year ended December 31, 2009, representing a CAGR of 72.3% from 2007 to 2009. Our net profit increased from approximately RMB17.5 million in the year ended December 31, 2007 to RMB35.2 million in the year ended December 31, 2008, and to RMB108.3 million in the year ended December 31, 2009, representing a CAGR of 148.8% from 2007 to 2009. In the six months ended June 30, 2010, our revenue amounted to RMB496.1 million, representing an increase of 119.9% over the comparable period in 2009, and in the six months ended June 30, 2010, our net profit amounted to RMB116.8 million, representing an increase of 229.0% over the comparable period in 2009.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our competitive position in the premium pediatric nutritional products segment and baby care products market:

- our strong brand, which promotes the success of high-quality products and market development;
- our innovative and consumer-oriented marketing strategies, which strengthen our brand recognition;
- our real-time logistics management system, which facilitates an effective distribution network;
- an effective customer service platform, which promotes strong growth of our consumer base;
- our ability to integrate quality raw materials and biological technology from our reputable raw material suppliers and product suppliers;
- our stringent quality assurance and control program, which ensures product safety; and
- our capable management team with extensive industry experience ensures the successful development of our business.

Note:

(1) Baby food industry includes the infant formula sector and the other baby food products sector.

(2) Other baby food industry includes the prepared baby food, dried baby food and other sectors.

SUMMARY

OUR BUSINESS STRATEGIES

Our principal business objective is to maintain and further strengthen our position in China as a significant provider of premium pediatric nutritional products while expanding our market share in baby care products by pursuing the following key strategies:

- continue to reinforce our brand recognition with a focus on high-end markets;
- increase our investment in members' platform;
- continue to expand and develop our sales distribution network;
- further diversify and broaden our product categories;
- further solidify our cooperative relationship with our suppliers, academic organizations and charity foundations; and
- further enhance our information technology systems and infrastructure.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

The table below sets forth our selected combined statements of comprehensive income information for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	188,297	325,540	558,969	225,643	496,140
Cost of sales	(50,425)	(88,666)	(163,016)	(67,365)	(143,700)
Gross profit	137,872	236,874	395,953	158,278	352,440
Other income and gains	554	922	3,061	1,162	4,549
Selling and distribution costs	(95,026)	(168,844)	(248,299)	(103,425)	(190,319)
Administrative expenses	(9,992)	(20,321)	(26,462)	(10,165)	(28,361)
Other expenses	(6,006)	(4,025)	(6,100)	(1,471)	(2,514)
Profit before tax	27,402	44,606	118,153	44,379	135,795
Income tax expense	(9,916)	(9,444)	(9,836)	(8,911)	(19,042)
Profit for the year/period	17,486	35,162	108,317	35,468	116,753
Profit for the year/period attributable to:					
Owners of the Company	17,487	35,066	108,317	35,468	116,753
Non-controlling interests	(1)	96	—	—	—
	17,486	35,162	108,317	35,468	116,753

SUMMARY

Combined Statements of Financial Position

The table below sets forth our selected statements of financial position information as of December 31, 2007, 2008 and 2009 and June 30, 2010:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	15,487	27,869	29,755	37,307
Current assets	88,265	147,429	253,664	394,814
Current liabilities	63,494	86,625	112,862	180,151
Net current assets	24,771	60,804	140,802	214,663
Net assets	40,258	88,673	170,557	251,970

Combined Statements of Cash Flows

The table below sets forth our selected statements of cash flows information for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash and cash equivalents at beginning of year/period	31,104	47,935	59,765	59,765	133,795
Net cash flows from operating activities	24,314	23,183	109,798	13,545	143,030
Net cash used in investing activities	(9,926)	(11,605)	(9,835)	(14,037)	(6,798)
Net cash flows from/(used in) financing activities	2,443	263	(25,930)	—	(24,703)
Effect of foreign exchange rate changes, net	—	(11)	(3)	(2)	5
Cash and cash equivalents at end of year/period	47,935	59,765	133,795	59,271	245,329

SUMMARY

Breakdown of Revenue and Cost by Product

The following table breaks down the sources of our revenue and percentage of our total revenue accounted for by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements[1]	172.2	91.4	253.8	78.0	265.9	47.6	122.5	54.3	138.5	27.9
Infant formulas[2]	—[3]	—[3]	40.8	12.5	238.1	42.6	81.8	36.3	287.8	58.0
Dried baby food	16.1	8.6	30.9	9.5	55.0	9.8	21.3	9.4	42.7	8.6
Baby care products	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	27.1	5.5
Total revenue	**188.3**	**100.0**	**325.5**	**100.0**	**559.0**	**100.0**	**225.6**	**100.0**	**496.1**	**100.0**

(1) Include probiotic supplements exclusively for expectant mothers.

(2) Include milk formulas for expectant and nursing mothers.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

Our cost of sales and relevant percentages for each product segment during the Track Record Period are as follows:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Cost of sales										
Probiotic supplements	45.6	90.5	63.8[1]	72.0	62.6[1]	38.4	31.7	47.1	28.2	19.6
Infant formulas	—[2]	—[2]	14.7	16.6	77.8	47.7	27.5	40.9	90.9	63.3
Dried baby food	4.8	9.5	10.1	11.4	22.6	13.9	8.1	12.0	13.1	9.1
Baby care products	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	11.5	8.0
Total cost of sales	**50.4**	**100.0**	**88.6**	**100.0**	**163.0**	**100.0**	**67.3**	**100.0**	**143.7**	**100.0**

(1) From 2009 onwards, we commenced our own production of our probiotic supplement products which we import raw materials rather than finished products, therefore, the cost of sales of our probiotic supplement products decreased slightly as a result of substantially reduced custom duty and the appreciation of the Renminbi against the US dollar.

(2) We commenced marketing and sales of infant formulas in July 2008.

(3) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

SUMMARY

The following table sets out our gross profit and gross profit margin by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements	126.6	73.5	190.0	74.9	203.3	76.5	90.8	74.1	110.3	79.6
Infant formulas	—(1)	—(1)	26.1	64.0	160.3	67.3	54.3	66.4	196.9	68.4
Dried baby food	11.3	70.2	20.8	67.3	32.4	58.9	13.2	62.0	29.6	69.3
Baby care products	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	15.6	57.6
Total gross profit/average gross profit margin	**137.9**	**73.2**	**236.9**	**72.8**	**396.0**	**70.8**	**158.3**	**70.2**	**352.4**	**71.0**

(1) We commenced marketing and sales of infant formulas in July 2008.

(2) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

PROFIT FORECAST

On the bases and assumptions set out in [●] to this document, and in the absence of unforeseen circumstances, our forecasted combined profit attributable to our equity holders for the year ending December 31, 2010 is expected to be not less than RMB230.0 million.

On a weighted average basis based on the above profit forecast and assuming that: (i) we had been established and 450,000,000 Shares were issued and outstanding as of January 1, 2010; (ii) the 150,000,000 Shares to be issued pursuant to the [●] will be issued on December 17, 2010; and (iii) the [●] will not be exercised, the estimated earnings per Share is RMB0.50, representing weighted average price to earnings multiples of [●] and [●] times based on the [●] of HK$[●] and HK$[●], respectively. On a pro forma fully-diluted basis, and on the assumption that the [●] had been completed on January 1, 2010 and a total of 600,000,000 Shares were issued and outstanding during the entire year (and not taking into account any Shares that may be issued pursuant to the exercise of the [●] and Shares issued pursuant to the [●] Share Option Scheme or any Shares that may be granted under the Share Option Scheme), the estimated earnings per Share on a pro forma fully-diluted price would be RMB0.38, representing fully-diluted price to earnings multiples of approximately [●] times and [●] times based on the [●] of HK$[●] and HK$[●], respectively.

SUMMARY

DIVIDEND POLICY

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

- our financial results;
- Shareholders' interests;
- general business conditions, strategies and future expansion needs;
- our Company's capital requirements;
- the payment by its subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors the Board of Directors may deem relevant.

Biostime Guangzhou declared dividends of RMB13.0 million in respect of the year ended December 31, 2007 and paid the same in 2008. Biostime Guangzhou declared and paid dividends of RMB27.5 million in respect of the year ended December 31, 2009. In addition, on January 5, 2010, Biostime Guangzhou declared a dividend of RMB33.4 million and Biostime Health declared a dividend of RMB7.7 million. On September 20, 2010, Biostime Guangzhou and Biostime Health declared dividends, amounting to RMB33.6 million and RMB71.2 million, respectively, to their then sole equity owner, Biostime Pharmaceuticals. After the [●], the declaration of dividends will be subject to the approval by our Board of Directors after considering the above factors and by our then Shareholders.

[●] SHARE OPTION SCHEME

We have adopted the [●] Share Option Scheme on July 12, 2010. The purpose of the [●] Share Option Scheme is to give our Directors, senior management, employees and business partners an opportunity to have a personal stake in our Company and help motivate our Directors, senior management, employees and business partner to optimize their performance and efficiency to our Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them as their contributions are important to the long-term growth and profitability of our Group.

The total number of Shares which may be issued upon the exercise of options granted under the [●] Share Option Scheme is 11,150,249 Shares, representing (i) approximately 1.8584% of the issued share capital of our Company immediately following the completion of the [●] (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the [●] Share Option Scheme or which may be granted under the Share Option Scheme or the exercise of

the [●]); and (ii) approximately 1.8245% of the issued share capital of our Company immediately following the completion of the [●] and assuming that all options granted under the [●] Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the [●]). However, as no options granted under the [●] Share Option Scheme can be exercised within three years after the [●], there will not be any dilutive effect on shareholding structure or any impact on earnings per Share due to the exercise of such options for the years ending December 31, 2010, 2011 or 2012. As of the Latest Practicable Date, none of the options granted under the [●] Share Option Scheme had been exercised by the grantees. HK$1.0 is payable by each grantee to our Company as consideration for the options.

A breakdown of options granted under the [●] Share Option Scheme by category of grantees is set out below:

Category of grantees	Number of grantees	Number of Shares to be issued upon full exercise of all options granted under the [●] Share Option Scheme
Executive Directors	3	1,407,592
Senior management members of our Group	14	2,655,665
Other employees of our Group	311	6,986,992
Business partner	1	100,000
	329	11,150,249

Save as disclosed above, no options have been granted or will be granted under the [●] Share Option Scheme.

Pursuant to the [●] Share Option Scheme and the relevant offer letters in respect of the grant of options:

(i) the exercise price of each of such options is HK$2.53; and

(ii) the options granted under the [●] Share Option Scheme may be exercised by the grantees at any time during the option period which is (a) in relation to 30.0% of the total number of options granted, any time after the third anniversary of the [●]; (b) in relation to another 30.0% of the total number of options granted, any time after the fourth anniversary of the [●]; and (c) in relation to the remaining 40.0% of the total number of options granted, any time after the fifth anniversary of the [●]. No option holder shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any options or purport to do so.

SUMMARY

Our Directors have undertaken to our Company that they will not exercise options granted under the [●] Share Option Scheme to such extent that the Shares held by the public (as defined in the relevant rules) after the [●] will fall below the required percentage set out in [●] of the relevant rules or such other percentage as approved by the [●] from time to time.

Further details of the [●] Share Option Scheme are set out in the section headed "Appendix VI — Statutory and General Information" of this document.

RISK FACTORS

Risks Relating to Our Business Operations

- We rely on a limited number of independent suppliers.
- Supply and production by our suppliers may be interrupted.
- Our business and reputation may be affected by real or perceived quality issues, including product recalls, product liabilities or other claims.
- Failure to effectively maintain or promote our brands, or to grow our marketing capabilities, may adversely affect our future success or the brand name and reputation of our products.
- Disruption of our manufacturing operations and supply chain could materially and adversely affect our business.
- Increases in raw material prices and commodity costs that we are unable to pass on to our consumers will reduce our profit margins and profitability.
- The manufacturing of many of our products is a highly exacting and complex process, and if we or our suppliers should encounter problems relating to the manufacturing process, our business could suffer.
- Our growth depends on the ability to increase the production capacity of our facilities and our key suppliers' facilities.
- We may face difficulties as we introduce new product series or as we expand our sales distribution network.
- We may not be able to sustain our historical sales and profit margins and further manage our growth effectively.
- Our continuing success depends on our ability to adequately protect our intellectual property.
- We have yet to obtain the registration of our Group's logo as a trademark in Hong Kong.

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

- Counterfeit pediatric nutritional products in China could negatively impact our revenue, brand reputation, business and results of operations.

- Failure to maintain our relationships with regional distributors could have a negative and material impact on us.

- Our continuing success depends on meeting market needs. If our products fail to keep pace with advances in the industry, they may be displaced by our competitors' newly developed products.

- Early termination of our leased single production plant may impact our production and operations.

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

- Business operations of Biostime Nutrition may create a potential conflict of interest between our Company and our Controlling Shareholders, and adversely impact our business.

- Our continuing success depends on our ability to retain our senior management and key personnel.

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

- Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.

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

Risks Relating to the Industry

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

- We are subject to numerous government regulations in China, and it can be costly to comply with current and future regulatory requirements.

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

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

Risks Relating to Conducting Business in China

- Adverse changes in China's economic, political, and social conditions as well as governmental policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect our financial condition and results of operations.

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

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

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

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

- Gains on the sales of our Shares by foreign [●] and dividends on our Shares payable to foreign [●] may become subject to PRC income taxes.

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

- It may be difficult to enforce any judgments obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China.

- Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose vehicles by PRC residents may adversely affect our business operations.

- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

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

- An outbreak of severe acute respiratory syndrome ("SARS"), avian influenza A ("H_5N_1"), influenza A virus subtype H_1N_1 ("H_1N_1") or other epidemic if uncontrolled could have a negative impact on our production, sales and distribution operations.

DEFINITIONS

In this document, unless the context otherwise requires, the following words and expressions have the following meanings:

"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"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 adopted on November 25, 2010 and as amended from time to time, a summary of which is set out in Appendix V to this document
"associate(s)"	has the meaning ascribed thereto under the relevant rules
"*Biostime*™ brand" or "Biostime"	the Biostime trademarks and logos registered in the name of members of our Group as more particularly set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document
"Biostime France"	Biostime SAS, a simplified joint-stock company established under the laws of France. This company was originally established under the laws of France as a closed limited liability company ("SARL") on February 16, 2006. On April 10, 2009, this company was transformed from SARL corporate form to SAS corporate form pursuant to French law. It is owned as to 50.0% by Lallemand and 50.0% by Biostime USA
"Biostime Guangzhou"	BiosTime, Inc. (Guangzhou)* (廣州市合生元生物製品有限公司), a limited liability company established under the laws of the PRC on August 3, 1999 and a directly wholly-owned subsidiary of our Company
"Biostime Health"	Biostime (Guangzhou) Health Products Limited* (合生元(廣州)健康產品有限公司), a limited liability company established under the laws of the PRC on December 25, 2006 and a directly wholly-owned subsidiary of our Company

DEFINITIONS

"Biostime Nutrition"	Biostime Health and Nutrition (Guangzhou) Limited* (廣州合生元營養保健品有限公司), a limited liability company established under the laws of the PRC on September 18, 2009. It is wholly-owned by Biostime France. Its directors include Mr. Luo Fei, Dr. Zhang Wenhui and Mr. Luo Yun. Mr. Luo Fei and Dr. Zhang Wenhui are our executive Directors and Mr. Luo Yun is our non-executive Director
"Biostime Pharmaceuticals"	Biostime Pharmaceuticals (China) Limited, an investment holding company incorporated in the BVI with limited liability on February 8, 2001, which is owned as to 28.15% by Mr. Luo Fei, 26.0% by Mr. Wu Xiong, 19.55% by Mr. Luo Yun, 11.9% by Mr. Chen Fufang, 10.0% by Dr. Zhang Wenhui and 4.4% by Ms. Kong Qingjuan. It is one of our Controlling Shareholders
"Biostime USA"	Biostime (US) LLC, a company incorporated in the State of Delaware, USA with limited liability on April 13, 2005 and is wholly-owned by Biostime Pharmaceuticals, one of our Controlling Shareholders
"*BMcare*™ brand" or "BMcare"	the BMcare trademarks and logos registered in the name of members of our Group as more particularly set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document
"BMcare Guangzhou"	BMcare Baby Products Inc. (Guangzhou)* (廣州葆艾嬰幼兒護理用品有限公司), a limited liability company established under the laws of the PRC on September 17, 2009 and a directly wholly-owned subsidiary of our Company
"Board" or "Board of Directors"	the board of Directors of our Company
"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"	British Virgin Islands
"CAGR"	compound annual growth rate
"China" or "PRC"	People's Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CIQ"	Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) under AQSIQ
"CNC Hotline"	our customer and nursing consulting hotline that is freely accessible by our *Mama100 Membership Program* members

DEFINITIONS

"Companies Law"	Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company" or "our Company"	Biostime International Holdings Limited (合生元國際控股有限公司), an exempted company incorporated with limited liability under the laws of the Cayman Islands on April 30, 2010
"connected person(s)"	has the meaning ascribed thereto under the relevant rules
"Controlling Shareholders"	has the meaning ascribed thereto under the relevant rules and unless the context requires otherwise, refers to Biostime Pharmaceuticals and, through their interests in Biostime Pharmaceuticals, Mr. Luo Fei, Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan who, together, will control the exercise of approximately 75.0% voting rights in the general meeting of our Company immediately following the [●] (assuming that the [●] is not exercised)
"Corporate Reorganization"	the corporate reorganization of our Group conducted in preparation for the [●], details of which are set out in the paragraph headed "Corporate Reorganization" under the section headed "History and Corporate Structure" in this document
"CRM system"	our customer relationship management system
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
"Deed of Indemnity"	a deed of indemnity dated November 25, 2010 entered into between our Controlling Shareholders and our Company for itself and as trustee for its subsidiaries, under which our Controlling Shareholders have given certain indemnities in favour of our Group containing, among others, the indemnities referred to in the paragraph headed "Other Information — Estate duty, tax and other indemnity" in Appendix VI to this document
"Deed of Non-competition"	a deed of non-competition dated November 25, 2010 entered into by our Controlling Shareholders in favor of our Company, details of which are disclosed in the section headed "Relationship with Our Controlling Shareholders" in this document

DEFINITIONS

"Diana Naturals"	Diana Naturals, an Independent Third Party, being the supplier of our dried baby food products' ingredients
"Director(s)"	the directors of our Company
"ECOCERT"	an certification organization for organic products, founded in France in 1991 and based in Europe which conducts inspections in over 80 countries worldwide
"*EIT Law*"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法)
"EIT"	Enterprise Income Tax (企業所得税)
"EMEA"	Europe, Middle East and Africa
"EU"	European Union
"EUR"	Euro
"FAO"	Food and Agriculture Organization of the United Nations
"First Quality"	First Quality International, Inc., an Independent Third Party, being the supplier of our baby diaper products
"GDP"	gross domestic product
"Group", "our Group", "we" or "us"	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
"Guangzhou Biohope"	Guangzhou Biohope Co., Ltd.* (廣州市百好博有限公司), a limited liability company established under the laws of the PRC on December 20, 1994. It is owned as to 52.8% by Mr. Luo Fei, 27.2% by Mr. Luo Yun and 20.0% by Mr. Chen Fufang. Mr. Luo Fei is our executive Director. Mr. Luo Yun and Mr. Chen Fufang are our non-executive Directors
"Guangzhou Plant"	our production plant located in Guangzhou, Guangdong Province, China, where we conduct final production of our products that are not imported with original packaging

DEFINITIONS

"high-tier infant formula"	infant formulas with retail prices generally between RMB201 and RMB300 per 900g. 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$", "HK dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations) issued by Hong Kong Institute of Certified Public Accountants
"HKICS"	The Hong Kong Institute of Chartered Secretaries
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of the People's Republic of China
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the relevant rules) any Director, chief executive or substantial shareholder (within the meaning of the relevant rules) of our Company, its subsidiaries or any of their respective associates
"Lallemand"	Lallemand SAS, an Independent Third Party, being our supplier of probiotic powder, an active ingredient of our probiotic supplement products
"Latest Practicable Date"	November 26, 2010, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document prior to its publication
"low-tier infant formula"	infant formulas with retail prices generally lower than or equivalent to RMB100 per 900g. 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
"*Mama100*"	the *Mama100* trademarks and logos (being) registered in the name of members of our Group as more particularly set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document

DEFINITIONS

"*Mama100 Membership Program*"	a key program brand that offers our members access to our customer service and nursing consulting hotline, or CNC Hotline, our *mama100.com* website, a membership points accumulation program, a monthly magazine subscription and other exclusive services
"*Mama100 Members' Zones*"	members' zones which are established and maintained by us in a number of selected retail outlets such as pharmacies and retail sales organizations which carry more complete lines of products
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company
"mid-tier infant formula"	infant formulas with retail prices generally between RMB101 and RMB200 per 900g. 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
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOH"	Ministry of Health of the PRC (中華人民共和國衛生部)
"Laiterie de Montaigu"	Laiterie de Montaigu SAS, an Independent Third Party, being our supplier of infant formula products
"our brands"	generally refers to the *Biostime*™ brand, the *BMcare*™ brand, and the *Mama100* brand
"PBOC"	People's Bank of China (中國人民銀行), the central bank of China
"PRC Government" or "State"	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"[●] Share Option Scheme"	the existing share option scheme for our Directors, senior management, employees and business partners of our Group approved and adopted by our Company pursuant to a written resolution passed by our sole Shareholder on July 12, 2010, the principal terms of which are summarized under the paragraph headed "[●] Share Option Scheme" in Appendix VI to this document
"RMB or Renminbi"	Renminbi, the lawful currency of the PRC

DEFINITIONS

"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sarbec"	Laboratories Sarbec SAS, an Independent Third Party, being our supplier of the *BMcare*™ toiletry products
"SARL Biostime"	Biostime Pharma, a company established under the laws of France with limited liability on July 24, 2008 and a directly wholly-owned subsidiary of our Company
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFDA"	State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) with a nominal value of HK$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company pursuant to a written resolution passed by our sole Shareholder on November 25, 2010, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to this document
"Shareholder(s)"	holder(s) of the Share(s)
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"substantial shareholders"	has the meaning ascribed to it under the relevant rules
"supreme-tier infant formula"	infant formulas with retail prices generally higher than RMB301 per 900g. 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
"Track Record Period"	the three years ended December 31, 2009 and the six months ended June 30, 2010

DEFINITIONS

"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars", "USD" or "US$"	United States dollars, the lawful currency of the United States
"VAT"	Value-added tax
"WHO"	World Health Organization
"Yuan Weitai"	Nanchang Yuan WeiTai Trading Co., Ltd.* (南昌市原維態貿易有限公司), a limited liability company established under the laws of the PRC on September 11, 2008. It is owned as to 20.0% by Ms. Cao Qing (曹青) and 80.0% by Mr. Chen Dongfang (陳東芳). Ms. Cao Qing is an Independent Third Party and Mr. Chen Dongfang is the brother of Mr. Chen Fufang, one of our non-executive Directors

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with "" and the Chinese translation of company names in English which are marked with "*" is for identification purpose only.*

Unless otherwise specified, all relevant information in this document assumes no exercise of the [●].

GLOSSARY

"AOC Milk Source Base"	milk source base recognized and administered by INAO (the institution responsible for regulating French agricultural products with Protected Designations of Origin) under the Ministry of Agriculture of France. The quality of milk produced in such base is subject to strict supervision from both the government authorities and the enterprises that use such milk in the later stage
"ARA"	the abbreviation for Arachidonic acid, one of the most abundant fatty acids in the brain. It is necessary for the repair and growth of skeletal muscle tissue and is also involved in early neurological development. It is marketed as an anabolic bodybuilding supplement in a variety of products, including infant formulas
"atopic diseases"	diseases of, relating to, or caused by a hereditary predisposition toward developing certain hypersensitivity reactions, such as hay fever, asthma, or chronic urticaria, upon exposure to specific antigens. The antigen is any substance, such as bacteria or virus, that stimulates an immune response in the body
"β-vegetable oil"	one of the elements of milk formulas that contains 1,3-Dioleoyl 2-palmitoyl triglyceride
"CIF"	cost, insurance, and freight, a trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier
"CIP"	carriage and insurance paid to, named place or port of destination. It is a trade term requiring the seller to arrange for the carriage of goods to a destination, and provide the buyer with the documents necessary to obtain the goods from the carrier
"class 10,000 air cleanliness level"	particle count not to exceed a total of 350,000 particles per cubic meter of size 0.5 micrometers or more and 2,000 particles per cubic meter of size 5.0 micrometers or more
"class 100,000 air cleanliness level"	particle count not to exceed a total of 3,500,000 particles per cubic meter of size 0.5 micrometers or more and 20,000 particles per cubic meter of size 5.0 micrometers or more
"colostrum of cows"	a form of milk produced by the mammary glands of cows in late pregnancy

GLOSSARY

"DHA"	the abbreviation for Docosah exaenoic acid which is a primary structural component of brain tissue. Research is increasingly recognizing the possibility that it has a crucial influence on neurotransmitters in the brain, helping brain cells better communicate with each other. It is actively promoted by the manufacturers of infant formula products as a food additive
"ERP"	enterprise resource planning
"FOS prebiotic ingredient"	a type of prebiotic ingredient that functions as fructo-oligosaccharides (abbreviated as FOS), which helps benign bacteria in the intestines to reproduce and increase in number
"full-term infant"	an infant born 38 to 42 weeks after conception is considered to be "full-term"
"g"	gram
"GMP"	the abbreviation for good manufacturing practice, the control and management of manufacturing and quality control testing of foods, pharmaceutical products, and medical devices
"HACCP"	Hazard Analysis and Critical Control Point
"infant formula"	milk-powder based formula products for consumption by infants and toddlers up to the age of 36 months
"kg"	kilogram
"LPN whey protein"	one of the whey protein isolates obtained from milk. It is incorporated into milk formulas to promote the immune system of infants
"melamine"	an industrial chemical used for the production of melamine resins which was illegally added to milk-based products to cause a false increase in the measurement of protein content
"micronutrient"	a substance, such as a vitamin or mineral, that is essential in minute amounts for the proper growth and metabolism of a living organism
"pathogen-induced diarrhea"	a common and usually not serious illness of bowel movements that are loose and watery, which is caused by infection through a pathogen. A pathogen refers to an infectious agent that causes disease to its host
"probiotics"	live microorganisms which, when administered in adequate amounts, confer a health benefit on the host

GLOSSARY

"probiotic supplements"	products in the form of sachet, tablets or capsules that contain live bacteria to bolster and replenish the levels of health-promoting bacterium in the digestive tract
"sq.m."	square meter
"urogenital infections"	bacterial infection that affects any part of the urogenital system. Symptoms include frequent urge and/or need to urinate, pain during urination, cloudy urine and so on
"%"	per cent
"1,3-Dioleoyl 2-palmitoyl triglyceride"	a type of nutrition enhancer that is normally used in infant food products, and has the same molecular structure as the fat element of breast milk. It is easily digestible and provides infants with the energy required for their growth and development

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions of the industry in which we conduct business;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the market in which we operate;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- other statements in this document that are not historical facts.

In some cases, we use the words "aim," "anticipate," "believe," "continue," "could," "expect," "going forward," "intend," "may," "ought to," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions to identify forward-looking statements.

These forward-looking statements are based on our current plans and projections, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of factors including the factors disclosed in the section headed "Risk Factors" in this document could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be categorized as: (i) risks relating to our business operations; (ii) risks relating to the industry; and (iii) risks relating to conducting business in China.

RISKS RELATING TO OUR BUSINESS OPERATIONS

We rely on a limited number of independent suppliers.

We import probiotic powder, which is an active ingredient of our probiotic supplement products, from our raw materials supplier, Lallemand, located in France. In addition, all of our infant formula and baby cereal products are imported with original packaging from our product suppliers, Laiterie de Montaigu and Kerry Ingredients & Flavors, which are located in France and the United States, respectively, while the ingredients of our other dried baby food products are imported from Diana Naturals which is located in France. As a result, our business and results of operations are dependent on, among other things, the continued supply of key ingredients for our probiotic supplements, infant formulas and dried baby food products from Lallemand, Laiterie de Montaigu, Kerry Ingredients & Flavors and Diana Naturals, respectively, and our continued relationships with these suppliers or any other suppliers we may identify in the future. In the years ended December 31, 2007, 2008, 2009 and the six months ended June 30 2010, our total purchases from Lallemand amounted to RMB35.7 million, RMB55.9 million, RMB46.4 million and RMB27.3 million, respectively, representing 70.8%, 63.1%, 28.5% and 19.0%, respectively, of our total cost of sales. For the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, our total purchases from Diana Naturals amounted to RMB3.1 million, RMB3.7 million, RMB2.2 million and RMB0.5 million, respectively, representing 6.2%, 4.2%, 1.3% and 0.3%, respectively, of our total cost of sales. In the years ended December 31, 2008, 2009 and the six months ended June 30 2010, our total purchases from Laiterie de Montaigu amounted to RMB28.0 million, RMB99.5 million and RMB87.0 million, respectively, representing 31.6%, 61.0% and 60.5%, respectively, of our total cost of sales. For the year ended December 31, 2009 and the six months ended June 30, 2010, our purchases from Kerry Ingredients & Flavors accounted for RMB6.4 million and RMB8.2 million, respectively, representing 3.9% and 5.7%, respectively, of our total cost of sales.

There is no assurance that the supply of these raw materials and products will be sufficient to meet our increasing demands associated with our growth strategy. We may be unable to ensure the continued supply of these raw materials in the future if our suppliers should cease production or otherwise fail to keep us supplied or are unable to comply with the terms and conditions of their supply agreements with us, or if any of the supply agreements are suspended, terminated or otherwise expired without renewal.

Currently, we are in negotiation with several candidates who meet the supply standards of our raw materials and products, and are qualified to be our future suppliers. However, we may not be able to successfully identify alternative sources for all of our raw materials and products. For those alternative sources we have identified, we have not yet established formal business relationships with them. Neither have we tested the production capacity, product quality or other manufacturing capabilities of these alternative suppliers. A disruption to the supply of our raw materials and products could have a material adverse effect on our business, financial condition and results of operations, and we cannot assure you that we would be able to obtain our raw materials and products from alternative sources in a timely manner.

Supply and production by our suppliers may be interrupted.

Production and supply by our suppliers may be influenced by a number of factors that are beyond our control, including:

- *changes in the environmental, climatic, economic, political or social conditions in the country where the supplier is located*: our suppliers are located in various countries, including France and the United States, and any adverse changes in the environmental, climatic, economic, political or social conditions in any of these countries may have an adverse effect on our ability to obtain sufficient supplies of raw materials and products within required time periods and/or at reasonable prices, which may consequently have a material adverse effect on our business, financial condition and results of operations;

- *seasonal factors*: with cattle generally producing more milk in temperate weather than in 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 and results of operations;

- *disruptions of supply or substantial increases in price*: there may be unexpected disruptions of supply or increases in our raw material prices for a number of reasons, such as regulatory requirements, transportation and import restrictions, failure to meet suitable quality standards and manufacturing disruptions; and

- *increased demand and limited capacity*: other customers of our suppliers may increase their quantities of orders and the overall production capacity of our suppliers may not be sufficient to meet all of their clients' demands at reasonable prices or at all.

Our business and reputation may be affected by real or perceived quality issues, including product recalls, product liabilities or other claims.

Our business is highly sensitive to consumers' perception of the safety, quality and health benefits of our products. Any contamination, spoilage or other adulteration, product misbranding or product tampering, whether real or perceived, could require us to recall our products. As a manufacturer of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in any adverse reaction, illness or injury. We may also experience losses from product recalls that result from suspected or actual defects in the development or manufacturing of our products.

Our probiotic supplements, infant formulas and dried baby food products are not sterilized. We recognize that there may be a constant risk of contamination in our products and processes due to factors that may or may not be within our control. A substantial portion of our products must be prepared and maintained according to label instructions to retain their flavor and nutritional value and to avoid contamination or deterioration. Depending on the specific type of product, a risk of contamination or deterioration may exist at each stage of the production process, including the purchase and delivery of raw food materials from third party suppliers, the processing and packaging of food products and upon

use and handling by consumers. We may be exposed to adverse public relations if our products cause, or are alleged to cause, injury or illness or if we have violated, or are alleged to have violated governmental regulations. In the event of claims or allegations that our products are harmful, we may experience reduced demand for our products or our products may be recalled from the market.

In addition, reports or allegations of inadequate product quality control with respect to other manufacturers of pediatric nutritional products or any company that we invest in could also adversely impact the sales of our products and/or our reputation. For example, in 2008, Chinese authorities found significant levels of melamine in Chinese dairy materials used in certain infant formula products of other manufacturers in China, which led to the deaths of several infants in September of the same year. As a result, a nationwide investigation was launched on all infant milk formulas and dairy products for traces of melamine. Recently, there have been media reports linking hormone levels in the infant formula products of a Chinese company with alleged premature development and sexual precocity. While the MOH has conducted a clinical investigation and found no evidence of abnormality in the hormone content of the infant formula products, it is uncertain what impact, if any, these reports will have on the PRC milk formula industry. We have received from Laiterie de Montaigu their annual statements of compliance with the relevant European Directives confirming its strict compliance with the relevant European Directives (including the relevant European Directives which prohibit the use of hormonal growth promotants on dairy cows by any means). Moreover, as of the Latest Practicable Date, our infant formula products had never been found to have excessive hormone contents or fragrance/essence, nor been subject to any legal penalty. Our Directors also confirm that, as of the Latest Practicable Date, we had not added any estrogen hormones into our products. Based on the above, we believe that we have not been, and we do not expect to be impacted by the recent and any future incidents of excessive hormone content in other baby formulas. In addition, our Directors confirm that as of the date of this document, there are no statutory quality standards regulating the testing of the contents of dairy products for estrogen hormone in the PRC. However, there is the possibility that we may be affected by a decrease in sales as a result of certain consumers confusing our brand with other purely domestic PRC pediatric nutritional product providers and no longer purchasing our products. We have been one of the targets for negative publicity surrounding this incident due to a news article about one protestor alleging that our infant formula products were adulterated and were counterfeit imported products. To our best knowledge, this allegation was an isolated incident. Such negative publicity, whether or not based on false or unsubstantiated information, may still adversely affect consumer confidence in China regarding the quality and safety of our infant formula products. As of the Latest Practicable Date, we had not experienced any significant decrease in our sales, nor have legal actions been brought against us in connection with these incidents.

The nation-wide melamine incident in 2008 which was related to and affected domestically-sourced milk, did not cause any known impact on our financial positions or operating results because: (i) all of our infant formula products are imported from France with original packaging; (ii) we consistently target high-end customers with strong purchasing power since the launch of our infant formula products; and (iii) we focus on producing supreme- and high-tier infant formula products. However, the nation-wide melamine incident in 2008 and other similar events and negative publicity may create a perception among consumers of contamination risk with respect to all products in the pediatric nutritional products segment and baby care products market.

We cannot assure you that product quality issues, contamination in our products and processes or any material product recalls will not occur in the future. We may be subject to liability if our products or

operations violate or are alleged to violate applicable laws or regulations or in the event that our products cause, or are alleged to cause, injury, illness or death. A substantial claim or a substantial number of claims relating to our products, as well as product recalls, could divert the attention of our management from formulating and implementing our business strategies, cause us to incur unexpected expenditures or harm our reputation and the value of our brand name, any of which could have a material adverse impact on our business, financial condition and results of operations.

Failure to effectively maintain or promote our brands, or to grow our marketing capabilities, may adversely affect our future success or the brand name and reputation of our products.

We are committed to developing nutritional brands and products which help improve the health and development of infants and children in China. Since the launch of our *Biostime*™ family of products, we have sought to build brand recognition for our *Biostime*™ trademarks as representing high quality and reliable pediatric nutritional products. Through our *Biostime*™ brand, which signifies our sourcing of high-quality probiotic powder, food powder and infant formulas directly from European countries such as France, Norway and Switzerland, and the United States, we distinguish ourselves from other PRC competitors who either produce or source key raw materials domestically.

The willingness of consumers to purchase our products depends upon our ability to continue offering an attractive value proposition. If the difference between the value attributed to our products as compared to those of our competitors narrows, or if there is a perception of such a narrowing, consumers may choose not to buy our products. If we fail to promote and maintain the brand equity of our products across each of our markets, then consumer perception of our products' nutritional quality may be diminished and our business could be materially and adversely affected.

In addition, the success and lifespan of our products depend, to a significant extent, on the effectiveness of our marketing activities. We market our premium pediatric nutritional products and baby care products to our regional distributors and consumers mainly through television advertising, supplemented by advertisements in newspapers and magazines, and through other electronic media and promotional campaigns at selected retail outlets and online forums.

We cannot assure you that our current and planned expenditure on advertising and marketing activities will be adequate. For example, television advertising rates in China have steadily increased, and we expect to continue increasing our advertising expenditures. Any factors adversely affecting our ability to grow our marketing capabilities or our ability to maintain adequate spending for marketing activities, such as the availability of resources or new governmental regulations, will have an adverse effect on the market share, brand name and reputation of our products, which may result in reduced demand for our products and negatively affect our business and results of operations.

Furthermore, we could be subject to claims relating to false or misleading advertising. The PRC advertising laws and regulations require advertising contents to be fair and accurate, not misleading and in full compliance with applicable laws. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of advertisements, orders to publish advertisements to rectify any misleading information and even criminal liabilities. If we are found to have committed any violation of applicable PRC advertising laws and regulations, some of our advertising activities may be discontinued, we may not be able to broadcast new advertisements in a timely manner, and therefore our

turnover and reputation could be materially and adversely affected. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising. We may have to spend significant resources in defending ourselves against such claims, and such claims may damage our reputation and brand image, result in reduced turnover, and negatively affect our results of operations.

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

Our ability to manufacture, distribute and sell products is critical to our success. We conduct final production of our products, other than those imported with original packaging, at a single plant located in Guangzhou, Guangdong Province, China. In addition, we engage overseas product suppliers to produce our infant formulas and certain dried baby food products. Any significant damage to our or our suppliers' manufacturing and production facilities from natural or other causes, such as weather, natural disaster, fire, or other technical or mechanical difficulties could be costly and time-consuming to repair and would disrupt our operations. In addition, catastrophes or circumstances beyond our control, including power outages, strikes, terrorism, wars and various contagious diseases in cattle or other reasons could cause disruption to our operations or those of our suppliers, cause delay in our production and delivery schedules or impair our ability to manufacture products and adequately fulfill customers' orders. Recently, some strikes have occurred in France in opposition to the French government's pension reform plans. As a result of these strikes, transportation was severely affected and approximately half of all domestic flights in France were cancelled or delayed. However, most international air and rail links were not affected, and therefore the supply of raw materials and delivery of finished goods to us have not been disrupted, and we have not been impacted by the said strikes. 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 plant or supplier, could materially and adversely affect our business, financial condition and results of operations.

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

We attempt to negotiate competitive rates for the raw materials that we use, leveraging on, in particular, the volume of business we conduct with our suppliers. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our costs of materials, consisting of the costs for raw materials, finished products and packaging materials, accounted for approximately 93.1%, 92.5%, 93.3% and 93.8%, respectively, of our total cost of sales. Any shortage in raw materials or fluctuations in world commodity prices may negatively affect the purchase price we have negotiated with independent suppliers. Risks such as fluctuating exchange rates, social and political unrest, and economic volatility in the countries or regions where we import our products may negatively and materially affect our operating costs.

Commodity prices impact our business directly through the cost of raw materials used for our products (such as milk powder, probiotic powder, vegetable and fruit powder, lactose and whey protein concentrate), the cost of inputs used to manufacture and ship our products (such as crude oil and energy) and the amount we pay to produce or purchase packaging for our products (such as cans, pouches, cardboard and aluminum foils). We cannot guarantee that the prices we currently pay for raw materials and other commodities will remain stable. Such commodities are susceptible to price volatility caused by

conditions beyond our control, including fluctuations in commodities markets, currency fluctuations and changes in governmental agricultural programs. Any increase in the prices we are required to pay for raw materials and commodities may result in our offering to the market a less competitive product, and compel us to identify more suitable and cost-competitive alternatives. In particular, our ability to pass on part or all of our cost increases to our consumers depends largely on market conditions, including the activities of our competitors. To sustain our price competitiveness and to maintain our market share, we may decide not to increase the price of our products, despite an increase in raw material costs. If, as a result of consumer sensitivity to pricing or our strategic market positioning, we are unable to increase our product prices to offset the increased cost of commodities, we may experience lower profitability .

The manufacturing of many of our products is a highly exacting and complex process, and if we or our suppliers should encounter problems relating to the manufacturing process, our business could suffer.

The manufacturing of many of our products, either by our product suppliers or ourselves, is a highly exacting and complex process, in part due to strict regulatory requirements. Problems may arise during the manufacturing process for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, maintenance of manufacturing environment, natural disasters, various contagious diseases and process safety issues. If problems arise during the production of a batch of products, either in our production facilities or those of our suppliers, the entire batch of products may have to be discarded. This could, among other things, lead to increased costs, lost revenue, damage to customer relations, diversion of time and financial resources to investigate the cause and, depending on the cause, similar losses with respect to other batches of products. If problems are not discovered before the affected products are released to the market, recall and product liability costs, as well as reputational damage, may also be incurred. To the extent that we or one of our suppliers experience significant manufacturing problems, it could have a material adverse effect on our business.

Our growth depends on the ability to increase the production capacity of our facilities and our key suppliers' facilities.

Our future growth depends on whether we are able to expand our capacity to accommodate more consumers in different geographic markets in China. Global growth and demand for our products has increased the utilization of our production and manufacturing facilities, including manufacturing capacity provided by third-party manufacturers and packaging capacity with respect to our products. Our expansion plans are subject to business, economic, and competitive contingencies and uncertainties, including obtaining necessary regulatory approvals, seasonality, labor disputes, and a downturn in the economy, any of which could delay the introduction of our products. Our production constraints are also due partly to the production constraints of our major raw materials or products suppliers, namely Lallemand for our probiotic powder and Laiterie de Montaigu for our infant formula products. Further details of our utilization rates of each production line during the Track Record Period are set out in the paragraph headed "Manufacturing — Our production facilities" under the section headed "Business" in this document . If we or any one of our key raw materials or products suppliers are unable to successfully expand production capacity in a timely and effective manner, we will be unable to continue our growth and expand within our existing markets or enter into additional geographic markets or new product categories.

RISK FACTORS

We may face difficulties as we introduce new product series or as we expand our sales distribution network.

In May 2010, we started marketing our new baby care products for infants, children and nursing mothers under our *BMcare*™ brand. In connection with the sales and marketing of our new products, such as baby diapers and nursing pads, we expect to incur additional costs and to face intense competition in the relevant markets from other companies, including those with more relevant technological and managerial experience. Our diversification into new businesses will put pressure on our managerial, marketing, technical, financial, production, operational and other resources. As these are new product categories for us, expansion into these areas will require significant management attention. To manage future growth, we must increase distribution capacity, enhance financing controls and hire additional skilled personnel as well as manage relationships with a greater number of consumers, regional distributors, suppliers, equipment vendors and other third parties.

There can be no assurance that we will be able to successfully compete in these new businesses; that demand for these new products will grow to the extent that we expect; or that these new businesses and products will provide the returns that we expect. Moreover, there can be no assurance that the implementation of such expansion plans, including significant management attention that such implementation is expected to require, will not adversely affect our existing operations.

We continue to expand our sales distribution network in order to extend our consumer base. However, we may encounter regulatory, personnel and other difficulties that increase our expenses or delay our ability to expand our sales distribution network. In addition, we may face market entry barriers such as competition from strong local competitors that may have a proximity advantage and local connections, which may prevent us from competing effectively in these regional markets.

We may not be able to sustain our historical sales and profit margins and further manage our growth effectively.

We have experienced significant growth over the past three years, during which the premium pediatric nutritional products segment in China has experienced substantial growth. Our total revenue has increased from RMB188.3 million in the year ended December 31, 2007 to RMB559.0 million in the year ended December 31, 2009 and in the six months ended June 30, 2010, our revenue amounted to RMB496.1 million, representing an increase of 119.9% over the comparable period in 2009. Our gross profit margins during the Track Record Period were maintained at approximately 70.0%. However, there is no guarantee that the premium pediatric nutritional products segment in China will continue to grow at a similar rate in the future, and our historical level of growth may not be sustainable as we may experience slower growth in the future due to market saturation as well as increased competition from new market entrants and alternative products. As we continue to develop and expand our operations and our manufacturing capacity, marketing and operating costs will also increase, which could potentially reduce our sales and operating margins. Our ability to manage growth effectively will require us to continue implementing and improving our operational, financial and management systems; continue to develop the management skills of our managers; and continue to train, motivate, manage, and retain our

employees. In addition, we are likely to face increased competition as we expand our product lines and distribution areas, which could result in lower sales, margins and market share. If we fail to sustain our profitability or manage our growth effectively, our business, financial condition and results of operations could be adversely affected.

Our continuing success depends on our ability to adequately protect our intellectual property.

The formulas of our probiotic supplements, infant formulas and dried baby food products are of fundamental importance to our business. We have not made and are not planning to make patent applications for these formulas as we understand that many stages of our production processes and some elements of these products involve proprietary know-how, technology reformation or data that do not fall within the scope of patent protection. Furthermore, as details of the ingredients of these products are required by applicable regulations to be listed on the packaging of these products, the information is already available in the public domain. As a result of the above, we have no protection against our competitors and third parties who may duplicate our trade secrets and formulas and thereby gain a competitive advantage.

To the extent that protection is afforded under applicable trade secret laws, we rely on such laws as well as our policy of signing confidentiality agreements with our suppliers and all of our management personnel and sales employees to establish and protect trade secrets relating to our probiotic supplements, infant formulas and dried baby food products. If we fail to enforce such provisions or are unsuccessful in taking enforcement proceedings against the relevant parties for any breach of confidentiality agreements, our business may be materially and adversely affected.

The brand names and trademarks under which our products are marketed and sold are also important to our business. As of the Latest Practicable Date, we had 193 material registered trademarks and had made 332 material trademark applications of different classes in China, Hong Kong, France and several other countries for our brands and sub-brands. Further details of our intellectual property portfolio are set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document. If we fail to effectively protect our trademarks and our production processes and techniques used in producing our products from inappropriate or unauthorized use by third parties in ways that adversely affect our corporate image or brand name, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We have yet to obtain the registration of our Group's logo as a trademark in Hong Kong.

We have submitted an application to the Trade Marks Registry of the Intellectual Property Department of the Government of Hong Kong (the "Trade Marks Registry") for registration of our Group's logo as it appears on the cover of this document as a trademark, the details of which are set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document. As of the Latest Practicable Date, our application had proceeded to the substantive examination stage. We are not aware of any infringement or passing off action in respect of any third party intellectual property rights regarding the use of our Group's logo. Given that the registration of the said trademark has yet to be approved by the Trade Marks Registry, there can be no assurance that there will not be any claims,

disputes or litigation made or threatened to be made against us in the future. Any claims, disputes or litigation involving infringement of third party intellectual property rights, whether with or without merit, can be costly and may result in the diversion of our resources and adversely affect our reputation and/or financial performance.

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

Our products may be subject to third party patent or trademark claims. Third parties may obtain patents or register trademarks in the future and claim that our products infringe their intellectual property rights. If a third party asserts that our products infringe upon its intellectual property rights, these claims could cause us to incur significant expenses and, if successfully asserted against us, could require us to pay substantial damages and/or prevent us from selling our products. Even if we were to prevail against such claims, any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of an intellectual property challenge, we may find it necessary to enter into royalty licenses or other costly agreements, and we may not be able to obtain or enter into such license agreements or otherwise on terms acceptable to us or at all.

Counterfeit pediatric nutritional products in China could negatively impact our revenue, brand reputation, business and results of operations.

Our products are subject to competition from counterfeit products, which are products without proper licenses or approvals and are fraudulently mislabeled with respect to their content and/or manufacturer. Counterfeiters may illegally manufacture and market pediatric nutritional products under our brand name or that of our competitors. Counterfeit products are generally sold at lower prices than authentic products due to their low production costs, and in some cases are very similar in appearance to authentic products. Counterfeit products may or may not have the same chemical contents as their authentic counterparts. If counterfeit products illegally sold under our brand name result in adverse side effects to end users, we may be associated with negative publicity resulting from such incidents. In addition, consumers may buy counterfeit products that are in direct competition with our products, which could have an adverse impact on our revenue, business and results of operations. There is not yet an effective counterfeit enforcement system in China, and the proliferation of counterfeit products in recent years may continue to grow in the future. Any increase in the sale and production of counterfeit products in China could negatively impact our revenue, brand reputation, business and results of operations.

Failure to maintain our relationships with regional distributors could have a negative and material impact on us.

We sell and market our products through regional distributors, whom we consider to be our customers. We have limited ability to manage the activities of our regional distributors, as they are Independent Third Parties. Non-compliance by regional distributors with our distribution agreements could harm our corporate image among end users of our products and disrupt our sales, resulting in a failure to meet our sales targets. We could be liable for actions taken by our regional distributors, including any violation of applicable laws, for example, China's anti-corruption laws, in connection with the marketing or sales of our products.

If our regional distributors violate PRC laws or otherwise engage in unlawful practices with respect to their sales or marketing of our products, we could be required to pay damages or fines, which could negatively affect our financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our Shares could be adversely affected if we become the target of any negative publicity as a result of actions taken by our regional distributors.

Our continuing success depends on meeting market needs. If our products fail to keep pace with advances in the industry, they may be displaced by our competitors' newly developed products.

Other companies in our industry may gain significant competitive advantages by introducing new products to the market, delivering constant innovation in products and techniques and offering competitive prices. Our future growth partially depends on our ability to develop products that are more effective in meeting consumer needs. In addition, we must be able to manufacture and effectively market our products. The sales of our existing products may decline if new competing products are introduced by other companies.

We cannot assure you that any of the products that we are currently developing will be readily accepted by consumers, meet their needs, or result in increased profits. Market acceptance and customer demand for new products can be unpredictable and dependant on a variety of factors, including the competitiveness of our products in terms of price and quality, changing customer needs, consumer willingness to use a new product, and recognition and acceptance of our products. We may also not be able to accurately foresee and adjust quickly to shifting trends in consumers' tastes and demands. Failure to gain market acceptance could have a negative and material impact on our business, financial condition and results of operations.

Early termination of our leased single production plant may impact our production and operations.

We have relied solely on our single production plant in Guangzhou, Guangdong Province, China, which consists of two independent production facilities for the production of those products in China which undergo the final production process including sieving, blending and packaging, probiotic supplements and certain dried baby food products. The lease for this facility expires on September 30, 2017 with priority for renewal. Any early termination of the relevant lease would adversely affect our production and operations. In such an event, we would need to seek an alternative location for our production plant, which we believe would be difficult to locate and secure within a short period of time given the specialized and hygienic nature of our manufacturing facilities. Even if we are able to identify an alternative production plant, we may incur additional costs and may experience disruption in the supply of our products until such alternative production facilities receive required Health Food GMP Certifications (保健食品GMP證書) and are made operational. Any disruption or delay in our manufacturing capacity could have an adverse impact on our ability to produce sufficient quantities of our products or may require us to incur additional expenses to conduct final production and packaging of sufficient quantities of our products. This could impair our ability to meet the demand of our regional distributors and cause them to cancel orders, any of which could materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

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

Following the [●], our Controlling Shareholders will remain controlling shareholders of our Company with substantial control over its issued share capital. Biostime Pharmaceuticals 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 [●]. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

Business operations of Biostime Nutrition may create a potential conflict of interest between our Company and our Controlling Shareholders, and adversely impact our business.

In addition to interests in our Company, our Controlling Shareholders also indirectly own and operate a wholesale business of health (functional) food products exclusively for adults through Biostime Nutrition. As of the Latest Practicable Date, the only health (functional) food product carried by Biostime Nutrition was adult probiotic supplements. Biostime Nutrition is wholly-owned by Biostime France, which is in turn owned as to 50.0% by Biostime USA and 50.0% by Lallemand. Biostime USA is wholly-owned by Biostime Pharmaceuticals. In addition, Mr. Luo Fei, Mr. Luo Yun and Dr. Zhang Wenhui also currently hold directorships in the Biostime Nutrition. Please refer to the section headed "Relationship with Our Controlling Shareholders" in this document for more details. While our Controlling Shareholders expect to complete the disposal of equity interest in Biostime Nutrition on or prior to December 31, 2011, we cannot assure you that there would not be any competition between Biostime Nutrition and our Company prior to such time, and there are also risks that our Controlling Shareholders may from time to time be placed in conflicting positions with regard to their involvement of the business, policies and other affairs of our Company.

In addition, as business of Biostime Nutrition bears the same trade name of "Biostime", any adverse publicity relating to Biostime Nutrition may tarnish our reputation and adversely affect our business, financial condition and results of operations.

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

Our success depends on the experience and skills of our current officers, management and key sales employees. In particular, our senior management has significant experience in the sale and production of pediatric nutritional products. Mr. Luo Fei, our executive Director and chief executive officer, Dr. Zhang Wenhui, our executive Director and chief technology officer, and Ms. Kong Qingjuan, our executive Director and chief operating officer, are responsible for all key managerial functions and strategy of our Company and they have been fundamental to our achievements to date. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

We cannot assure you that we will be able to hire additional qualified employees to strengthen our management team or integrate new management into our existing operations in order to keep pace with

the proposed growth of our business. Competition for experienced individuals is fierce in China, and we may not be able to attract or retain suitably qualified personnel. Our failure to attract and retain additional qualified personnel may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and results of operations.

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

We rely on our information technology and administrative systems, particularly the ERP system, membership points accumulation system and logistics system, to effectively manage our business data, communications, supply chain, order entry and fulfillment and other business processes. The failure of our information technology or administrative systems to perform to our expectations could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales and customers. In addition, our information technology and administrative systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on our business and prevent us from paying our product suppliers, raw material suppliers or employees, receiving payments from our customers or performing other information technology or administrative services required by our business on a timely basis.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.

We have, to date, financed our working capital and capital expenditure needs primarily through capital contributions from the shareholders of Biostime Pharmaceuticals and from operating cash flows. We expect our working capital and capital expenditure to increase in the future as we continue to further expand and enhance our distribution network, increase our research and development capabilities, and implement other strategies. Our ability to raise additional capital will depend on the financial success of our business and the successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on the shareholding interest of our Shareholders. If we require additional debt financing, relevant lenders may require us to agree to restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocated for research and other activities. If we are unsuccessful in raising additional capital, we may not be able to continue our business operations or advance our development programs.

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

Insurance companies in China offer limited commercial insurance products. For example, business interruption insurance available in China offers less coverage compared to that offered in many other countries. We only maintain limited insurance coverage. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods,

power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policies. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY

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

Individual markets within the premium pediatric nutritional products segment and the baby care products market are intensely competitive. Our primary competitors have substantial financial, marketing and other resources. We compete against large global companies, as well as regional and local companies, in each of the regions we operate. For most product categories, we compete not only with major international players, but also with local brand products that are generally sold at lower prices. Competition in our product categories is based on the following factors:

- brand recognition and loyalty;
- product quality;
- effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences;
- product innovation;
- price; and
- distribution and availability of products.

In order to protect our existing market share and to capture increased market share, we may need to improve our brand recognition and product value proposition, and increase our spending on marketing, advertising and new product innovation. The success of marketing, advertising and new product innovation is subject to risks, including uncertainties about trade and consumer acceptance. We may also need to adjust prices for some of our products to respond to competition and customer pressures and to maintain our market share. Competition and customer pressures, which include commodity and other cost increases, may restrict our ability to increase prices. Our business will suffer if profit margins decrease, either as a result of a reduction in prices or an increase in costs coupled with an inability to increase prices proportionally.

We are subject to numerous government regulations in China, and it can be costly to comply with current and future regulatory requirements.

We are subject to various laws and regulations of China in relation to the manufacturing, packaging, storage, distribution, sales, import and labeling of our products, including, *the Food Safety Law of the PRC* (中華人民共和國食品安全法), which became effective on June 1, 2009, *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), which became

effective on July 20, 2009, *the Measures on the Administration of Healthy Food* (保健食品管理辦法) promulgated by the MOH on March 15, 1996 which became effective on June 1, 1996, *the Measures on the Registration of Healthy Food (experimental)* (保健食品註冊管理辦法(試行)) promulgated by the SFDA on April 30, 2005 which became effective on July 1, 2005, and other relevant rules and regulations issued by the State Council (中華人民共和國國務院), MOH, AQSIQ, SAIC and the SFDA.

The industry in which we operate is relatively new in China, and the manner and extent to which it is regulated is evolving. Changes in existing laws or new interpretations of such laws may have a significant impact on our methods and costs of doing business. In addition, we are required to obtain approvals from Chinese government authorities regarding the contents of advertisements relating to our products before they can be published. If the relevant Chinese government authorities require us to set our retail prices at undesirable prices or significantly limit our ability to advertise our products, our business could be materially and adversely affected.

We have currently obtained all material registrations, licenses and permits which are required for us to operate our business in China. If the regulations regarding these licenses and permits are changed, or if we fail to renew our current licenses or obtain approvals for our current operations, it may be materially burdensome for us to obtain or renew these licenses and permits or they may be otherwise unavailable, and our business could be materially affected.

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

Our operations and the production, packaging, storage, sales, import and labeling of our products are subject to extensive laws and regulations promulgated by the State Council, the MOH, the AQSIQ, the SFDA, and other national and local regulatory authorities in countries from which we import our raw materials and products. Our production facilities and products are subject to periodic inspection by relevant national and local authorities of the PRC. There can be no assurance that we will be capable of fully complying with laws and regulations that may come into effect in the future. Any failure by our Company to comply with relevant governmental laws and regulations may have a material adverse effect on our business and results of operations.

There can also be no assurance that the PRC Government or the government of countries where our products are produced or sold will not change their existing laws or regulations or adopt additional or more stringent laws or regulations applicable to us and our business operations. To the extent that new laws and regulations are adopted, we may be required to conform our activities and operations to comply with such laws and regulations. We cannot predict the nature of such future laws, regulations, interpretations, or applications, nor can we predict their impact on our business. Such laws and regulations may require the re-configuration of our methods for sourcing raw materials, production, processing and transportation, including more onerous food safety, labeling and packaging requirements, more stringent compliance requirements for waste management, increases 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, product recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Adverse changes in China's economic, political, and social conditions as well as governmental policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect our financial condition and results of operations.

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

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

China's economy has been transitioning from a planned economy towards a more market-oriented economy. However, a substantial portion of productive assets in China remain state-owned which allows the PRC Government to exercise a high degree of control. In addition, the PRC Government continues to play a significant role in regulating industrial development by imposing industrial policies. For the past three decades, the PRC Government has implemented economic reform measures to emphasize the utilization of market forces in economic development.

China has been one of the fastest growing economies in the world as measured by growth in GDP in recent years, but its economic growth has been uneven, both geographically and across various sectors of the economy. Concerned that such growth rates and distributions of growth are not sustainable, the PRC Government has in recent years implemented a series of measures, including but not limited to macroeconomic control measures, export policies and elimination or adjustment of VAT refund for

exported goods, to curb the rapid growth of the economy in relation to certain industries. The key purposes of the measures are to forestall threatening inflation and to stabilize China's economy. Such measures include tightening control over investments and bank loans in certain sectors, raising the deposit-reserve ratio for financial institutions, raising the proportion of equity investments in certain sectors, strict enforcement of land acquisition and land use regulations and abandoning or delaying industrial projects which are expected to lead to economic inefficiencies. These measures may benefit the overall PRC economy in the long term but may also have a negative effect on us and our business operations.

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

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

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

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

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

The value of the Renminbi against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under the past unified floating exchange rate system, the conversion of the Renminbi into foreign currencies, including Hong

Kong and US dollars, had been based on rates set by the PBOC, which had generally been stable. However, the PRC Government reformed the exchange rate regime in July 21, 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi appreciated against the Hong Kong and US dollars by approximately 2.0% on the same date. On September 23, 2005, the PRC Government widened the daily trading band for the Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

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

Any appreciation of the Renminbi may subject us to increased competition from imported pediatric nutritional and baby care products. Meanwhile, as we purchase a significant proportion of raw materials from overseas suppliers, any depreciation of the Renminbi could possibly increase the cost of importing these products, and if we are unable to pass on the increased cost to our regional distributors by selling our products at higher prices, our results of operations may be adversely affected. Further details are set out in the paragraph headed "Management's discussion and analysis of financial condition and results of operations — Factors affecting our results of operations and financial condition — Fluctuation of foreign exchange rates" under the section headed "Financial Information" in this document. In addition, because our revenues and profits are denominated in Renminbi, any depreciation of the Renminbi would materially and adversely affect our financial position and the value of, and any dividends payable on, our Shares in foreign currency terms, as well as our ability to service our foreign currency obligations.

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

Our Company is a holding company incorporated in the Cayman Islands and operates our core businesses through our subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS and IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10.0% of their respective disbributable profits after tax each year, to fund certain reserve funds, until the aggregated reserve funds exceed 50.0% of their respective registered capital. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

In addition, under *the EIT Law* which became effective on January 1, 2008, if a foreign entity is deemed to be a "non-resident enterprise" as defined under *the EIT Law* and its implementation rules, a withholding tax at the rate of 10.0% will be applicable to any dividends for earnings accumulated since January 1, 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements.

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

Under *the EIT Law*, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and their global income will generally be subject to the uniform 25.0% enterprise income tax rate. Under the implementation rules for *the EIT Law*, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. In our case, as of the Latest Practicable Date, the SAT further specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises in April 2009, but there had been no official tax rules promulgated regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises like ourselves. However, as substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25.0% on our worldwide income which may have a material adverse effect on our business, financial condition and results of operation. In that case, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because *the EIT Law* and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how *the EIT Law* and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

Gains on the sales of our Shares by foreign [●] and dividends on our Shares payable to foreign [●] may become subject to PRC income taxes.

Under *the EIT Law* and its implementation rules, our Company may in the future be recognized as a PRC tax resident enterprise by the PRC tax authorities. As such, we may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to our Shareholders, as such income may be regarded as income from "sources within China". In such a case, our foreign corporate Shareholders may become subject to a 10.0% withholding income tax under *the EIT Law*, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty.

If the PRC tax authorities recognize our Company as a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with *Circular 124*,

(關於印發《非居民享受税收協定待遇管理辦法(試行)》的通知) issued by the SAT on August 24, 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder's tax residency and economic substance. With respect to dividends, the beneficial ownership tests under *Circular 601* (《關於如何理解和確定税收協定中受益所有人的通知》), which was issued by the SAT on October 27, 2009, will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders' investment in our [●] may be materially and adversely affected.

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

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

It may be difficult to enforce any judgments obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China.

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

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

Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose vehicles by PRC residents may adversely affect our business operations.

The SAFE issued a public notice in October 2005, namely the *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* (國家外滙管理局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) or "*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 vehicle (the "SPV"). PRC residents that are shareholders of offshore SPVs established before November 1, 2005 which had completed roundtrip investments were required to register with the local SAFE branch before March 31, 2006. In addition, any PRC resident that is a shareholder of an offshore SPV is required to amend its SAFE registration within 30 days after any major change in the share capital of the offshore SPV 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. Those of our beneficial shareholders who are domestic residents defined under *SAFE Circular No. 75* (namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang, and Ms. Kong Qingjuan), have registered with the SAFE Guangdong branch in respect of the establishment of our Company and its investment in Biostime Guangzhou, Biostime Health and BMcare Guangzhou. 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 beneficial 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 out in *SAFE Circular No. 75* may subject such beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute dividends to our Company or otherwise materially and adversely affect our business.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to *the Administrative Measures on Individual Foreign Exchange* (個人外匯管理辦法) which was adopted on November 30, 2006 by the PBOC, *the Implementation Rules of the Administration Measure for Individual Foreign Exchange* (個人外匯管理辦法實施細則) issued on January 5, 2007 by the SAFE (the "*Individual Foreign Exchange Rules*") 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 [●] Companies* (境內個人參與境外[●]公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued on March 28, 2007 by the SAFE ("*Circular 78*"), PRC citizens who are granted shares or share options by an overseas [●] company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas [●] company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas [●] company must be remitted into China. In addition, the overseas [●] 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.

Our PRC citizen employees who have been granted share options, or PRC option holders, together with us, will be subject to these rules upon the [●] of our Shares. In order to comply with the requirements

of the *Individual Foreign Exchange Rules* and *Circular 78*, we will require our domestic employees to obtain approval from the SAFE or its local branches when they participate in the [●] Share Option Scheme and the Share Option Scheme. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and sanctions.

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

The Standing Committee of the National People's Congress (全國人民代表大會常務委員會) adopted *the Labor Contract Law* (中華人民共和國勞動合同法) on June 29, 2007 which became effective on January 1, 2008. *The Labor Contract Law* imposes requirements relating to, among others, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labor contract if this requirement is not satisfied.

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

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

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 any other epidemic, if protracted and uncontrolled, may result in the contraction of such a disease among 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 WHO 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 any other epidemic could cause significant interruption to our business and have a significant adverse impact upon our revenue and profitability.

DIRECTORS

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Luo Fei	Room 201 No. 81 South Huijing Road Tianhe District Guangzhou City Guangdong Province PRC	Chinese
Dr. Zhang Wenhui	456 Bridle Ct San Ramon, CA 94582-5950 United States	American
Ms. Kong Qingjuan	Room 204 No. 2 Ziluolan Street Tianhe District Guangzhou City Guangdong Province PRC	Chinese
Non-executive Directors		
Mr. Wu Xiong	Room 20C, Building 3 District 2 of Zijing Garden, Zijing Road Longhua District Haikou City Hainan Province PRC	Chinese
Mr. Luo Yun	Room H2-401 No. 247 South Huijing Road Tianhe District Guangzhou City Guangdong Province PRC	Chinese
Mr. Chen Fufang	Room 701 No. 25 South Huijing Road Tianhe District Guangzhou City Guangdong Province PRC	Chinese

DIRECTORS

Name	Address	Nationality
Independent non-executive Directors		
Mr. Ngai Wai Fung	26A of Wah Shan Mansion No. 17 of Taikoo Shing Road Quarry Bay Hong Kong	Chinese
Mr. Tan Wee Seng	136-101, Lane Bridge Villa No. 9 of Lai Guang Ying Dong Road Chaoyang District Beijing PRC	Malaysian
Professor Xiao Baichun	35 Philip Dr Parsippany, NJ 07054 United States	American

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office in the PRC	Room 1110, CITIC Plaza 233 Tianhe Road North, Guangzhou Guangdong Province 510613 PRC
Principal place of business in Hong Kong	Unit No. 2208 on 22/F of West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong
Company's website	www.biostime.com.cn (*information contained in this website does not form part of this document*)
Joint company secretaries	Ms. Wong Tak Yee *ACIS, ACS* Ms. Yang Wenyun
Authorized representatives	Mr. Luo Fei Room 201 No. 81 South Huijing Road Tianhe District Guangzhou City Guangdong Province PRC Ms. Wong Tak Yee Flat C1 8/F, Palace Garden 163 Argyle Street, Kowloon Hong Kong
Audit committee	Mr. Ngai Wai Fung (*Chairman*) Mr. Tan Wee Seng Mr. Luo Yun
Nomination committee	Mr. Luo Fei (*Chairman*) Mr. Ngai Wai Fung Mr. Tan Wee Seng
Remuneration committee	Mr. Tan Wee Seng (*Chairman*) Mr. Ngai Wai Fung Mr. Luo Fei

CORPORATE INFORMATION

Principal bankers

China Construction Bank, Guangzhou Development District Sub-branch
Ronghui Mansion
No. 302 Zhicheng Avenue, Guangzhou City
Guangdong Province 510730
PRC

China Merchants Bank, Guangzhou Development District Sub-branch
No. 428 Kaifa Avenue, Guangzhou City
Guangdong Province 510730
PRC

INDUSTRY OVERVIEW

REPORTS COMMISSIONED FROM EUROMONITOR INTERNATIONAL

Euromonitor International, an independent market research and consulting company, was commissioned by our Company to conduct an analysis of, and to report on, baby food and baby care products market in China, especially insights on the infant formula and children's probiotic supplements market, from 2007 to 2014. The report commissioned has been prepared by *Euromonitor International* independent of the Group's influence and was published in July 2010. We paid *Euromonitor International* fees of RMB300,000, which we consider reflects market rates.

Euromonitor International's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC. Primary research involved interviews with leading industry participants from the baby food and baby care products industries, distributors, retailers, national or regional industry trade associations, government, semi-official and other segment observers. Secondary research involved gathering and reviewing company reports, independent research reports and data based on *Euromonitor International*'s own research database. No data modeling has been performed in this research, therefore no parameters were applied. On the other hand, historical data that *Euromonitor International* gathered and obtained was based on its consecutive tracking in the baby food and baby care products industries in China during the past 5 to 13 years, therefore no assumptions have been set. In ensuring forecast accuracy, *Euromonitor International* adopted its standard practice of both quantitative as well as qualitative forecast in terms of factors including market size and growth trends, on the basis of a comprehensive and in-depth review of historical market development, and a cross check with established government or industry figures, and interviews conducted with industry participants and experts.

In its preparation of the industry report, *Euromonitor International* has assumed the completeness and accuracy of the information and data that *Euromonitor International* has relied on. *Euromonitor International* has confirmed that it is not aware of anything which could possibly lead it to believe that the said assumption is unfair, unreasonable or incomplete, or that any forecasted information in the industry report is unreliable, inaccurate or incomplete.

All primary and secondary research sources are first standardized, checked and validated to ensure that *Euromonitor International* has a robust research feed to the analysis. A critical analysis of all sources and insights is conducted whereby data, insights and hypotheses are compared to arrive at a set of data and conclusions. Through the above measures and procedures, all reasonable efforts have been taken to ensure the credibility and accuracy of the relevant statistics.

Based on the interview conducted with *Euromonitor International*, nothing has come to the [●]'s attention that would cast doubt on the reliability of the forecasted data in the industry report. The Directors have confirmed that the forecasted data relating to periods of up to 2014 in the industry report are generally consistent with the Directors' own understanding of the market and its own forecasts regarding such data.

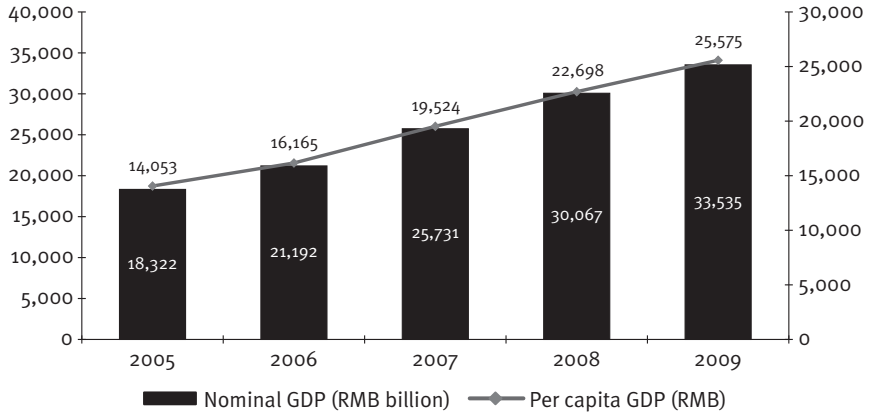
THE PRC ECONOMY

Economic Growth in the PRC

China's economy has grown significantly and rapidly since the PRC Government introduced economic reforms in the late 1970's. According to the National Statistics Bureau of China

(中華人民共和國國家統計局), China's nominal gross domestic product, or GDP, grew from RMB18,322 billion in 2005 to RMB33,535 billion in 2009, representing a CAGR of 16.3%. The per capita GDP of China also increased from RMB14,053 in 2005 to RMB25,575 in 2009, representing a CAGR of 16.1%. The following chart sets forth the nominal GDP and per capita GDP of China from 2005 to 2009:

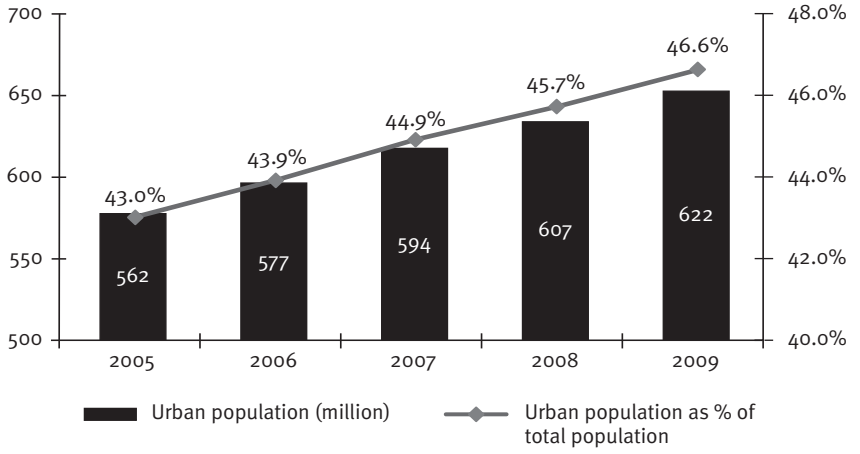
Nominal GDP and GDP per capita growth in China



Source: National Bureau of Statistics of China

Urbanization in China

Urbanization has accelerated in China as a result of rapid economic growth. According to the National Statistics Bureau of China, the total urban population in China increased by approximately 60 million, or a CAGR of 2.6%, from 2005 to 2009. In 2005, urban populations accounted for approximately 43.0% of the total population. This increased to approximately 46.6% in 2009 according to the National Statistics Bureau of China. The following chart sets forth the urban population in China from 2005 to 2009:

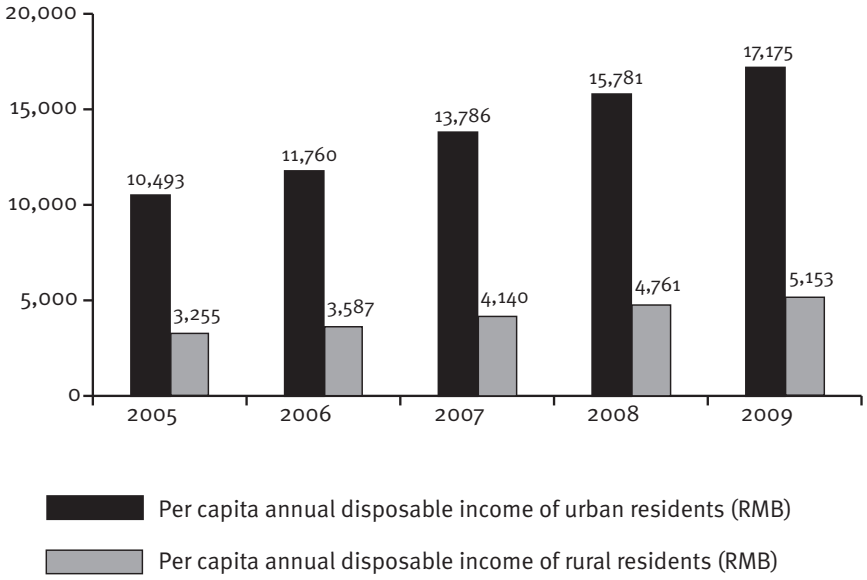


Source: National Bureau of Statistics of China

Growth in disposable income of urban and rural households in China

As a result of China's rapid economic growth, personal income from urban and rural households in China has also been increasing. According to the National Statistics Bureau of China, the per capita annual disposable income of urban residents increased from RMB10,493 in 2005 to RMB17,175 in 2009, representing a CAGR of 13.1%. During the same period, the per capita annual disposable income of rural residents increased from RMB3,255 to RMB5,153, representing a CAGR of 12.2%. These increases indicate that the purchasing power of consumers in China is continuously rising, enabling consumers in China to purchase higher quality products. The following chart sets forth the per capita annual disposable income of urban and rural households in China from 2005 to 2009:

Per Capita Annual Disposable Income of Urban and Rural Households in China

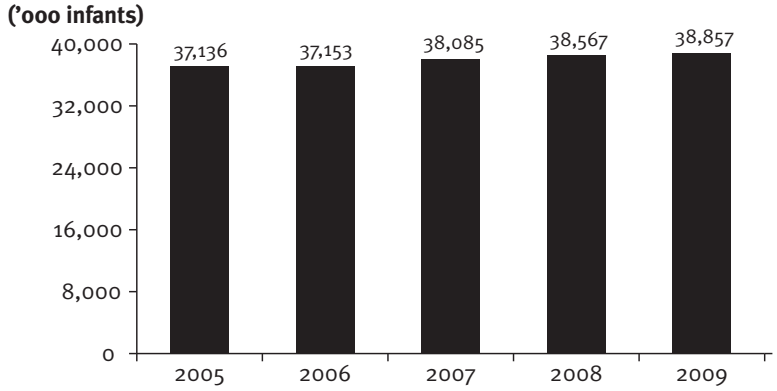


Source: National Bureau of Statistics of China

Number of Infants in China

From 2005 to 2009, the birth rate of China has remained at a relatively stable growth level. The newborn to 36 months old infant population increased from approximately 37 million infants to approximately 39 million infants within such period, representing a CAGR of 1.1%. We believe that the number of infants in China will continue to grow at a relatively consistent level in the coming years. The following chart sets forth the number of infants in China from 2005 to 2009:

Infant Population in China



Source: Euromonitor International

THE PROBIOTIC SUPPLEMENTS INDUSTRY

Overview

Probiotics are live microorganisms considered healthy for humans to consume. According to the currently adopted definition by FAO/WHO, probiotics are "live microorganisms which when administered in adequate amounts confer a health benefit on the host". A number of positive health effects have been documented including alleviation of chronic intestinal inflammatory diseases, prevention and treatment of pathogen-induced diarrhea, urogenital infections, and atopic diseases. Probiotic supplements are specifically suitable for infants and children of a young age when their immune systems are undergoing development. Probiotics are commonly consumed as part of fermented foods with specially added active live cultures, for example in dairy and soy yogurt, or as dietary supplements.

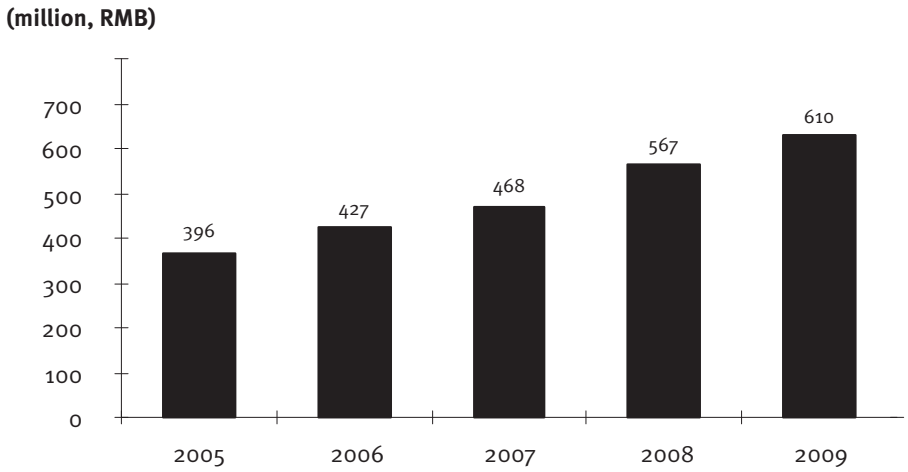
Probiotic supplements are developed from probiotic strains where the founding and preparation require advanced technology, numerous experiments, scientific testings and strict environmental controls and conditions. Currently, the global leading strains suppliers are Danisco, Chr. Hansen and Lallemand.

Probiotic Supplements Market in China

The probiotic supplements market in China is now led by brands whose products carry a certified health food label approved by the SFDA. These brands position their probiotic supplement products as a type of health food in most of their marketing activities. As a result, the development of probiotic supplements has followed closely the development of China's health products industry. China's health products market has experienced several rounds of regulation and its actual market size growth has been constrained between 2000 and 2004. Since then the PRC Government has gradually developed more stringent supervision and higher product safety standards in order to regulate the market effectively.

After several years of heavy regulation, the market gradually recovered and between 2005 and 2009, China's probiotic supplements market witnessed robust growth, with retail sales growing from approximately RMB396 million to RMB610 million, representing a CAGR of 11.4%. The following chart sets forth the total retail value size of China's probiotic supplements market from 2005 to 2009:

Total Retail Sales Value Size of China's Probiotic Supplements Market



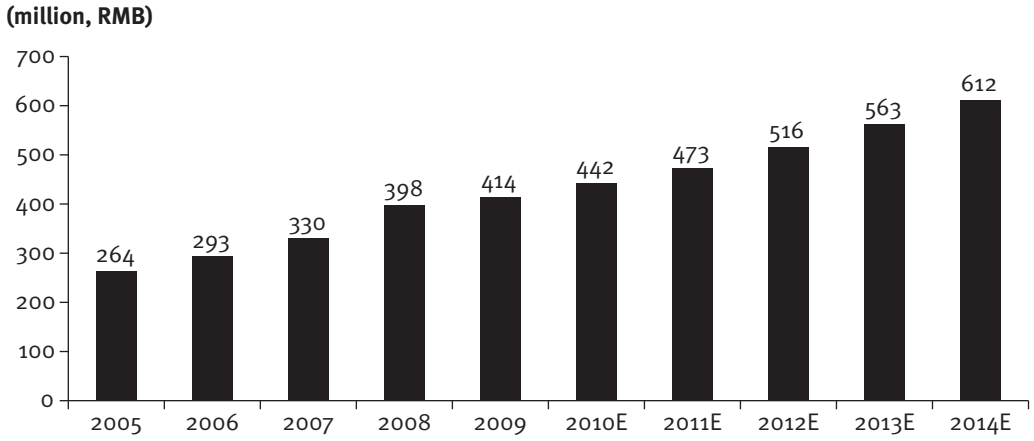
Source: Euromonitor International

Children's probiotic supplements segment in China

Currently, probiotic supplements for children, which are considered to boost immunity, are mainly consumed by infants and young children in China. Some products have also introduced colostrum of cows and DHA to further increase the health care function.

The children's probiotic supplements segment witnessed faster growth than the adults' segment between 2005 and 2008. Although there was a slow down of growth in 2009, it is consistent with the development trend of a mature market as the growth trend stabilizes and becomes more steady. In 2014, the retail sales market of the children sector is estimated to reach RMB612 million, representing a CAGR of 8.5% during the period from 2010 to 2014. The following chart sets forth the actual and estimated development trend of the children's probiotic supplements market in China from 2005 to 2014:

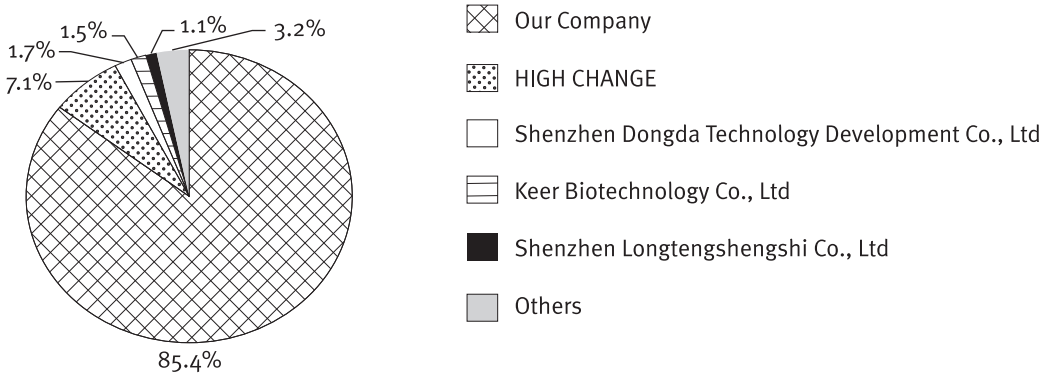
Market Forecast of the Children's Probiotic Supplements Market in China



Source: Euromonitor International

Competition in the children's probiotic supplements market in China

Our Company has been the largest player and maintains a leading role in the children's probiotic supplements market in China. In 2009, the retail sales value of our children's probiotic supplements contributed 85.4% of the total market share as estimated by *Euromonitor International*. HIGH CHANGE, which was positioned as the second largest player, accounted for a market share of 7.1%, followed by Shenzhen Dongda Technology Development Co., Ltd (深圳東達技術發展有限公司), Keer Biotechnology Co., Ltd and Shenzhen Longtengshengshi Co., Ltd (深圳龍騰盛世實業有限公司) in turn. Total retail sales of the top five suppliers accounted for 96.8% of children's probiotic supplements market in China. The following chart sets forth the estimated probiotic supplements market share held by different children's probiotic supplement brands in China in 2009:



Source: Euromonitor International

OVERVIEW OF THE BABY FOOD INDUSTRY

Global Baby Food Industry

Baby food products include infant formulas and other baby food products such as prepared baby food, dried baby food and others.

INDUSTRY OVERVIEW

In 2009, the estimated baby food market in China was valued at US$4,986 million, following the United States as the world's second largest baby food market in terms of total retail sales value according to *Euromonitor International*. We believe that China has the potential to become the largest global market player in terms of retail sales value in the near future. The following table sets forth the actual and estimated retail sales value of eight selected countries from 2005 to 2014:

(year, million US$)

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	CAGR (05-09)
China	1,751	2,285	3,055	4,192	4,986	5,836	6,876	8,051	9,300	10,631	29.9%
US	5,573	5,815	6,212	6,392	6,504	6,449	6,409	6,381	6,375	6,437	3.9%
France	1,481	1,554	1,781	1,980	1,829	1,872	1,919	1,968	2,021	2,082	5.4%
Japan	995	928	914	1,065	1,026	1,011	996	982	968	955	0.8%
Germany	879	902	1,028	1,117	1,007	999	995	995	994	994	3.5%
UK	730	767	871	893	906	931	950	964	975	982	5.6%
South Korea	537	560	562	472	465	447	431	415	400	386	-3.5%
India	243	256	305	319	332	352	374	396	420	445	8.2%

Source: Euromonitor International

According to *Euromonitor International*, the annual per capita consumption of baby food in China has grown significantly at a CAGR of 28.4% from 2005 to 2009 due to the robust economic growth and increase in households' disposable income in China. However, the annual per capita consumption in China was still only approximately 1/6 and 1/4 compared to France and the United States, respectively in 2009, which implies that potential significant growth still remains in China. The following table sets forth the annual per capita consumption of baby food of eight selected countries from 2005 to 2009:

(year, US$)

	2005	2006	2007	2008	2009	CAGR (05-09)
China	47	62	80	109	128	28.4%
France	648	678	770	851	784	4.9%
US	456	470	495	501	503	2.5%
Germany	411	429	498	554	506	5.4%
South Korea	377	409	420	354	349	-1.9%
UK	351	360	402	408	415	4.3%
Japan	315	304	305	361	353	2.8%
India	3	3	4	4	5	8.3%

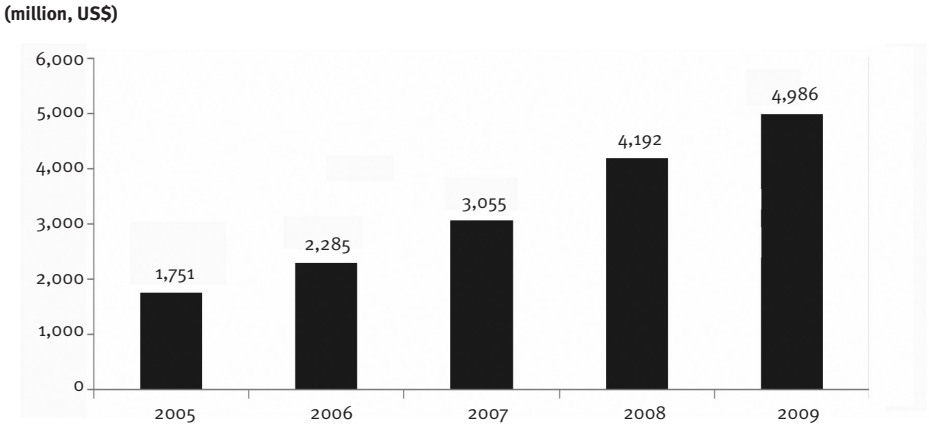
Source: Euromonitor International

PRC Baby Food Industry

According to *Euromonitor International*, infant formulas contributed to nearly 90.0% of the baby food market share of China, while the other baby food products comprised of the remaining 10.0% market share in 2009. Infant formula products dominate today's baby food market in China, as infant formulas have become a popular choice of breast milk substitute and are able to serve as both the infant's sole source of nutrition as well as a supplement to feeding.

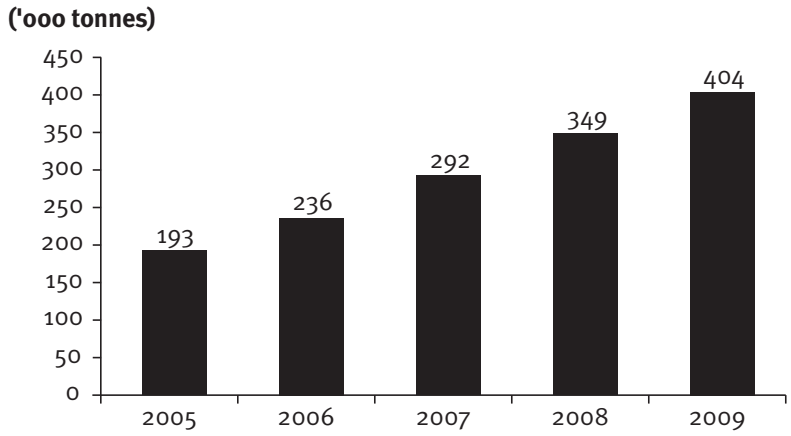
China's baby food market has been expanding rapidly due to the robust economic development and the resulting increase in disposable income of rural and urban households in China. The retail sales value of baby food in China has increased from approximately US$1,751 million in 2005 to US$4,986 million in 2009, representing a CAGR of 29.9%. The retail sales volume of baby food in China has increased from approximately 192,500 tonnes in 2005 to 403,900 tonnes in 2009, representing a CAGR of 20.4%. The larger increase in retail sales value growth compared to retails sales volume growth is explained by an increase in average sales price within the baby food market in China. The following charts set forth the development trend of the retail sales value and retail sales volume of the baby food market in China from 2005 to 2009:

Retail Sales Value of the Baby Food Market of China



Source: Euromonitor International

Retail Sales Volume of the Baby Food Market of China



Source: Euromonitor International

According to *Euromonitor International*, our market share in the baby food market in China is 1.11% in 2009.

THE INFANT FORMULA INDUSTRY IN CHINA

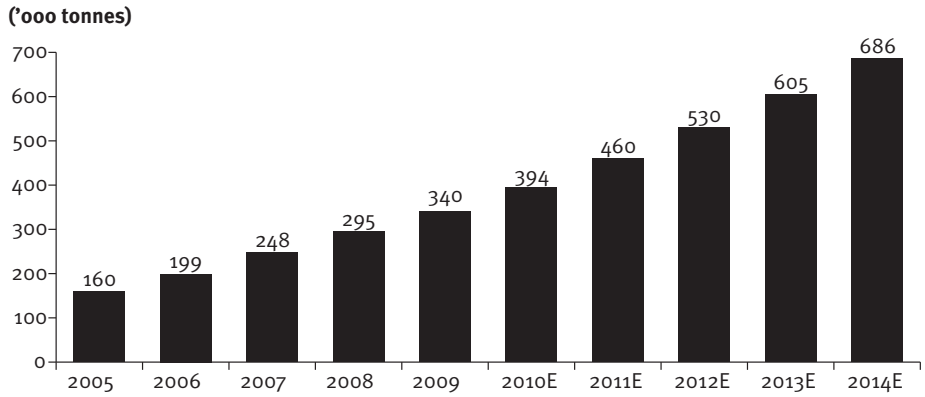
Overview

China is the world's most populous country and one of the fastest growing infant formula markets in the world. The increasing trend towards double income families in China, coupled with the convenience and complete nutritional benefits offered by infant formula products, has resulted in a growing acceptance by Chinese mothers of infant formulas as a substitute for mother's breast milk for their infants.

China's infant formula sector has been expanding rapidly due to its increased urbanization, the increase in disposable income and the increase in the number of working mothers. The total retail sales volume of powdered infant formulas in China has increased from approximately 160,200 tonnes in 2005 to 340,300 tonnes in 2009, representing a CAGR of 20.7%. Since the growth in China's infant formula market is mainly attributable to the increase in the sales of high-tier and supreme-tier infant formula products, which are sold at significantly higher prices, the value of China's infant formula market is expected to increase at a higher rate than the corresponding increase in retail sales volume of infant

formulas. According to *Euromonitor International*, the retail sales volume is estimated to reach 685,600 tonnes in 2014, representing a CAGR of 14.9% from 2010, while the retail sales value is estimated to reach RMB69,401 million in 2014, representing a CAGR of 17.2% from 2010. The following chart sets forth the actual and estimated development trend of the retail sales volume of infant formulas in China from 2005 to 2014:

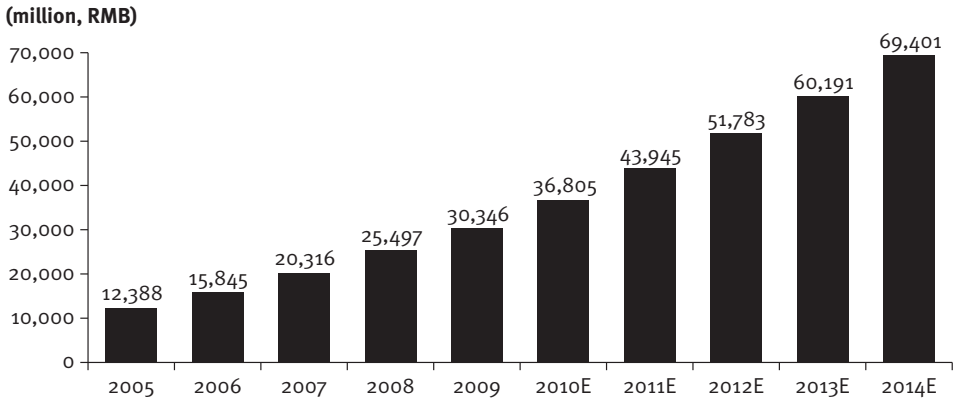
Total Retail Sales Volume of Infant Formula Market in China



Source: Euromonitor International

The following chart sets forth the actual and estimated development trend of the retail sales value of infant formulas in China from 2005 to 2014:

Total Retail Sales Value of Infant Formula Market in China



Source: Euromonitor International

The year-on-year growth rate slowed down in 2009 as a result of the melamine incident that occurred in the last quarter of 2008. As the melamine incident affected the health of a substantial number of infants and children in China, many parents have lost confidence in infant formulas that are produced domestically. Since the melamine incident, leading brands in China have devoted substantial resources towards convincing the Chinese population of the safety of their dairy products. Consumer confidence levels in China have gradually recovered from the crisis during 2008. The value size growth rate in 2008 still witnessed a fast growth of 25.5% due to the general price increase after the event. However, in 2009 the growth rate dropped to 19.0%, evidencing China's market was still in recovery.

We believe that the PRC infant formula market can generally be categorized into four categories based on retail price:

- low-tier infant formulas — with a retail price lower than or equivalent to RMB100 per 900g;
- mid-tier infant formulas — with a retail price between RMB101 and RMB200 per 900g;
- high-tier infant formulas — with a retail price between RMB201 and RMB300 per 900g; and
- supreme-tier infant formulas — with a retail price higher than or equivalent to RMB301 per 900g.

According to *Euromonitor International*, there is no official industry classification for different priced and different quality infant formula products in China's infant formula market. The above classifications have been determined based on the Directors' knowledge and experience in China as well as market research conducted by *Euromonitor International* in China's infant formula market accordingly. Based on information obtained from the market research conducted by *Euromonitor International*, retail prices for infant formula products range from approximately RMB70 per 900g to approximately RMB380 per 900g or above. In view of this price range and the distribution of retail prices amongst the products being researched, the Directors consider that the prices of different products gathered from the market can be appropriately divided into the above four categories, despite that such classification may not be currently adopted as an industry-wide classification.

The infant formula market in China is currently dominated by the high-tier and mid-tier infant formula market segments, which were valued in 2009 at approximately RMB11,501 million and RMB12,624 million, respectively. Both high-tier and mid-tier combined accounted for 79.5% of China's total infant formula market size in 2009.

INDUSTRY OVERVIEW

We focus on the marketing of supreme-tier and high-tier infant formula products. In response to China's booming economy, the supreme-tier segment has emerged and gradually developed. Supreme-tier and high-tier infant formula products are considered by the consumers to be safer and of higher quality compared to similar products in lower tiers. A large number of supreme-tier and high-tier infant formulas are produced either in developed countries or from imported ingredients, and are generally added with special ingredients. Consumer preferences as a result of the melamine incident have fuelled the supreme-tier segment as several leading manufactures have begun pricing their products at higher levels. In 2009, the supreme-tier segment was valued at RMB1,214 million, which represented a CAGR of 48.8% growth from 2005.

Currently, consumers of the supreme-tier and high-tier segments are mostly located in cities with higher purchasing power. Driven by the prospective economic development of China, Chinese parents' heightened health concerns following the melamine incident, improved living standards and increased household purchasing power, we expect the supreme-tier segment to become the fastest growing market over the next few years, followed by the high-tier segments. According to an estimate by *Euromornitor International*, the value size of the supreme-tier segment is expected to reach RMB3,817million in 2014, representing a CAGR of 21.2% from 2010 to 2014. The following table shows the actual and estimated breakdown of China's infant formula market value size by price tiers for the periods indicated:

Breakdown of China Infant Formula Market Value Size

(year, RMB million)

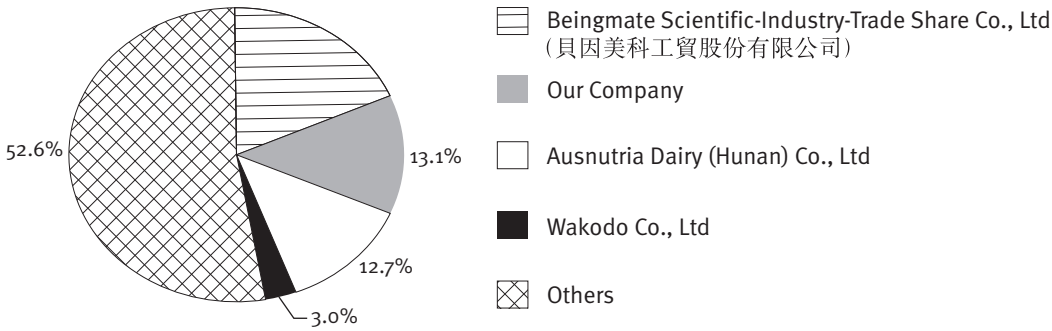
	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	CAGR (05-09)
Infant Formula Products	**12,388**	**15,845**	**20,316**	**25,497**	**30,346**	**36,805**	**43,945**	**51,783**	**60,191**	**69,401**	**25.1%**
y-o-y %		27.9%	28.2%	25.5%	19.0%	21.3%	19.4%	17.8%	16.2%	15.3%	–
including:											
Supreme-tier	***248***	***317***	***437***	***688***	***1,214***	***1,767***	***2,307***	***2,770***	***3,262***	***3,817***	***48.8%***
y-o-y %		27.9%	37.8%	57.6%	76.3%	45.5%	30.6%	20.1%	17.8%	17.0%	–
High-tier	***4,509***	***5,831***	***7,527***	***9,765***	***11,501***	***14,060***	***16,941***	***20,014***	***23,342***	***26,997***	***26.4%***
y-o-y %		29.3%	29.1%	29.7%	17.8%	22.2%	20.5%	18.1%	16.6%	15.7%	–
Mid-tier	***4,769***	***6,211***	***8,086***	***10,454***	***12,624***	***15,311***	***18,325***	***21,594***	***25,160***	***29,010***	***27.6%***
y-o-y %		30.2%	30.2%	29.3%	20.8%	21.3%	19.7%	17.8%	16.5%	15.3%	–
Low-tier	***2,862***	***3,486***	***4,266***	***4,590***	***5,007***	***5,668***	***6,372***	***7,405***	***8,427***	***9,577***	***15.0%***
y-o-y %		21.8%	22.4%	7.6%	9.1%	13.2%	12.4%	16.2%	13.8%	13.7%	–

Source: Euromonitor International

Competition within the Supreme-tier Infant Formula Industry in China

According to *Euromonitor International*, within the supreme-tier segment of China's infant formula industry, our Company was positioned as the second largest player with a market share of 13.1% in 2009. Total retail sales of the top four suppliers is believed to have accounted for 47.4% of China's supreme-tier infant formula market. While we continue to seek a leading position in the supreme-tier segment, we also seek to acquire more market share in the high-tier segment.

The following chart sets forth the market share of the supreme-tier infant formula market in 2009:

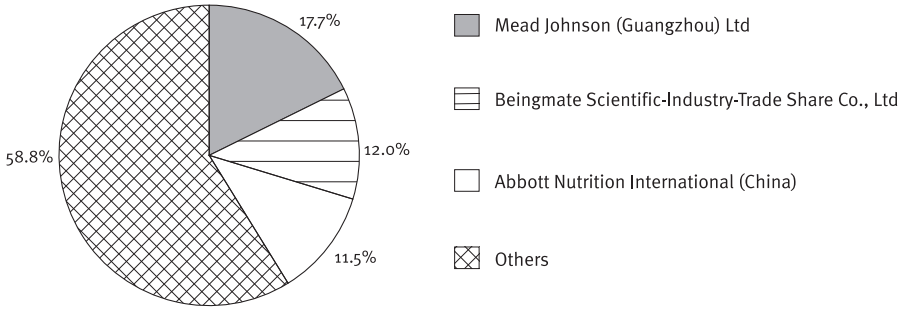


Source: Euromonitor International

Competition within the High-tier Infant Formula Industry in China

According to *Euromonitor International*, the top three suppliers, in terms of sales value, in the high-tier segment of the infant formula industry in China are Mead Johnson (Guangzhou) Ltd, Beingmate Scientific-Industry-Trade Share Co., Ltd and Abbott Nutrition International (China). Mead Johnson and Abbott are classified as international brands, while Beingmate is classified as a domestic brand whose infant formula is produced from milk powder sourced from overseas and imported into China. In 2009, the

total retail sales value of the said top three brands accounted for 41.0% of the high-tier infant formula segment sales. Our Company has accounted for 1.3% of the high-tier segment market value, in 2009. The following chart sets out the market share of the PRC high-tier infant formula market in 2009:



Source: Euromonitor International

The Melamine and Other Recent Incidents in China

The melamine incident was publicly reported on July 18, 2008, after 16 infants in Gansu Province, China, who had been fed infant formulas produced by Hebei-based Sanlu Group (三鹿集團), were diagnosed with kidney stones. After such discovery, the PRC Government inspections revealed infant formula products from 21 other PRC companies were also contaminated with melamine. The melamine is understood to have caused thousands of infants in China to develop health problems. The AQSIQ announced that 42 batches out of 756 batches of infant milk formula products produced by 21 domestic dairy companies were tainted with melamine. This incident undermined consumers' confidence in milk formulas produced using milk sourced from PRC dairies, resulting in a significant drop in purchases of these products and in turn a decrease in domestic production volume.

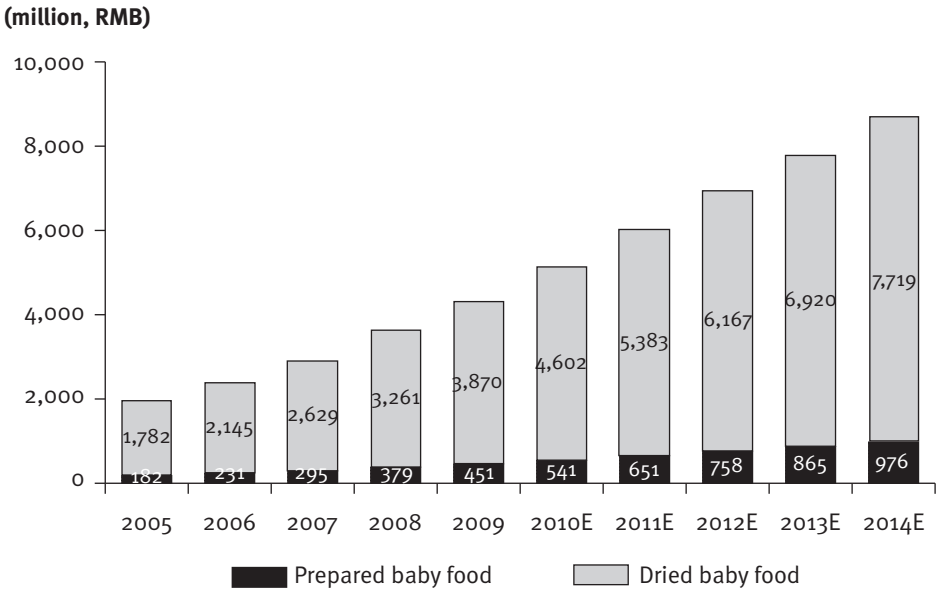
We believe that many consumers in China who prior to the melamine incident purchased infant formula products produced by milk powder sourced domestically have shifted to brands which produce formulas using milk powder sourced from overseas countries, because milk powder produced overseas is considered to be of a higher quality.

THE OTHER BABY FOOD INDUSTRY IN CHINA

Other baby food includes prepared baby food, dried baby food and others, with dried baby food dominating the market. Prepared baby food are baby products that are sold in jars or cans which do not require any cooking preparation other than heating. This category includes yoghurt, chilled dessert, soup and ice-cream marketed for babies. Dried baby food products require the addition of water before consumption and are usually sold in packets. Cereals and dehydrated soups are the main products in this category.

The total retail sales value of the other baby food market in China was valued at RMB4,321 million in 2009 and accounted for a CAGR of 21.8% during the period from 2005 to 2009. During such period, the dried baby food category expanded substantially and developed at a fast pace. In 2009, the retail value of dried baby food reached RMB3,870 million. With the purchasing power of Chinese households rising accordingly to the robust Chinese economy development, the dietary structure of babies is predicted to be enriched. From 2010 to 2014, the total retail sales value of China's other baby food market is estimated to climb from approximately RMB5,143 million to RMB8,695 million, representing a CAGR of 14.0%. The following chart sets forth the actual and estimated market breakdown and value size of China's other baby food market from 2005 to 2014:

Breakdown of China's Other Baby Food Market Value Size



Source: Euromonitor International

According to *Euromonitor International*, our market share in the other baby food market in China is 1.71% in 2009.

INDUSTRY OVERVIEW

THE BABY CARE INDUSTRY IN CHINA

The Baby Skin and Hair Care Market

Baby skin and hair care products range from baby toiletries, baby hair care products, baby skin care products and baby sun care products.

The total retail sales value of China's baby skin and hair care market has grown from approximately RMB1,886 million in 2005 to RMB2,880 million in 2009, representing a CAGR of 11.2%. Among the four baby skin and hair care products sectors, the baby skin care sector has experienced the fastest growth, followed by the toiletries, hair care and sun care sectors in turn in recent years. It is expected that in the near future, the baby skin care sector will continue its fast growth pace, while the hair care sector is predicted to surpass the toiletries sector and be the second fastest growing sector from 2010 to 2014. In 2014, the total retail sales value of the baby skin and hair care market is estimated to reach approximately RMB5,011 million with the baby skin care, toiletries, hair care and sun care sectors estimated to make up 49.2%, 37.2%, 11.9% and 1.7% of the overall market. The following table sets forth the actual and estimated development trend of China's baby skin and hair care market from 2005 to 2014:

Market Forecast of China's Baby Skin and Hair Care Market

(year, RMB million)

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	CAGR (05-09)
Baby Skin and Hair Care Products	**1,886**	**2,081**	**2,363**	**2,700**	**2,880**	**3,164**	**3,516**	**3,937**	**4,433**	**5,011**	**11.2%**
y-o-y %		10.3%	13.6%	14.3%	6.6%	9.9%	11.1%	12.0%	12.6%	13.0%	–
including:											
Baby toiletries	***723***	***804***	***910***	***1,039***	***1,102***	***1,205***	***1,332***	***1,482***	***1,659***	***1,864***	***11.1%***
y-o-y %		11.2%	13.2%	14.2%	6.0%	9.4%	10.5%	11.3%	11.9%	12.4%	–
Baby hair care	***234***	***257***	***288***	***325***	***343***	***374***	***416***	***468***	***529***	***599***	***10.1%***
y-o-y %		9.7%	12.3%	12.7%	5.7%	9.1%	11.2%	12.4%	13.0%	13.3%	–
Baby skin care	***891***	***979***	***1,119***	***1,285***	***1,380***	***1,526***	***1,704***	***1,918***	***2,169***	***2,464***	***11.6%***
y-o-y %		9.8%	14.3%	14.8%	7.4%	10.6%	11.7%	12.5%	13.1%	13.6%	–
Baby sun care	***38***	***42***	***46***	***52***	***55***	***59***	***64***	***69***	***76***	***85***	***9.3%***
y-o-y %		8.6%	11.3%	12.3%	5.0%	7.5%	8.3%	9.1%	10.1%	10.9%	–

Source: Euromonitor International

The Disposable Pants and Disposable Nappies/Diapers Market in China

The total retail sales value of China's disposable pants and disposable nappies/diapers market amounted to approximately RMB16,811 million in 2009, of which, disposable nappies/diapers accounted for nearly 97.6%.

The disposable nappies/diapers segment can be divided into three categories, including (i) newborn nappies/diapers for newborn babies weighing from two to five kilograms; and (ii) standard nappies/diapers for babies or children weighing from six to ten kilograms; (iii) junior nappies/diapers for babies and children weighing over 11 kilograms. Among the three categories, standard nappies contributed to the largest share in this market. Its total retail sales value in 2009 was approximately RMB8,870 million, which accounted for 54.0% of the total disposable nappies/diapers market in China, while newborn nappies accounted for 29.1% and junior nappies accounted for 16.8%. The share breakdown of the disposable nappies/diapers market in 2014 is expected to be more or less the same as that in 2009. The following table sets forth the actual and estimated retail sales value and year-on-year growth values of China's disposable nappies/diapers market from 2005 to 2014:

Market Forecast of China's Disposable Nappies/Diapers Market

(year, RMB million)

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	CAGR (05-09)
Disposable Nappies/diapers	**4,807**	**6,809**	**9,921**	**13,265**	**16,413**	**19,983**	**23,936**	**28,437**	**33,509**	**38,824**	**35.9%**
y-o-y %		41.7%	45.7%	33.7%	23.7%	21.8%	19.8%	18.8%	17.8%	15.9%	–
including:											
Junior	***796***	***1,131***	***1,628***	***2,203***	***2,762***	***3,407***	***4,135***	***4,979***	***5,945***	***6,981***	***36.5%***
y-o-y %		42.1%	44.0%	35.3%	25.3%	23.4%	21.4%	20.4%	19.4%	17.4%	–
Newborn	***1,417***	***2,017***	***2,962***	***3,914***	***4,780***	***5,744***	***6,787***	***7,954***	***9,243***	***10,558***	***35.5%***
y-o-y %		42.3%	46.9%	32.1%	22.1%	20.2%	18.2%	17.2%	16.2%	14.2%	–
Standard	***2,594***	***3,661***	***5,331***	***7,148***	***8,870***	***10,832***	***13,013***	***15,505***	***18,321***	***21,285***	***36.0%***
y-o-y %		41.2%	45.6%	34.1%	24.1%	22.1%	20.1%	19.1%	18.2%	16.2%	–

Source: Euromonitor International

As only the baby diapers were launched in May 2010 and the nursing pads were launched in July 2010, our market share in the baby care industry in China is minimal.

MAIN PRC LAWS AND REGULATIONS OF THE INDUSTRY

SUMMARY OF THE PRC LAWS AND REGULATIONS

Substantially all of our business and assets are based in the PRC, and we have established three foreign-invested enterprises in the PRC to conduct our operations. Our main business operations in the premium pediatric nutritional products segment include the production and sales of premium probiotic supplements, infant formulas and dried baby food products, which are subject to the relevant extensive policies, laws, regulations and rules of the food industry, the health (functional) food industry and the pediatric food products industry. With respect to our current business operations, we are mainly subject to the following laws, regulations and rules:

PRC Laws and Regulations Relating to Foreign Investment

Guidance on the foreign investment industry in the PRC can be found in *the Foreign Investment Industrial Guidance Catalog* (外商投資產業指導目錄) as promulgated and implemented from time to time. Pursuant to *the Foreign Investment Industrial Guidance Catalog* which was jointly issued by the National Development and Reform Commission (the "NDRC", 國家發展和改革委員會) and MOFCOM on October 31, 2007, and which became effective on December 1, 2007, foreign investments in various industries are classified into four categories: encouraged, permitted, restricted and prohibited. Foreign investment in the encouraged category is entitled to certain preferential treatment and incentives extended by the government, while foreign investment in the restricted category is permitted but subject to certain restrictions under PRC law. Foreign investment in the prohibited category is not allowed. Development and production of infant food and functional food have been listed as a business that falls into the encouraged category. The processed food industry with respect to our products is not included in any of these three categories and is therefore in the permitted category. To encourage foreign investment in the encouraged category, the PRC Government may entitle such foreign investment to certain tax preferential treatments, such as the exemption from custom duties for imported equipment. Save for Biostime Health which, being a manufacturing FIE located in Guangdong Economic and Technology Development Zone, is enjoying the FIE Tax Holiday, according to which it was exempted from EIT for the two years ending December 31, 2008 and 2009 and is subject to EIT at a 50.0% reduced rate of 11.0%, 12.0% and 12.5% for the years ending December 31, 2010, 2011 and 2012, respectively, our PRC subsidiaries are not enjoying any preferential treatment for our Group's infant formula products.

Some of our dried baby food products and the probiotic tablets are subject to PRC regulations of processed food. Biostime Assorted Fruit Powder, Biostime Assorted Mix Vegetable, Fruit & Meat Powder, Biostime Assorted Other Food Powder and probiotic tablets are classified as processed food.

REGULATORY FRAMEWORK OF THE FOOD INDUSTRY

According to the *Food Safety Law of the PRC* (中華人民共和國食品安全法), food products include finished products edible or drinkable by human beings, raw materials used in the production of finished food products and substances which have been traditionally used both as food and medicinal materials, excluding substances used for therapeutic purposes. Such food products include health (functional) food, pediatric food products and processed food. The PRC has established a series of laws and regulations to strengthen the control on production, operation and sales of food and has formed a stringent regulatory system that covers, inter alia, food safety system, food hygiene system, food

production License system, food standardization system, food imports and exports control system, food identification management system as well as food recall system. The MOH, the AQSIQ, the SFDA and the SAIC have the authority to regulate food products. The following is a general description of the aforesaid key legal systems:

Food Safety System

According to *the Food Safety Law* adopted by the Standing Committee of the National People's Congress on February 28, 2009 and implemented on June 1, 2009, the food safety standard is the only compulsory food standard 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) type, 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 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 make reference to articles in this law to formulate their own local food safety standards and file with the health administration department of the State Council. 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 July 20, 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 society and the public, and undertake social responsibility.

The Food Safety Law has been implemented since June 1, 2009, while *the Food Hygiene Law of the PRC* (中華人民共和國食品衞生法) which was promulgated on October 30, 1995 was abolished. According to *the Notice of the Ministry of Health on Printing and Distributing the Measures for the Administration of Food Hygiene Licenses* (關於印發《食品衞生許可證管理辦法》的通知) dated December 25, 2005 which was issued in order to implement the abolished *Food Hygiene Law*, any enterprises or individuals who engaged in food production and other food business operation should report to the administrative department of public health and apply for the Food Hygiene Licenses (食品衞生許可證), which should be valid for four years.

AQSIQ released *the Administrative Measures for Food Production License* (食品生產許可管理辦法) in accordance with the *Food Safety Law* and regulations for its implementation, which took effect as of June 1, 2010. It provides that enterprises which fail to acquire the Food Production Licenses (食品生產許可證) are not allowed to engage in food production. The producer shall apply for Food Production License from the relevant authority of AQSIQ where the production is carried out. The relevant authority shall determine the issuance of the license and the variety and scope of the food production based on the result of on-site inspection and examination.

On July 30, 2009, the SAIC promulgated *Measures for the Administration of Food Circulation Permits* (食品流通許可證管理辦法), which provides that Food Circulation Permits (食品流通許可證) shall be obtained when food circulation business operation is involved. A food producer who has obtained a Food Production License needs not obtain a Food Circulation Permit when selling self-produced food at its production place. A catering service provider which has obtained a Catering Service Permit (餐飲服務許可證) needs not obtain a Food Circulation Permit when selling self-made or self-processed food at its catering service place. The local industry and commerce administrative departments at and above the county level shall carry out the food circulation licensing, and the specific work shall be carried out by the functional departments in charge of the food circulation safety supervision and administration. The Food Circulation Permit shall be valid for three years.

As *the Food Safety Law* came into effect, some provinces explicitly rescinded the provincial regulations on food hygiene licenses, while some provinces did not. Nevertheless, under *the Measures for the Administration of Food Circulation Permits*, where a food dealer has obtained a Food Hygiene License before these measures come into force, the original license shall continue to be valid. If any licensing item on the original license changes or the term of validity expires, the food dealer shall submit an application according to these measures and surrender the Food Hygiene License for cancellation and acquire a Food Circulation Permit upon the licensing authority's examination. The local industry and commerce administrative department shall conduct the supervisory inspection in accordance with the territorial principle. For a food dealer holding a Food Hygiene License that continues to be valid, the industry and commerce administrative department shall, in accordance with *the Food Safety Law*, *the Regulation for the Implementation of the Food Safety Law* and these measures, conduct supervisory inspections on a regular or irregular basis.

Permission System for Industrial Products

Pursuant to *the Regulations of the PRC on the Administration of Production License for Industrial Products* (中華人民共和國工業產品生產許可證管理條例) which were promulgated by the State Council and came into effect on September 1, 2005, and *the Measures for the Implementation of the Regulations*

of the PRC on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法) which were promulgated by AQSIQ on September 15, 2005 and came into effect on November 1, 2005, as well as its amendments which came into effect on June 1, 2010, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licenses.

Processed food, such as dairy products, meat products, beverage, rice, noodles, cooking oil, wine, and other products which may directly affect human health, are deemed as industrial products and included in the listed catalogue which shall be governed by these regulations. Enterprises producing industrial products shall apply for the Production License for Industrial Products (工業產品生產許可證) which is valid for five years. However, the license for enterprises processing food is valid for three years. Any enterprise that fails to acquire the Production License for Industrial Products shall not produce the products listed in the catalogue, and no enterprise or individual is allowed to sell or use such products of any enterprise which does not acquire the Production License for Industrial Products in its operating activities.

Food Standardization System

In accordance with *the Standardization Law of the PRC* (中華人民共和國標準化法) implemented on April 1, 1989 and its implementation regulations and interpretation provisions, national standards shall be formulated for the technical requirements in order to protect human health, personal and property safety and such standards need to be unified throughout the country. If there are no national standards for those technical requirements, trade standards may be formulated. National standards and trade standards are divided into compulsory standards and recommended standards. Standards for safeguarding human health and safety are classified as compulsory standards.

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. China Customs (中國海關) will allow the imported food products entering into the country after the relevant exit-entry inspection and quarantine authority has inspected and approved such products by issuing certificates of customs clearance. Overseas producers of certain food products 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 April 28, 2002 and executed on October 1, 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.

Food Identification Management System

Pursuant to *the Food Identification Management Requirement* (食品標識管理規定) promulgated by AQSIQ on August 27, 2007 and effective from September 1, 2008, and the amendments dated October 22, 2009, food identification labels should state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses and contact information of producers, and standardization numbers of national standards, industry standards, local standards or enterprise standards for those who have filed these to the authorities. Food components or ingredients are required to be disclosed on food labels. Nutritional ingredients and their percentage labellings are required with respect to staple and supplementary food for babies, infants or other specified groups of people. 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 License number and QS mark on the food label.

Food Recall System

The PRC 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 August 27, 2007, food recall is categorized 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 voluntarily or 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 quality and technical supervision departments at the provincial level 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 to the public:

(1) food producers have deliberately concealed the hazards of food safety, or food producers have not taken any recall action where a voluntary recall is required;

(2) the harm has expanded or reoccurred due to the fault of food producers; and

(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 should use food additives in accordance with the food safety standards in relation to the varieties, scope of use and dosage of food additives, and should not, during the process of food production, use any chemical substances other than food additives or any other substances which may cause potential harm to human health.

A food producer should inspect the license and product compliance certification document from the supplier when purchasing raw materials for producing food, food additives and food-related products. 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 with the food safety standards. No raw material for food, food additives or food-related products 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 raw materials purchased for producing food, food additives and food-related products, which records information such as the names, specifications and 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.

As the Measures for the Administration of New Varieties of Food Additives (食品添加劑新品種管理辦法) was promulgated by the MOH on March 30, 2010, *the Measures for the Hygienic Administration of Food Additives* (食品添加劑衞生管理辦法) issued on March 28, 2002 was abolished. According to these new measures, new varieties of food additives refer to the varieties which are not set by food safety national standards, or not listed in the permitted use catalog announced by the MOH, or not part of the varieties whose scope or dosage has been enlarged. The MOH is responsible for the examination and permission of the application submitted by enterprises or individuals who engage in producing, operating, using or importing new varieties of food additives. In accordance with the technical features and food safety risk analysis of the above-mentioned new variety of food additives, the MOH shall make public and announce the permitted food additives varieties, scope of use and dosage to become food safety national standards. The MOH shall make a timely reassessment when safety problems of food varieties caused are proved by scientist research or other proof, or the technical need is not essential. Approved varieties of food additives may be revoked and the scope of use and dosage may be revised by the MOH if the applicant fails the re-examination.

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 April 19, 2007 by AQSIQ, an enterprise engaged in food processing in the PRC shall file at the county-level Bureau of Quality and Technical Supervision (質量技術監督局) where it is located a record of the varieties, the use and the dosages of all food additives used in the food, and be responsible for the authenticity of its contents. In case of a change in the basic contents of the record made by such enterprise, a new record should be made within 15 days.

The Notice of Recent Rectification Work for the Nationwide Combating of the Illegal Addition of Non-edible Substances and Abused Use of Food Additives (全國打擊違法添加非食用物質和濫用食品添加劑專項整治近期工作重點及要求), jointly issued by nine authorities including the MOH on March 6, 2009, has specifically emphasized that no addition of non-edible substances, such as leather hydrolyte, melamine, β-lactamase, and sodium sulfocyanate should be added into milk and dairy products, and that the use of thickeners, fragrance and color agents, etc., should not be abused in the production of milk and dairy products either.

REGULATORY REQUIREMENTS OF HEALTH (FUNCTIONAL) FOOD INDUSTRY

The health (functional) food industry in the PRC is regulated by the SFDA, the MOH, the AQSIQ and the SAIC and their respective local agencies. PRC laws and regulations governing the health (functional) food industry primarily include the above-mentioned food safety laws and regulations, such as *the Food Safety Law of the PRC*, *the Production Safety Law of the PRC* (中華人民共和國安全生產法) *and the Regulations for the Implementation of the Food Safety Law of the PRC*, and also include the following regulations:

- *Measures on the Administration of Health Food* (保健食品管理辦法), promulgated by the MOH on March 15, 1996 and effective as of June 1, 1996;

- *Good Manufacturing Practices for Health Food* (保健食品良好生產規範), promulgated by the MOH on May 5, 1998 and effective as of January 1, 1999;

- *Measures on the Registration of Health Food (for Trial Implementation)* (保健食品註冊管理辦法(試行)), promulgated by the SFDA on April 30, 2005 and effective as of July 1, 2005;

- *Provision on Declaration and Evaluation of Probiotics Health Food (for Trail Implementation)* (益生菌類保健食品申報與審評規定(試行)), promulgated by the SFDA on May 20, 2005 and effective as of July 1, 2005;

- *Notice of Circulating the Appraisal Standard of Fungal and Probiotics Healthy Food* (關於印發真菌類和益生菌類保健食品評審規定和通知) and its appendices - *Appraisal Standard of Probiotics Healthy Food* (真菌類保健食品評審規定) and *List of Probiotics Applicable for Healthy Food* (可適用於保健食品的真菌菌種名單), promulgated by the MOH on March 23, 2001 and effective as of March 23, 2001.

Approval and Registration of Health (Functional) Food

If a manufacturer intends to claim particular functions of a food product, the manufacturer must obtain an approval from the SFDA. Once the approval is obtained, such food product could be sold as a health (functional) food. Both the MOH and the SFDA have the authority to regulate health (functional) food. All health (functional) food must be approved by the SFDA. SFDA approvals granted before July 1, 2005 do not have an expiry date but an approval obtained after July 1, 2005 will be valid for five years and must be renewed at least three months before its expiration. A health (functional) food, once approved by the SFDA, is permitted to use the health (functional) food logo specified by the SFDA. The application procedure and time frame for the registration of a new health (functional) food can require up to seven and a half months for completion.

Health Food GMP Certification

A manufacturer of nutritional supplements in China must pass the examination of the Health Food GMP Certification (保健食品GMP證書) to cover all aspects of the production process of nutritional supplements. Pursuant to *the Notice of Circulating the Examination Methods and Assessment Guidelines of Good Manufacturing Practices of Health Food* (關於印發保健食品良好生產規範審查方法與評價準則的通知) promulgated by the MOH on April 2, 2003, the Food Hygiene Permits shall only be issued to those enterprises in compliance with the Health Food GMP upon examination by the hygiene administrative authorities at the provincial level. For those health food manufacturers failing to fulfill the Health Food GMP requirements, their Hygiene Permit shall be revoked. According to the *Measures on the Registration of Health Food (for Trial Implementation)* (保健食品註冊管理辦法(試行)), the sample applied to be registered as health food must be manufactured in the facilities complying with the Health Food GMP. Covering the basic technical requirements for the staff, production premises and facilities, raw materials, production process, product storage, product distribution, hygiene conditions and quality control of heath food manufacturers, the criteria of Health Food GMP are more stringent than the common manufacturing practice standards for food factories, but less stringent than the GMP criteria of pharmaceutical manufacturers.

Since the *Food Safety Law of the PRC* became effective on June 1, 2009, the regulatory authorities have not promulgated any new procedures for the application and renewal of the Health Food GMP Certification.

MAIN PRC LAWS AND REGULATIONS OF THE INDUSTRY

REGULATORY REQUIREMENTS OF PEDIATRIC FOOD PRODUCTS INDUSTRY

The pediatric food products industry in the PRC is regulated by the MOH, the AQSIQ and the SAIC as well as their respective local agencies. The pediatric food products industry is subject to all the above-mentioned PRC laws and regulations governing food industry and special legal requirements of the pediatric food products industry, which primarily include:

Dairy Products Industrial Policies

Based on *the Dairy Products 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 (中華人民共和國工業和信息化部) and the NDRC on June 26, 2009, foreign investment in pediatric food products needs 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.

Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products

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 October 9, 2008, dairy animal breeders, fresh milk purchasers, dairy products production enterprises and sellers are the first takers of responsibility. 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.

Food Standardization System

According to *the Notice of Issues Relating to the Implementation of Three Compulsory National Standards Including General Technical Requirements of Infant Formulas 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 Standardization Administration Commission of the PRC (中華人民共和國國家標準化管理委員會) and AQSIQ on June 29, 2004, production enterprises should strictly comply with three compulsory national standards, namely *GB10767-1997 General Technical Requirements of Pediatric Formulas and Pediatric Supplementary Cereals Powder* (嬰幼兒配方粉及嬰幼兒補充谷粉通用技術條件) ("*General Technical Requirements*"), *GB10765-1997 Infant Formula Milk Powder I* (嬰兒配方乳粉I) ("*Formula I*") and *GB10766-1997 Infant Formula Milk Powder II, III* (嬰兒配方乳粉II、III) ("*Formula II, III*"). Besides following the three standards, enterprises producing infant 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 standardization administrative department.

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

OTHERS

Tax Law

On January 1, 2008, *the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC* (中華人民共和國外商投資企業和外國企業所得税法) was abolished, and *the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得税法), promulgated on March 16, 2007, became effective. Pursuant to *the EIT Law*, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25.0%.

Pursuant to *the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy* (國務院關於實施企業所得税過渡優惠政策的通知), enacted by the State Council of the PRC on December 26, 2007 and commenced on January 1, 2008, enterprises that are enjoying two years of 100.0% exemption and three years of 50.0% deduction on tax payments since the first profit-making year, may continue to enjoy such exemption and reduction until the term of such privilege expires. However, for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted as of 2008.

Advertising Regulations

Advertisements of our products are required to comply with *the Advertising Law of the PRC* (中華人民共和國廣告法), adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on October 27, 1994 and effective as of February 1, 1995, *the Administrative Regulations on Advertising* (廣告管理條例) promulgated by the State Council on October 26, 1987 and effective as of December 1, 1987, *the Implementation Rules of the Administrative Regulations on Advertising* (廣告管理條例施行細則) promulgated by the SAIC on November 30, 2004 and effective as of January 1, 2005 and other relevant rules and regulations. PRC advertising laws and regulations require contents of advertising to be fair and accurate, not misleading and in full compliance with applicable laws and regulations.

As to food advertisements, according to the *Interim Rules on the Release of Food Advertisement* (食品廣告發佈暫行規定) promulgated by the SAIC on December 30, 1996 and amended on December 3, 1998, the Food Hygiene License is required when any food advertisement is released to the public. Furthermore, under *the Interim Regulations on the Review of Advertisements of Health Food* (保健食品廣告審查暫行規定), an advertisement relating to a health food is required to include the name of the product, the SFDA approval number, advertising license number, trademark and information on unsuitable user groups. Contents of advertisements relating to health food products must be filed with the provincial agency of the SFDA, and the required permits and approvals must be obtained before their publication or broadcasting.

The publication and broadcasting of an advertisement, especially an advertisement of food or health food product, is monitored by the local agencies of the SFDA, the MOH and the SAIC, all of which work closely to investigate and penalize violations of advertising laws and regulations. The PRC State Administration of Radio, Film and Television (國家廣播電影電視總局) is in charge of the administration and supervision of broadcasting over radio, video, film and television within the PRC. It promulgated *the Administration Measures for Radio and Television Advertising* (廣播電視廣告播出管理辦法) ("*Media Measures*"), on September 8, 2009, which became effective as of January 1, 2010 and replaced the previously promulgated *Interim Administration Measures for Radio and Television Advertising* (廣播電視廣告播放管理暫行辦法). The *Media Measures* regulate the broadcasting of advertisements and establish punitive measures for violations.

Violation of these laws and regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information and even criminal liabilities. Fines that may be imposed under the relevant regulations range from one to five times of the advertising fees. An advertisement that has violated these laws or regulations may also require re-review by the provincial agency of the SFDA. In severe circumstances, the provincial agency of the SFDA may give a safety warning to the public and publish the names of the violators in its periodic public announcements which are also submitted to the SFDA.

It is also stipulated by the *Anti-unfair competition law of the PRC* (中華人民共和國反不正當競爭法), which was promulgated on September 2, 1993 by the Standing Committee of the National People's Congress and effective as of December 1, 1993, that if an operator uses advertisement or other methods to make a fake or misleading description of its products, it may be ordered by the relevant supervision and inspection authority to stop the illegal activities, eliminate harmful effects, or pay a fine ranging from RMB10,000 to RMB200,000 as the case may require.

Environmental Law

Manufacturing businesses are subject to environmental laws and regulations, which include *the PRC Environmental Protection Law* (中華人民共和國環境保護法), *the PRC Law on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), *the PRC Law on the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), *the PRC Law on the Prevention and Control of Pollution From Environmental Noise* (中華人民共和國環境噪聲污染防治法), and *the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste* (中華人民共和國固體廢物污染環境防治法) (collectively as "*Environmental Laws*"). *The Environmental Laws* govern a broad range of environmental matters, including air pollution, noise emissions, sewage, and waste discharge.

According to the *Environmental Laws*, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, or other activities.

According to the *Environmental Laws*, companies are also required to carry out an environmental impact assessment before commencing construction of production facilities and installing pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

Organic Products Law

In accordance with the *Ordinance on Certification and Accreditation of the PRC* (中華人民共和國認證認可條例) (the "*Ordinance*") which was adopted by the State Council on August 20, 2003 and became effective on November 1, 2003 and other laws and administrative regulations, the AQSIQ promulgated *the Administration Measures for Certification of Organic Products* (有機產品認證管理辦法) (the "*Administration Measures*") which became effective on April 1, 2005. According to the *Administration Measures*, the certification institutions approved by the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) (the "CNCA", the governmental authority vested with power of undertaking the overall management, coordination and supervision of the certification and accreditation activities of organic products in the PRC by the *Administration Measures*) to undertake organic products certification shall implement organic products certification in accordance with the national standards for organic products, i.e. the *PRC National Standards GB/T19630.1—2005 Organic Products: Production, GB/T19630.2—2005 Organic Products: Processing, GB/T19630.3—2005 Organic Products: Labeling and Marketing, and GB/T19630.4—2005 Organic Products: Management System* (中華人民共和國國家標準GB/T19630.1—2005有機產品：生產，GB/T19630.2—2005 有機產品：加工，GB/T19630.3—2005有機產品：標識與銷售，and GB /T19630.4—2005有機產品：管理體系) issued by the Standardization Administration Commission of the PRC (國家標準化管理委員會) on January 19, 2005. If an application fulfils the relevant organic product certification requirements, such institution shall issue to the applicant an Organic Product Certificate and shall permit it to use the China organic products certification logo. In accordance with PRC laws and regulations, the packaging and label of any products without organic certification shall not bear the wording of "ORGANIC", "CONVERSION TO ORGANIC", "NO POLLUTION", "PURE NATURAL" and other misleading words or expressions.

In order to implement the *Ordinance* and the *Administration Measures*, the CNCA further promulgated the *Implementation Rules for Certification of Organic Products* (有機產品認證實施規則) to further regulate the certification of organic products and to ensure the consistency of the certification procedure as well as the basic management requirements and the effectiveness of such certification.

Labor and Safety Law

The PRC has many labor and safety laws, including *the PRC Labor Law* (中華人民共和國勞動法), *the Labor Contract Law, the Regulation of Insurance for Work-Related Injury* (工傷保險條例), *the Unemployment Insurance Law* (失業保險條例), *the Provisional Measures on Insurance for Maternity of Employees* (企業職工生育保險試行辦法), *the Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), *the Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for operations in the PRC.

According to *the PRC Labor Law* (中華人民共和國勞動法) and *the Labor Contract Law* (中華人民共和國勞動合同法), labor contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The company must establish a system for labor safety and sanitation, strictly abide by State standards, provide relevant education to its employees, and carry out regular health examinations of employees engaged in hazardous occupations. Employees are also required to work in safe and sanitary conditions set by the PRC rules and standards.

As required under *the Regulation of Insurance for Work-Related Injury* (工傷保險條例), *the Provisional Measures on Insurance for Maternity of Employees* (企業職工生育保險試行辦法), *the Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), and *the Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), companies are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Companies are subject to *the Production Safety Law*, which states that safe production conditions as required by *the Production Safety Law* and other relevant laws, administrative regulations, national standards and industrial standards in respect of our manufacturing business are maintained. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacturing, installation, use, checking, and maintenance of the safety equipment are required to conform with applicable national or industrial standards. In addition, labor protection equipment must meet national or industrial standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

Company's Regulatory Compliance

As advised by our PRC legal advisor, Jingtian & Gongcheng, our Company has confirmed that, during the Track Record Period, it has complied in all material respects with all the above-mentioned rules and regulations which our Company and our PRC subsidiaries are subject to, and our Company has not been subject to any non-compliance administrative penalties which shall result in any material adverse effect on the operation of our Company. In addition, as advised by our PRC legal advisor, Jingtian & Gongcheng, the Group has obtained all licenses and permits required under PRC law which are material to the business operations of the Group.

SUMMARY OF OTHER LAWS AND REGULATIONS

US and French Laws and Regulations Relating to Food Imports and Exports

We mainly operate in the PRC and our business activities outside the PRC are limited to the sourcing of raw materials and products from foreign countries, mainly France and the US. Our probiotic powder is sourced from Lallemand, our infant formulas and mother's nutritional formulas are sourced from Laiterie de Montaigu, our baby care products for infants and children are sourced from Sarbec, and our vegetable and fruit flakes as well as powder are sourced from Diana Naturals. Lallemand, Laiterie de Montaigu, Sabec and Diana Naturals are all based in France. We source our baby diapers from First Quality and baby cereals from Kerry Ingredients & Flavors in the US.

MAIN PRC LAWS AND REGULATIONS OF THE INDUSTRY

Our Group's operating subsidiaries were established in the PRC and are therefore mainly subject to the laws and regulations of the PRC. As we mainly conduct our business in the PRC and only import goods, products and raw materials produced and manufactured in France and the US into the PRC, we are not subject to any material French or US laws in our capacity as an importer.

In addition, SARL Biostime, a company established under the laws of France, does not conduct any business in France. As such, apart from basic French commercial codes and relevant corporate regulations, it is not subject to material French laws given its current lack of business activity in France.

Laws and Regulations Governing Our Raw Material Suppliers

Based on the Directors' actual and best knowledge derived from our raw material and product suppliers selection process, each of our raw material and product suppliers has obtained all necessary regulatory permits and licenses required for the production of the goods and products that were exported to us during the Track Record Period, and has complied with the applicable relevant domestic laws and regulations in all material aspects. For details of the food and hygiene regulations that are applicable to our raw material suppliers, please refer to the paragraph headed "Licenses and permits for production and products" under the section headed "Business" in this document.

HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

We provide premium pediatric nutritional and baby care products in China, and have recently expanded into the baby care products market. We are committed to developing pediatric nutritional brands and products that help improve the health and development of infants and children in China. Our Group was founded in August 1999 by Mr. Luo Fei and Mr. Luo Yun when they set up Biostime Guangzhou to engage in the research, development and production of probiotic supplement products. The *Biostime*™ brand was launched in 2003. The registered capital of Biostime Guangzhou is US$1.01 million.

In 2000, we started our cooperation with Lallemand to conduct research and development of probiotic supplement products. In 2002, we entered into a strategic cooperation agreement with Lallemand, pursuant to which Lallemand developed *Biostime*™ branded probiotic supplement products for us. In the same year, our imported probiotic sachet products for children were awarded the imported health food license by the MOH pursuant to *the Measures on the Administration of Health Food* for probiotic supplements designed for children with relatively low immunity levels, and *Biostime*™ branded probiotic supplement products were launched and sold in China in 2003. In December 2006, to meet the growing demand for our probiotic supplement products, we established Biostime Health with Biostime France in Guangzhou with the production facilities accredited with the Health Food GMP Certification to engage in the manufacturing of probiotic supplement products, infant formulas and dried baby food products. On December 26, 2008, in order to streamline our corporate structure, Biostime Pharmaceuticals entered into an equity transfer agreement with Biostime France to acquire its 1.0% equity interest in Biostime Health at the consideration of US$21,000, which was determined based on the amount of paid-up registered capital of Biostime Health represented by such equity interest. Mr. Ulrich Irgens, who was a designated representative of Biostime France, resigned as a director of Biostime Health due to Biostime France's disposal of its equity interest in Biostime Health. Upon completion of the equity transfer, Biostime Health became a wholly-owned subsidiary of Biostime Pharmaceuticals. The consideration of US$21,000 was fully paid by us to Biostime France on January 16, 2009 and the transfer had been approved by the Management Committee of Guangzhou Economic and Technological Development Zone, Guangzhou New and Hi-tech Industrial Development Zone, Guangzhou Export Processing Zone and Guangzhou Free Trade Zone (廣州經濟技術開發區、廣州高新技術產業開發區、廣州出口加工區和廣州保稅區管理委員會). The registered capital of Biostime Health is US$2.1 million. Since 2009, we have been importing probiotic powder supplied by Lallemand and manufacturing probiotic sachet products in our GMP-certified plant in Guangzhou.

To further solidify the relationships among our consumers, our sales channels and our Company, as well as the relationships among our consumers, we have also applied for registration of the *Mama100*™ trademark in April 2006, under which we established the *Mama100 Membership Program* to provide our members with access to our customer service and nursing consulting hotline, or CNC Hotline, and our *mama100.com* website, a membership points accumulation program, a monthly magazine subscription and other exclusive services.

We anticipate a growing demand for premium and safe pediatric nutritional products for infants and children in China, driven by the continued improvements in infants' living standards and a growing middle class with rising disposable income and strong purchasing power. Capitalizing on our strategic cooperation arrangements with Lallemand for probiotic powder and probiotic sachet products for children, our Group further established cooperation with Diana Naturals in 2006. Headquartered in

France, Diana Naturals supplies vegetable and fruit powder to the Group for final production of *Biostime*™ assorted vegetable and fruit powders. We have also cooperated with other foreign suppliers, since 2008, for the supply of *Biostime*™ organic baby cereal products. In 2006, we initiated joint research and development efforts on infant formulas with our infant formula supplier, Laiterie de Montaigu. In 2008, we expanded into the premium infant formula business. We began importing all of our infant formulas from our supplier, Laiterie de Montaigu, which uses high-quality milk from France. We believe that joint development and production of our products with a reliable supplier will allow us to more easily satisfy the demand for high-quality and safe infant formulas in China.

Building on the success of our *Biostime*™ branded probiotic supplement products, infant formulas and dried baby food products, we established BMcare Guangzhou in September 2009 with a registered capital of US$1.0 million for the purpose of implementing a multi-brand strategy to diversify our product offerings by selling baby care products, such as baby diapers and toiletry kits, under our *BMcare*™ brand. We subsequently launched our *BMcare*™ branded baby care products in May 2010.

In July 2008, we established SARL Biostime in France, with a share capital of EUR10,000, to engage in the trading of pediatric nutritional products in France. Our Directors confirm that we had complied with all material applicable rules and regulations in France during the Track Record Period in respect of SARL Biostime's operation in France.

Principal Business of Our Subsidiaries

Name of Our Subsidiaries	Principal Business
Biostime Guangzhou	research, development and processing of nutritional food, the sale of health food, milk formulas, and self-manufactured products, and the wholesale and retail of daily products for infants
Biostime Health	research, development and manufacturing of health products and special nutritional food and the sale of self-manufactured products
BMcare Guangzhou	wholesale, import and export of personal care products for infants and children
SARL Biostime	trade of pediatric nutritional products in France

Our Core Management Team

During the Track Record Period, our core management team comprised Mr. Luo Fei, Dr. Zhang Wenhui and Ms. Kong Qingjuan. Other members of our core management team included Mr. Zhao Li, Mr. Zhu Dingping, Mr. Chen Guanghua, Mr. Cao Wenhui, Ms. Qin Xia, Mr. Hu Xiaocheng, Mr. Xu Lesheng, Mr. Xu Zhenjie, Mr. Xiong Huoyan, Ms. Mao Xiaoqing and Mr. Sun Rigao. Further details are set out in the section headed "Directors, Senior Management and Employees" in this document. During the Track Record Period, the departure of Mr. William Locke from our management team was mainly due to his permanent emigration to Australia.

As a testament to our achievement, we have received four major awards and certificates. Further details are set out in the paragraph headed "Awards, certificates, accreditations, permits and registrations" under the section headed "Business" in this document.

HISTORY AND CORPORATE STRUCTURE

In anticipation of the [●], our Company was incorporated in the Cayman Islands on April 30, 2010 by Biostime Pharmaceuticals, an investment holding company. Our Group now consists of our Company, Biostime Guangzhou, Biostime Health, BMcare Guangzhou, and SARL Biostime. Further details of our subsidiaries are set out in the section headed "Appendix VI — Statutory and General Information" of this document.

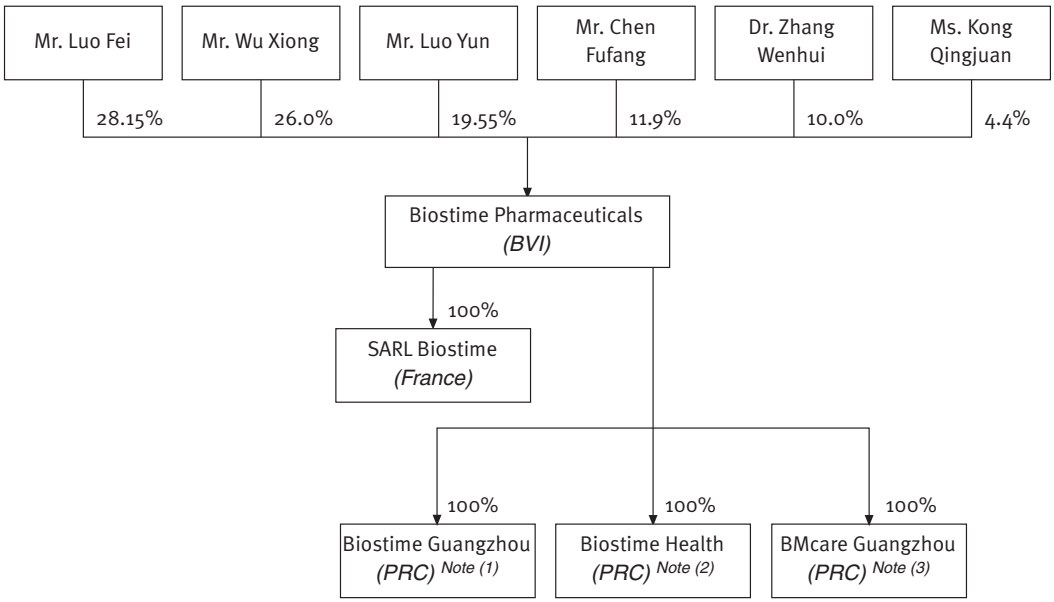
The following illustrates our major business development milestones and achievements:

Year	Event
1999	establishment of Biostime Guangzhou by Mr. Luo Fei and Mr. Luo Yun in August
2000	application for registration of the *Biostime*™ trademark in August
2002	commencement of strategic cooperation with Lallemand to develop *Biostime*™ branded probiotic supplements in the PRC in May
2003	launching of *Biostime*™ branded probiotic supplement products in January
2006	ground-breaking of construction of production facilities in Guangzhou in March
	application for registration of the *Mama100*™ trademark in April
2007	establishment of the Biostime China Foundation for Mothers and Children (合生元中國母嬰救助基金) with the Red Cross Society of China (中國紅十字會) in February
	launching of assorted vegetable, fruit and other food powder products in March
	launching of the *Mama100 Membership Program* to provide services to mothers and our sales network in September
	application for registration of the *BMcare*™ trademark in September
2008	accredited with the Health Food GMP Certification for the production facilities in Guangzhou in May
	launching of premium infant formula products in July
2009	launching of organic baby cereal products in May
	hosting the first forum for VIP specialty stores for baby products in Bo'ao (博鰲), Hainan Province in May
2010	launching of *BMcare*™ branded baby care products in May
	hosting the second forum for VIP specialty stores for baby products in Beijing in May

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

The companies comprising our Group underwent a reorganization to rationalize our corporate structure in preparation for the [●], and as a result our Company became the holding company of our Group. The following chart sets forth our corporate and shareholding structure immediately prior to the Corporate Reorganization:



Notes:

(1) Biostime Guangzhou is a wholly foreign-owned enterprise established in the PRC on August 3, 1999 with a registered capital of US$1.01 million. The principal business of Biostime Guangzhou includes the research, development and processing of nutritional food, the sale of health food, milk formulas, and self-manufactured products, and the wholesale and retail of daily products for infants.

(2) Biostime Health is a wholly foreign-owned enterprise established in the PRC on December 25, 2006 with a registered capital of US$2.1 million. The principal business of Biostime Health includes the research, development and manufacturing of health products and special nutritional food and the sale of self-manufactured products.

(3) BMcare Guangzhou is a wholly foreign-owned enterprise established in the PRC on September 17, 2009 with a registered capital of US$1.0 million. The principal business of BMcare Guangzhou includes the wholesale, import and export of personal care products for infants and children.

The Corporate Reorganization involved the following steps:

Incorporation of our Company

On April 30, 2010, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company and one nil paid Share of HK$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited. The Share was transferred to Biostime Pharmaceuticals on the same date.

Acquisition of the Entire Issued Share Capital in SARL Biostime by our Company

On June 22, 2010, in preparation for the [●], our Company and Biostime Pharmaceuticals entered into a share purchase and sale agreement, pursuant to which Biostime Pharmaceuticals transferred the entire issued share capital of SARL Biostime to our Company for a consideration of EUR10,000, which was determined by both parties' mutual agreement. The consideration of EUR10,000 was fully paid by us to Biostime Pharmaceuticals on August 27, 2010 and the share transfer was duly filed with the Companies Register (department of the Tribunal of Commerce) of Toulouse, in France on July 28, 2010.

Acquisition of Biostime Guangzhou, Biostime Health and BMcare Guangzhou by our Company

On October 13, 2010, in preparation for the [●], our Company and Biostime Pharmaceuticals entered into certain share purchase agreements, pursuant to which the entire equity interest in Biostime Guangzhou, Biostime Health and BMcare Guangzhou were acquired by our Company, in consideration of which on November 16, 2010 our Company allotted and issued an aggregate of 449,999,999 Shares to Biostime Pharmaceuticals, credited as fully paid. The consideration was determined based on the paid-up registered capital represented by the equity interest in Biostime Guangzhou, Biostime Health and BMcare Guangzhou, respectively. Immediately upon completion of the acquisitions, the entire equity interest of each of Biostime Guangzhou, Biostime Health and BMcare Guangzhou became directly wholly-owned by our Company and the acquisitions had been approved by the Management Committee of Guangzhou Economic and Technological Development Zone, Guangzhou New and Hi-tech Industrial Development Zone, Guangzhou Export Processing Zone and Guangzhou Free Trade Zone (廣州經濟技術開發區、廣州高新技術產業開發區、廣州出口加工區和廣州保稅區管理委員會).

PRC LEGAL COMPLIANCE

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated *the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (the "*M&A Regulation*"), which became effective on September 8, 2006 and was revised and reissued by the MOFCOM in June 2009. Article 40 of the *M&A Regulation* requires an offshore SPV formed for the purposes of an offshore [●] and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC approval prior to the [●] and [●] of the securities of such offshore SPV on an overseas [●]. Our PRC legal advisor, Jingtian & Gongcheng, has confirmed that under the PRC law, except for the relevant approvals from the original examination and approval authority of Biostime Guangzhou, Biostime Health and BMcare Guangzhou, no approval is required from any PRC governmental authority for the Corporate Reorganization of our Company or for the [●], by reason that Biostime Guangzhou was transformed into a wholly foreign-owned enterprise before the effective date of the *M&A Regulation* and that both Biostime Health and BMcare Guangzhou were established as wholly foreign-owned enterprises. Accordingly, the *M&A Regulation* does not apply.

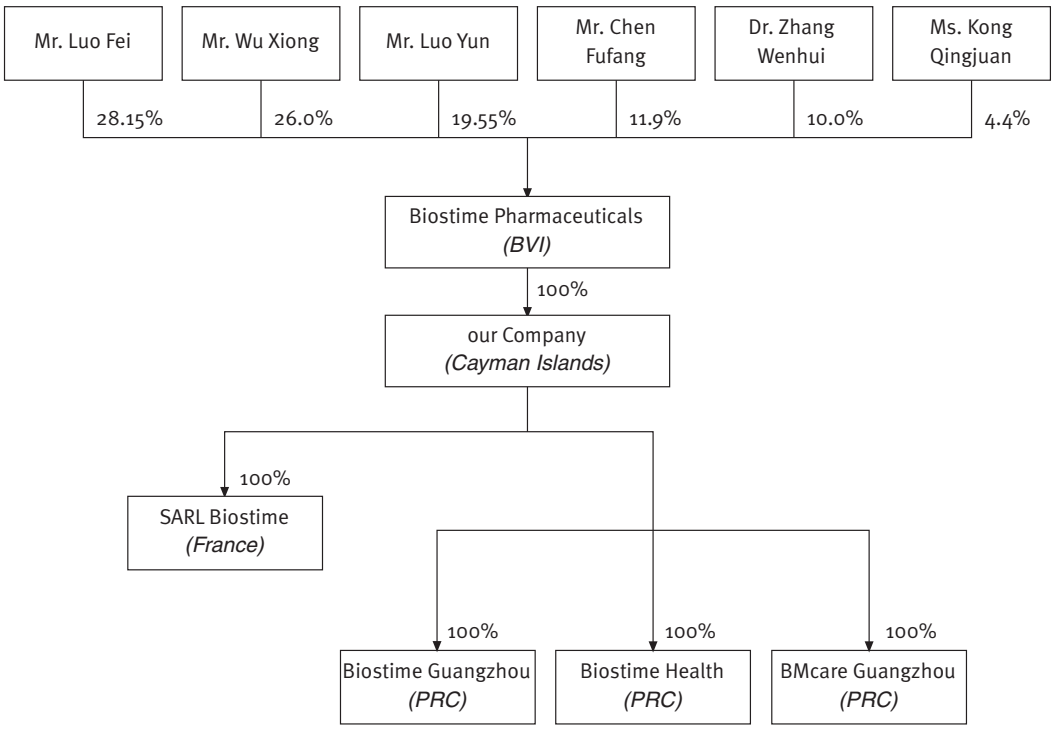
The Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "*SAFE Circular No.75*"), which was issued on October 21, 2005 and became effective on November 1, 2005, requires that (i) a PRC resident must register with the local branch of the SAFE before he or she may establish or control an offshore SPV for the purpose of overseas equity financing (including convertible debt financing) with the assets of or equity interest in a domestic

enterprise which is owned by him or her; (ii) when a PRC resident contributes the assets of his or her equity interest in a domestic enterprise to an offshore SPV, or engages in overseas financing after contributing assets or equity interest to an offshore SPV, such PRC resident must register his or her interests in the offshore SPV or any changes to his or her interests in the offshore SPV with the local branch of the SAFE; and (iii) when the offshore SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days after the occurrence of such an event, register such change with the local branch of the SAFE.

The beneficial owners of our Company who are PRC residents defined under *SAFE Circular No. 75* (namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang, and Ms. Kong Qingjuan) have registered with the SAFE Guangdong branch in respect of the establishment of our Company and its investment in Biostime Guangzhou, Biostime Health and BMcare Guangzhou. Since Dr. Zhang Wenhui holds a valid US passport and has confirmed that he does not habitually reside in the PRC due to economic interests as described in *SAFE Circular No. 75* and relevant implementation regulations, as advised by our Company's PRC legal advisor, Jingtian & Gongcheng, he is not deemed as a PRC resident under *SAFE Circular No. 75*, and therefore is not required to register with the SAFE Guangdong branch in respect of the establishment of our Company and its investment in Biostime Guangzhou, Biostime Health and BMcare Guangzhou.

OUR CORPORATE STRUCTURE

Set out below is the shareholding structure of our Group immediately following completion of the Corporate Reorganization but before the [●]:



BUSINESS

OVERVIEW

We provide premium pediatric nutritional and baby care products in China. Our family of products includes premium probiotic supplements for children, infant formulas and dried baby food products marketed under the brand name *Biostime*™. According to *Euromonitor International*, our *Biostime*™ products occupied approximately 85.4% market share in terms of retail sales in the children's probiotic supplements market, and approximately 13.1% market share in terms of retail sales in the supreme-tier infant formula market in China in 2009. Leveraging our market position in premium pediatric nutritional products, we began marketing baby care products under our newly-introduced *BMcare*™ brand in May 2010 and at the same time launching baby diapers as our key baby care product; in July 2010, we further introduced nursing pads as a supplement product in this category.

We use quality ingredients that we import from France, other European countries such as Norway and Switzerland, and the United States to better ensure product quality for the final production of children's probiotic supplements and certain of our dried baby food products in our GMP-certified plant in China. We do not produce our infant formula products but engage a product supplier in France to produce such products based on our proprietary formula. Our practice of consistently sourcing key raw materials and engaging product suppliers from European countries and the United States distinguishes us from our PRC competitors who either produce or source key raw materials domestically. We always strive to produce products of high quality and maintain such quality standards. Taking our organic baby cereal products as an example, our product supplier and we voluntarily comply with the organic food production requirements and standards set out in *the US Organic Food Production Act of 1990*. We further believe that the strength of our brands allows us to foster and maintain consumer loyalty to our product portfolio at different stages of pediatric development.

We market our family of premium pediatric nutritional products in China under our brand name *Biostime*™. As of the Latest Practicable Date, we sold our products to consumers through 266 regional distributors, which further distributed our products to more than 5,000 specialty stores, 1,500 retail sales organizations and a large number of pharmacies across every province, municipality and autonomous region in China. Our nationwide geographic footprint allows us to take advantage of both the mature and the most rapidly growing markets in China. Through our sophisticated real-time logistics management system, we continue tracking the inventory and sales levels of our products at our regional distributors' level to monitor the stability of our distribution system. We require our regional distributors to settle the purchase price before we deliver any of our products to them so as to minimize any impact of accounts receivable on our financial condition and cash flows. To further solidify our relationships with and among our consumers and our sales channels, we have also established the *Mama100 Membership Program*, a key service program that offers our members access to our customer service and nursing consulting hotline, or CNC Hotline, and our *mama100.com* website, a membership points accumulation program. We also offer a monthly magazine subscription and other exclusive services. As of June 30, 2010, we had approximately 1,830,000 registered members in the *Mama100 Membership Program*, including approximately 322,000 active members.

While continuing to focus on the premium pediatric nutritional business, we are also co-developing certain of our baby care products, such as toiletry kits, with our product suppliers. In May 2010, we

introduced a variety of baby diapers to our consumers under a new brand name — *BMcare*™. We plan to develop this new business by leveraging our extensive consumer base and well-developed distribution network. Our sales of baby diapers reached RMB27.1 million from their launch in May 2010 to June 30, 2010.

Our research and development approach is mainly focused on joint development or cooperation with our raw material suppliers and product suppliers to integrate innovative technology, high-quality ingredients and advanced production processes to develop premium products for infants, children and mothers, thereby leveraging on our management's biotechnology background, understanding of prevailing market demands and stable relationships with our raw material suppliers and product suppliers. During the Track Record Period, achievements of our joint development and cooperation program included ingredient upgrades for our probiotic supplements, and development of special formulas of our infant formulas, new recipes for our baby cereals and our new baby care products product line. For products manufactured entirely by our product suppliers, as the proprietor of our brand of products and the developer and owner of the relevant formulas, we work closely with our product suppliers in the selection of ingredients and control components and usually designate specific ingredients and components for our products pursuant to the supply contracts in order to ensure our standards with respect to output, function, safety, quality and cost for any specific product are met. Integration of technology, ingredients and production, particularly for premium health food and infant formula products like ours, is a complicated process that requires biotechnological and nutritional knowledge and experience. Our research and development team, led by a group of experienced biotechnology specialists, are mainly responsible for the integration of innovative ingredients, as well as advanced technology, which are currently available in the world, to produce our products by transforming raw materials such as concentrated probiotic powders and dried baby food powders to consumable products through the sieving, blending and packaging processes.

We engage quality international product suppliers to manufacture our infant formulas and certain dried baby food products, including baby cereal, as well as baby care products, and import them with original packaging. Except for bar code affixing and external packaging, we do not provide any other production function in the Guangzhou Plant for these products. We mainly conduct final production process for our probiotic supplement products and certain dried baby food products other than baby cereal in our GMP-certified Guangzhou Plant.

According to *Euromonitor International*, our *Biostime*™ products occupied approximately 1.1% market share in terms of retail sales in the overall baby food industry(1) and approximately 1.7% market share in terms of retail sales in the other baby food industry(2) in China in 2009.

We experienced significant growth in our revenue and earnings during the Track Record Period. Our total revenue increased from RMB188.3 million in the year ended December 31, 2007 to RMB325.5 million in the year ended December 31, 2008, and to RMB559.0 million in the year ended December 31, 2009, representing a CAGR of 72.3% from 2007 to 2009. Our net profit increased from approximately RMB17.5

Notes:

(1) Baby food industry includes the infant formula sector and the other baby food products sector.

(2) Other baby food industry includes the prepared baby food, dried baby food and other sectors.

million in the year ended December 31, 2007 to RMB35.2 million in the year ended December 31, 2008, and to RMB108.3 million in the year ended December 31, 2009, representing a CAGR of 148.8% from 2007 to 2009. In the six months ended June 30, 2010, our revenue amounted RMB496.1 million, representing an increase of 119.9% over the comparable period in 2009, and in the six months ended June 30, 2010, our net profit amounted to RMB116.8 million, representing an increase of 229.0% over the comparable period in 2009.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our competitive position in the premium pediatric nutritional products segment and baby care products market:

Our strong brand, which promotes the success of high-quality products and market development

We are one of the market leaders of premium pediatric nutritional products in China. We launched our brand name of *Biostime*™ in China's pediatric nutritional products segment in 2003. We believe that consumers choose the *Biostime*™ family of products because of its association with high quality, innovative technology and safety, as well as our outstanding services. According to *Euromonitor International*, *Biostime*™ product occupied approximately 85.4% market share in terms of retail sales in the children's probiotic supplements market and approximately 13.1% market share in terms of retail sales in the supreme-tier infant formula market in China in 2009.

We endeavor to use the best-quality ingredients that are available to us for the production of our probiotic supplement and infant formula products, including some of the most effective strains of probiotic bacteria for boosting the immune system of young children in our probiotic supplement products. Moreover, we utilize our in-house production technology and know-how to extend significantly the shelf life of the live bacteria in certain of our probiotic supplement products. Our infant formulas include β-vegetable oil, which can help relieve constipation and aid in the absorption of calcium and fat. We believe that our products that we have developed over our business history as well as new products that we will develop in the years to come, which we design based on a combination of extensive market research and studies and involvement of innovative technologies and ingredients, are beneficial to our targeted consumers. We import key raw ingredients from European countries and the United States to better ensure the quality and safety of our products. Our sales of infant formulas generated RMB122.6 million since their launch in July 2008 to the end of June 2009, while sales of baby cereal products generated RMB39.8 million since their launch in May 2009 to the end of June 2010. We believe that our consumers' trust and confidence in our premium pediatric nutritional products have contributed significantly to the success of our new line of products.

As an important element of our brand development, we created and maintain the *Mama100 Membership Program*, a key service program under the *Biostime*™ family of brands. Our *Mama100 Membership Program* includes services provided through our CNC Hotline and access to our *mama100.com* website. It provides expectant and nursing mothers with a platform to interact and share experiences, enables them to receive product information and provide consumer feedback, and offers members a membership points accumulation program. *Biostime*™ has been granted the *Shanghai's Children's Choice Award* and the *Most Popular Nutritional Products among Guangzhou Citizens Award in 2005*, both of which demonstrate the wide consumer acceptance of our products in two of China's largest

cities. These awards, coupled with our strong growth in sales during recent years, have demonstrated broad market recognition of our premium products, quality services and brand name. Moreover, in 2007 we established the *China Foundation for Mother & Child* with the Red Cross Society of China to enhance our brand image.

Our *Biostime*™ brand has effectively translated into consumers' confidence in our other brands, such as our recently introduced baby care products brand — *BMcare*™. The success of this new brand was demonstrated by baby diapers product sales of RMB27.1 million in the period after their launch in May 2010 to June 30, 2010. We are confident that our *Biostime*™ brand will allow us to successfully promote our products as well as develop and market other brands within the *Biostime*™ family.

Our innovative and consumer-oriented marketing strategies, which strengthen our brand recognition

Since the launch of the *Biostime*™ brand in 2003, we have continuously improved the diversity and quality of our products and services by taking into account consumer feedback and incorporating elements of innovation. We strive to obtain the best available market information regarding consumer demand to capture additional market share, remain as a significant provider of premium pediatric nutritional products in China and meet consumers' needs.

Our product ideas, have led to the introduction of numerous mix-and-match, assorted probiotic supplement products for infants and young children, which are designed to target well-educated mothers with independent and modern lifestyles. Moreover, our suppliers, whom we work with during product development, utilize high-quality raw materials and biological technology when producing infant formulas for us and incorporate a type of prebiotics into certain of our baby care products for infants and children to enhance skin protection. In addition, our *Mama100 Membership Program* provides complimentary baby care advisory services through our CNC Hotline, our *mama100.com* website and the *Mama100* magazine, and our *Mama100 Membership Program* also provides a platform for mothers to interact and share their experiences.

We purchase prime time advertising slots on television networks in China, including China Central Television (CCTV, 中國中央電視台) and national and satellite and cable channels. As the Internet has become an increasingly important advertising medium, we have increased our marketing and promotional activities on prominent Internet portals, baby forum websites such as our *mama100.com* website and other mainstream websites to reach a greater percentage of young parents who utilize the Internet to access information. We believe that our corporate and brand image could be enhanced through our utilization of the press media and our distribution of product brochures to the public, thereby further supporting our sales efforts. Also, as part of our sales and marketing strategy, we maintain *Mama100 Members' Zones* in selected pharmacies and retail sales organizations. Retail outlets with our *Mama100 Members' Zones* are required to install in-store displays featuring our corporate logos to reinforce our brand image.

We endeavor to incorporate elements of innovation and consumer feedback into our products and corporate culture, and we believe that our wide range of promotional activities will provide us with

opportunities to further expose our brands and products to parents and enable them to receive educational and comprehensive information on the benefits and value proposition of our products. We believe that the quality of our new products will enable us to attract more consumers and instill increased trust and confidence in our brands, which in turn will promote our sales and business growth.

Our real-time logistics management system, which facilitates an effective distribution network

We believe that we have an effective and extensive distribution network which we maintain and monitor through our real-time logistics management system. We sold our products through a comprehensive distribution channel, which consisted of 266 regional distributors and their respective networks as of the Latest Practicable Date. We adhere to an internal policy when selecting our regional distributors which involves consideration of each regional distributor's background, distribution network and sales channels, financial condition and the industry experience of its personnel. Our regional distributors are responsible for establishing their own sales networks and customer contacts in accordance with our distribution plan which is set forth in our standard distribution agreement. In addition, we require our regional distributors to meet pre-determined sales targets and we provide our regional distributors with incentives to achieve these targets.

Our regional distributors further place our products to consumers through more than 5,000 specialty stores, 1,500 retail sales organizations and a large number of pharmacies across every province, municipality and autonomous region in China. We maintain *Mama100 Members' Zones* in selected pharmacies and retail sales organizations. As of the Latest Practicable Date, we had designated 2,972 specialty stores as VIP specialty stores to provide a more complete line of products and services to our members and consumers. We generally require our regional distributors to settle the purchase price before we deliver our products to them so as to minimize any impact of accounts receivable on our financial condition and cash flows. Through a real-time logistics management system, we continuously track and monitor the inventory and sales levels of our regional distributors. Through our point-of-sale membership points accumulation machine, or POS machine, located in selected retail sales organizations, sizeable pharmacies where we maintain a *Mama100 Members' Zone* and certain VIP specialty stores, we are also able to monitor sales information and consumer purchase behavior to improve the quality of our consumer services and sales strategies.

We also offer our regional distributors periodic training programs to enhance their knowledge of our products and promotional activities. To prevent a build-up of excessive inventory, all of our regional distributors must observe a stringent purchase policy, which prohibits them from purchasing more than 1.5 times of its average monthly order size for the immediately preceding three months. We believe that our real-time logistics management system and the solid relationships with our regional distributors enables us to ensure minimal levels of receivables and inventories and provide our regional distributors with sufficient incentives to sell our products. We consider the support from our regional distributors to be a key element in ensuring the effectiveness of our distribution network, and we strengthen this support by offering our regional distributors a logistics support reward of 1.0% of their total purchases if they comply with our real-time logistics management requirements, including inventory feedback system requirements. We believe that our real-time logistics management system and well-developed distribution network have facilitated market demands for, and the uniform pricing of, our products, which we believe will lead to the successful introduction of additional new products.

An effective customer service platform, which promotes strong growth of our consumer base

The combination of China's rapidly growing economy, greater awareness of pediatric nutrition and health care options, and increased disposable income of households in China in recent years has resulted in a greater demand for our products. Since our inception in 1999, our marketing strategy has been focused on high-end consumers who demand high-quality products. We believe that the introduction of our products over the past few years has enabled us to build a large consumer base. From December 31, 2006 to June 30, 2010, the number of our registered *Mama100* members has grown from 482,379 to 1,829,810, representing a significant increase of 279.3%. In order to solidify and further expand our consumer base, which we believe to be one of the key elements of our future success, we have implemented, and continue to maintain and strengthen, the *Mama100 Membership Program* for our members.

Our *Mama100 Membership Program* provides mothers with a forum in which they can interact and share their experiences and enables them to receive product information and provide consumer feedback. Our members utilize our *Mama100 Membership Program* to (i) access our CNC Hotline to obtain product information and nursing and health advice from call operators with previous working experience as pediatric doctors in hospitals, certified nursing specialists and other professionals, (ii) share information and experiences with other members through a website and on-line community known as *mama100.com*, (iii) check membership points balance and/or redeem merchandise through our membership points accumulation program, which enables point-of-sale or off-line accumulation of membership points, and (iv) subscribe to publications, such as the *Mama100* magazine. In addition, we established and continue to maintain a members' zone in a number of selected retail outlets such as pharmacies and retail sales organizations, which is referred to as our *Mama100 Members' Zone*.

We believe that our *Mama100 Membership Program* promotes consumer loyalty and enables us to further solidify the relationships among our consumers, our sales channels and our Company, as well as relationships among consumers themselves. Moreover, we are able to utilize information collected from our membership points accumulation system to gain a better understanding of our consumers' needs and continue to enhance and improve our products and services. As of June 30, 2010, we had approximately 1,830,000 registered members in the *Mama100 Membership Program*, among which approximately 322,000 members were active members, which we believe demonstrates a large consumer base and the success of our consumer service platform. We believe that we are able to provide better services to our targeted consumers through our established consumer service platform.

Our ability to integrate quality raw materials and biological technology from our reputable raw material suppliers and product suppliers

We endeavor to introduce to our consumers innovative and quality products that utilize high-quality ingredients and are produced by utilizing biological technology. By consistently sourcing key raw materials and by engaging product suppliers from European countries (including France and Switzerland) and the United States, we have distinguished ourselves from other PRC competitors who either produce or source key raw materials domestically. We select our raw material suppliers and product suppliers with proven track records of producing high-quality products to better ensure the safety and quality of our products. For example, we import probiotic powder for our probiotic supplement products from Lallemand, a French supplier that specializes in the development, production and marketing of yeasts

and bacteria. Lallemand has obtained and held the GMP certificate of the WHO issued by the General Director of the French Health Products Safety Agency since 2001. Since we do not manufacture our infant formula products, we import all of such products with original packaging from Laiterie de Montaigu, another French supplier that possesses proprietary production technology in relation to infant formulas. Laiterie de Montaigu has been involved in major research projects, such as the spray drying method with the French National Institute for Agricultural Research, which is the largest agricultural research institute in Europe, and has participated and lectured in European food industry conferences organized by the European Commission. During the past ten years preceding the Latest Practicable Date, to the best of our knowledge, none of our key material and product suppliers had been involved in any incidents related to deficient product quality. We believe that we are able to compete with major international players in China's premium pediatric nutritional products segment and baby care products market because the products and raw materials that we source from our overseas suppliers adhere to relevant national standards.

We also design formulas and co-develop new products with reputable product suppliers such as Laiterie de Montaigu. Our product development team, which comprises marketing as well as research and development professionals, identifies and creates the basic proprietary specifications and/or formulas for new products. Prior to commercial production, we cooperate with our product suppliers to jointly modify the specifications and/or improve the formulas of our products through extensive feasibility studies and laboratory research conducted by our product suppliers and our research and development team. Our research and development approach is mainly focused on joint development or cooperation with our raw material suppliers and product suppliers to integrate innovative technology, safe and quality raw materials and advanced production processes. We undertake quality control measures in various aspects of our product development including product design, feasibility studies, laboratory research and supplier selection, and are involved in the final production process, including blending, sieving and packaging, for some of our products. We believe that our management's biotechnology background, understanding of prevailing market demands and relationships with our raw material suppliers and product suppliers contribute to our overall success.

Our stringent quality assurance and control program, which ensures product safety

Quality control is essential for producing premium pediatric nutritional and baby care products because they are consumed and used by infants, young children and expectant and nursing mothers. Our suppliers' quality control teams and our own Quality Assurance Department conduct tests, experiments and trials for all of our food products to ensure that they fully comply with applicable international or PRC health and safety regulations for food products such as *the US Organic Food Production Act of 1990* and *the Appraisal Standard of Probiotics Healthy Food* (真菌類保健食品評審規定) and *List of Probiotics Applicable for Healthy Food* (可適用於保健食品的真菌菌種名單). We have instituted a quality assurance program and group-wide quality policy to ensure that the raw materials and products we source from our suppliers and, where applicable, our final production and packaging activities result in high-quality products. We have established a Quality Assurance Department with 13 employees to implement our quality assurance program. These employees are stationed at our production plant in Guangzhou and perform a series of quality assurance and quality control tests.

To better ensure the quality of our products, all key raw materials and ingredients of our products are imported from European countries and the United States and comply with relevant national standards.

Our imported products such as infant formula and baby cereal products are subject to approval by our suppliers' in-house quality control teams before such products are delivered to us. In addition, all of our imported ingredients and products are inspected by the China Customs (中國海關) and tested by AQSIQ against the PRC national standards upon importation. We believe that our responsibility of ensuring product quality begins at the raw material procurement stage, where our Procurement Department performs detailed evaluations of our suppliers. We select and evaluate our suppliers based on their background, industry experience, reputation and ability to deliver quality products on time. We also conduct a full in-house quality test to ensure that our products meet our required quality standards.

Other than purchasing the finished products such as our infant formula products, which are imported with original packaging from our product supplier, Laiterie de Montaigu, and comply with the *General Technical Requirements* as well as *Formula I, Formula II and Formula III*, we also undertake final production of some of our products at our GMP-certified plant in China, which complies with the requirements of *the PRC Good Manufacturing Practices for Health Food*. While we conduct regular assessments of our suppliers and incoming raw materials, we also perform inspections and frequent sample testing at each of the final production and packaging stages at our GMP-certified plant. Although our products had not been sold to the United States as of the Latest Practicable Date, we nevertheless import ingredients from organic food and ingredients suppliers from the United States and the European Union and voluntarily follow and comply with the organic food production requirements and standards under *the US Organic Food Production Act of 1990* and other applicable European Union regulations for organic food during the final production of our organic nutritional products. We believe that by setting a high standard for the quality of our products, we will be able to increase consumers' trust and confidence in our brands, which in turn may result in increased sales of our products.

Our capable management team with extensive industry experience ensures the successful development of our business

We are led by a capable management team with extensive industry expertise. Our executive management team includes Mr. Luo Fei, Dr. Zhang Wenhui and Ms. Kong Qingjuan, and each of them has over 15 years of experience in the biotechnology products industry. The combination of their foresight and in-depth industry knowledge has enabled our Directors and senior management to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preferences, and capture significant market opportunities. For example, although we only commenced commercial sales of infant formulas in 2008, we have grown rapidly to become one of the leading suppliers of supreme-tier and high-tier infant formulas in China, competing with major international players. Furthermore, our Directors and senior management have played a key role in instilling and fostering a distinct corporate culture that promotes responsibility, achievement and innovation, which in turn encourages the delivery of consistent and quality products. We believe that the regional directors and senior managers of our regional sales offices are committed to contributing to the growth of our Company. Our sales team is stable and also possesses extensive product knowledge and experience, thereby ensuring effective sales and marketing activities. We believe that our Directors and senior management possess the leadership, commitment and qualifications to sustain our business and ensure our continued growth.

OUR BUSINESS STRATEGIES

Our principal business objective is to maintain and further strengthen our position in China as a significant provider of premium pediatric nutritional products while expanding our market share in baby care products by pursuing the following key strategies:

Continue to reinforce our brand recognition with a focus on high-end markets

We believe that sustained investment in our marketing and advertising programs is critical to the continuing development of our product and brand awareness. We engage in a variety of marketing and promotional activities to promote brand recognition of our products. We plan to increase our efforts in educating consumers about the benefits of using our products through our *Mama100 Membership Program*, which we believe will enable us to strengthen and maintain consumer loyalty as well as reinforce our reputation for quality, care and safety. We also plan to continue conducting nationwide marketing campaigns through television advertising and other media to further strengthen our brand recognition. We believe these and other promotional activities provide expectant and nursing mothers with child care education and information on our products and brands.

Our marketing efforts are targeted at the high-end consumer market, which has been expanding in recent years due to the rapid growth of China's economy, greater awareness of pediatric nutrition options, and increased disposable household incomes in China. Our targeted key consumer categories include well-educated mothers that have independent and modern lifestyles and mothers who come from families with household annual incomes of more than RMB150,000. We believe that by further promoting our brand association with our high-quality products, we will be able to capture growing market opportunities in the high-end consumer market and increase our overall market share.

Increase our investment in members' platform

We believe that the *Mama100 Membership Program*, our key service program, distinguishes us from many of our competitors. Moreover, we believe that the *Mama100 Membership Program*, which members utilize to receive information and advice as well as to accumulate membership points for merchandise redemption, enhances consumer loyalty towards our products and brand. For each sale made to a *Mama100* member in selected retail outlets, such as specialty stores, selected retail sales organization and selected pharmacies, membership points are awarded instantly through the *Mama100 Membership Program*. The *Mama100 Membership Program* not only benefits our consumers and retail outlets, but also contributes to the development of our business. We continue to compile and utilize information gathered from our membership points accumulation system to analyze our consumers' shopping activities, the performance of our sales channels and the management of inventory and logistics. We believe that such valuable market intelligence will enable us to continue to develop recognition of our brand within the premium pediatric nutritional products segment, and allow us to enhance the quality of our existing products and introduce innovative new products with the aim of improving the health and growth of infants and young children in China. To that end, we plan to use a part of the net [●] from the [●] to enhance our *Mama100* member's platform.

Continue to expand and develop our sales distribution network

To enhance our ability to anticipate and respond quickly to the varying needs of our consumers and to adapt to market changes, we plan to expand our sales distribution network to extend our consumer base. We also plan to offer more incentives to specialty stores which currently carry our products in order to further promote sales of our products by operating a loyalty point award program which allows specialty stores to earn loyalty points when selling different types of our products. The number of loyalty points earned for each dollar of purchase for our products thus range from 0.81 to 1.45 loyalty points, the

calculation mechanism is the same as the *Mama100* membership points award system. The loyalty points can only be redeemed for our products or *Mama100* training programs for sales representatives and nutritionists in stores organized by us. The related cost incurred for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were RMB3.3 million, RMB6.1 million, RMB10.9 million and RMB7.5 million, respectively. As of the Latest Practicable Date, we sold our products to end consumers through 266 regional distributors, who further distributed our products to 5,026 specialty stores, 1,572 retail sales organizations and a large number of pharmacies. As of June 30, 2010, among our retail outlets, 2,972 out of 5,026 specialty stores were VIP specialty stores, and 172 sizeable pharmacies had a designated *Mama100 Members' Zone*. We aim to increase the number of specialty stores from 5,026 to 6,000 and upgrade the number of non-VIP specialty stores to VIP specialty stores to 4,000 by 2012. In addition, we plan to increase the number of *Mama100 Members' Zones* in pharmacies from 172 to 500 and retail sales organizations carrying our products from 1,572 to 3,000 within the next three years.

The number of pharmacies in China is growing at a rapid pace. We understand the importance of pharmacies to consumers in China and therefore aim to increasingly focus our future development and distribution plans on pharmacies to achieve further growth of our business. We believe that these efforts to expand and develop our distribution network will lead to an increase in our revenues and profitability, while enhancing the exposure of our brand and products.

Further diversify and broaden our product categories

We are committed to developing premium pediatric nutritional brands and products that help to improve the health and development of infants and young children in China. Leveraging our position as a significant provider of premium pediatric nutritional products in China, we intend to expand the scale and scope of our business to encompass other high-end baby care products with a view to further strengthen our market presence. For example, while maintaining our focus on the final production and/or sourcing of premium pediatric nutritional products, we have begun to market baby care products for infants, children and expectant and nursing mothers, certain of which are jointly developed by our product suppliers and us. Commencing in May 2010, we introduced a variety of diapers under a new brand name — *BMcare*™. In addition, in order to diversify our product categories and improve the quality of our existing products, we plan to invest significant resources in building up our in-house research and development activities, including constructing a new research and development center, purchasing more advanced equipments such as complete automatic absorption spectrophotometers and sets of high performance liquid chromatography to accurately test and measure the ingredient of our products, and retaining additional research and development staff in the next three years. On the other hand, we will build a new probiotic sachet processing line, a new workshop for packaging lines and a number of new climate control warehouses. We also aim to optimize our existing facilities as appropriate to allow us to launch our new products.

We plan to build on our well-established sales channels, brand image and reputation for quality, care and safety to further diversify our product portfolio. We believe that we have the market expertise, technological know-how and execution capability to develop new, premium products for infants and young children. We are also confident that the strong brand image of our *Biostime*™ products will promote our success in future product and market development under new brands within the *Biostime*™ family.

Further solidify our cooperative relationship with our suppliers, academic organizations and charity foundations

Our research and development approach is mainly focused on joint development or cooperation with our raw material suppliers and product suppliers to integrate innovative biological technology, high-quality ingredients and advanced production processes to develop premium products for infants, children and mothers, thereby leveraging our management's biotechnology background, understanding of prevailing market demands and stable relationships with our raw material suppliers and product suppliers. Prior to commercial production, we cooperate with our product suppliers to jointly modify the specifications and/or improve the formulas of our products through extensive feasibility studies and laboratory research jointly conducted by our product suppliers and us. We believe that the integration and implementation of innovative technologies in our products are key to our success, and we aim to increase our investments in research and development activities to maintain and enhance our position in the markets where we compete. We intend to expand our business by bolstering our cooperative relationships with domestic health organizations and our suppliers to achieve advances in nutritional science, pediatric health care education and in our research and development technologies and activities by jointly establishing new production facilities and research and development center with Laiterie de Montaigu and Kerry Ingredients & Flavors, respectively, tentatively after [●], in order to further improve the quality of our current products, such as infant formulas and baby cereals, and develop a more diverse range of products as well as to contribute to developments in China's premium pediatric nutritional products segment.

Since 2007, we have been cooperating with domestic health organizations such as the Red Cross Foundation (中國紅十字基金會), with whom we have set up a Biostime Mother and Child Charity Fund (合生元母嬰救助基金) and donated approximately RMB3.0 million to provide medication subsidies for infants and young children who suffer from severe illnesses from 2007 to June 30, 2010. We aim to participate in more charity events and to make additional donations organized by different health organizations and charity foundations in order to increase our public exposure and build up relationships with such organizations. In December 2005, we donated 5 million children sickness and care handbooks to the "Urban-rural Children Health Event" (城鄉兒童共享健康) jointly organized by the Chinese Children Foundation (中國兒童少年基金會), the Chinese Disease Control and Prevention Centre Mother and Child Heath Care Branch (中國疾病預防控制中心婦幼保健中心) and the Chinese Hospital Management Association Mother and Child Health Care Sub-committee (中國醫院協會婦幼保健院管理分會).

Furthermore, we consistently source key raw materials and engage product suppliers from European countries, such as France and Switzerland, and the United States. We believe that our ability to maintain close, mutually-beneficial relationships with our overseas suppliers is critical to our continuing success and market positioning. Our goal is to further strengthen our relationships with our suppliers to reinforce our ability to compete with major international players in China's premium pediatric nutritional products segment and baby care products market. To achieve this goal, we plan to deploy quality control teams to be based abroad to pay regular visits to the manufacturing sites of our key overseas product suppliers for quality assurance and joint product development purposes.

Further enhance our information technology systems and infrastructure

Although we had not been subject to any material disruption of our information technology system and infrastructure up to the Latest Practicable Date, we will continue enhancing our information technology systems and infrastructure to facilitate timely and accurate management decision-making, improve our ability to anticipate and respond quickly to market changes and promote a more effective business operation.

We employ a real-time logistics system that imprints computerized logistics bar codes on the packaging material of our products, which enables us to trace, on a real-time basis, the products we distribute or sell to our regional distributors. Our other major information technology systems include: a membership points accumulation system that enables sales of our products to be recorded in those retails sales organizations, sizeable pharmacies and VIP specialty stores equipped with POS machines, thereby allowing our management to review sales in these outlets on a real-time basis; an enterprise resource planning, or ERP, system to support our operations and administration including marketing, finance, production and human resources; and a CRM system that can record data related to consumer consumption, thereby allowing us to perform consumer demand analyses. In addition, we employ a CENTRA system for hosting Internet conferences as well as training programs for personnel and sales teams. We plan to enhance our information technology systems by increasing investment to ensure stable operation and high security of the systems to achieve higher management efficiency.

PRODUCTS

Overview

We have established our *Biostime*™ brand in China's premium pediatric nutritional products segment. Our technological know-how, optimized manufacturing capabilities and ability to maintain cost-effective, high-quality production, have enabled us to become one of various brands in China to offer a variety of premium pediatric nutritional products that meet the varying needs of consumers. Our highly diversified product portfolio consists of the following:

- probiotic supplements in the form of sachet, capsules and tablets for infants, children and expectant mothers;
- infant formulas for children under three years old and milk formulas for expectant and nursing mothers;
- dried baby food products made from natural food, such as meat, seafood, fruits and vegetables for infant and young children; and
- baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads.

The following table sets forth our total revenue by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements[1]	172.2	91.4	253.8	78.0	265.9	47.6	122.5	54.3	138.5	27.9
Infant formulas[2]	—[3]	—[3]	40.8	12.5	238.1	42.6	81.8	36.3	287.8	58.0
Dried baby food	16.1	8.6	30.9	9.5	55.0	9.8	21.3	9.4	42.7	8.6
Baby care products	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	27.1	5.5
Total revenue	**188.3**	**100.0**	**325.5**	**100.0**	**559.0**	**100.0**	**225.6**	**100.0**	**496.1**	**100.0**

(1) Include probiotic supplements exclusively for expectant mothers.

(2) Include milk formulas for expectant and nursing mothers.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

We launched our *Biostime*™ probiotic supplement products in 2003, followed by dried baby food products in 2007 and infant formula products in 2008. In May 2010, leveraging our market position in premium pediatric nutritional products, we began marketing baby care products, such as baby diaper and toiletry kits for infants, children and nursing mothers under our newly-introduced *BMcare*™ brand. While revenue generated from our infant formula products increased substantially since 2008 due to the increased sales volume, sales of our other products, including probiotic supplements were relatively stable during the Track Record Period. We expect that our infant formula products will become our main source of income in the foreseeable future. However, our strategy is to continue to maintain and further strengthen our position in China as a significant provider of premium pediatric nutritional products and expand our market share in the baby care products sector.

We have never conducted any product recall since our inception.

Probiotic supplements

We are China's largest pediatric probiotic supplements provider in terms of retail sales. Currently we offer probiotic supplements in the form of sachet so that they can be easily mixed with other food or beverages. Our probiotic supplement products are also sold in the form of tablets or capsules to meet the needs of older children and expectant mothers. We started promoting the concept of probiotic use in China from 2001 and, based on the fact that none of the imported health food licenses granted by the MOH pursuant to *the Measures on the Administration of Health Food* before August 2002 related to probiotic supplements designed for children with low immunity, we believe that our imported probiotic sachet products for children were also the first to receive such imported health food license for probiotic supplements designed for children with low immunity. Prior to November 2009, we offered imported probiotic supplements produced by Lallemand with their original packaging. Since December 2009, we

launched the sales of probiotic sachet, tablets and capsules which we manufactured in our GMP-certified plant by using the probiotic powder imported from Lallemand. As of June 30, 2010, we had a designed annual capacity to produce approximately 86 million bags (each containing 1.5g of sachet) of probiotic sachet, 253 million probiotic tablets and 171 million probiotic capsules.

Probiotics are live microorganisms that are considered healthy for humans to consume. According to the currently adopted definition by FAO/WHO, probiotics are "live microorganisms which when administered in adequate amounts confer a health benefit on the host". A number of positive health effects have been documented including alleviation of chronic intestinal inflammatory diseases, prevention and treatment of pathogen-induced diarrhea, urogenital infections, and atopic diseases. Probiotic supplements are especially suitable for children of a young age when their immune systems are undergoing development.

The following table sets forth information regarding our probiotic sachet products for children:

	Product	Raw material supplier	Suggested retail price	Product description
	General Package: Biostime Probiotic Sachet (for Children)	Lallemand (France)	5 sachet bags package (1.5g per bag): RMB36.80	Probiotic Sachet in packages of 5 sachet bags for general sales in all retail outlets - preservation period: 18 months - launched in 2003 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which transforms raw materials into the final food product through the sieving, blending and packaging processes Ingredients: fructooligosaccharide, maltodextrin, lactobacillus acidophilus, bifidobacterium bifidum, bifidobacterium infantis, vanillin
	Members' Package: Biostime Probiotic Sachet (for Children)	Lallemand (France)	26 sachet bags package (1.5g per bag): RMB176.00 48 sachet bags package (1.5g per bag): RMB296.00	Probiotic Sachet in packages of 26 sachet bags or 48 sachet bags for exclusive sales in VIP specialty stores and *Mama100 Members' Zones* of selected pharmacies - preservation period: 18 months - launched in 2003

	Product	Raw material supplier	Suggested retail price	Product description
			26 sachet bags gift package (1.5g per bag): RMB176.00 60 sachet bags gift package (1.5g per bag): RMB380.00	Probiotic Sachet in packages of 26 sachet bags or 60 sachet bags (including gift packs) for exclusive sales in retail sales organizations - preservation period: 18 months - launched in 2003 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes Ingredients: fructooligosaccharide, maltodextrin, lactobacillus acidophilus, bifidobacterium bifidum, bifidobacterium infantis, vanillin

In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we produced and sold approximately 67,637 kg, 97,644 kg, 102,124 kg and 48,307 kg of our probiotic supplement products, respectively. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, sales of our probiotic supplement products accounted for 91.4%, 78.0%, 47.6% and 27.9% of our total revenue, respectively.

Infant Formulas

Our infant formula products comprise formula for routine feeding. We co-develop routine infant formula with our infant formula product supplier, Laiterie de Montaigu, as a breast milk substitute for healthy, full-term infants without special nutritional needs both for use as an infant's sole source of nutrition and as a supplement to breastfeeding. We endeavor to bring the nutrition profile of routine infant formula closer to that of breast milk. As research has shown that many infants experience constipation due to indigestion, we believe that we are the first infant formula vendor in China to launch infant formula with β-vegetable oil to help reduce the likelihood of constipation and to enhance intake of calcium and energy.

Each product is referred to as a "formula", because they are formulated for the specific nutritional needs of an infant of a given age. Generally, routine infant formula has the following four main components: (i) protein from cow's milk that is processed to have a profile similar to human milk, (ii) a blend of vegetable fats to replace bovine milk fat to better resemble the composition of human milk, (iii) a carbohydrate, generally lactose from cow's milk and (iv) a vitamin and mineral "micronutrient" pre-mix that is blended into the product to meet the specific needs of the infant at a given age. Patterned after breast milk, which changes in composition to meet an infant's changing nutritional needs, we provide

three stages of infant formula. Stage 1 formula, or infant formula, is generally consumed by newborn infants up to 12 months of age; Stage 2 formula, or follow-on formula, is generally consumed by infants aged from 6 to 18 months; and Stage 3 formula, or growing-up formula, is generally consumed by toddlers aged from one to three years old.

We do not produce our infant formula and mother's nutritional formula products and all of such products are imported from France with original packaging from our infant formula product supplier, Laiterie de Montaigu, which produces the infant formula products in its factory based on our formula. Further details are set out in the paragraphs headed "Manufacturing" and "Raw materials and key suppliers — Key suppliers of products" in this section. We design and co-develop new infant formulas with reputable product suppliers such as Laiterie de Montaigu. Our product development team, which comprises marketing as well as research and development professionals, identifies and creates the basic proprietary specifications and/or formula for new products. Prior to commercial production, we cooperate with our suppliers to jointly modify the specifications and/or improve the formulas of our products through extensive feasibility studies and laboratory research conducted by our product suppliers or raw material suppliers and our research and development team.

Our five product series, which have different specifications and characteristics, are designed to cater to consumers who purchase high-tier and supreme-tier products. The table below illustrates our key infant formula and mother's nutritional formula brands and products:

	Product	Product supplier	Suggested retail price	Product description
	Biostime Golden Care Infant Formulas: - Stage 1 — for infants from newborn to 12 months old - Stage 2 — for older infants from 6 to 18 months old - Stage 3 — for toddlers aged from 1 to 3 years old	Laiterie de Montaigu (France)	- Stage 1 - 900g can: RMB238.00 - Stage 2 - 900g can: RMB228.00 - Stage 3 - 900g can: RMB218.00	Each can contains 900g of our Golden Care Infant Formula, with the following specifications: - contains β-vegetable oil, a vegetable oil containing 1,3-Dioleoyl 2-palmitoyl triglyceride - adopts full-formulation spray drying technique to promote nutrition dissolution - sources from AOC Milk Source Base in France and sources from Holland to ensure quality of the product - preservation period: 3 years - launched in May 2010 - imported with original packaging Ingredients: skimmed milk, lactose, vegetable oil, whey protein concentrate, GOS, DHA, ARA, mineral, vitamin

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	Product	Product supplier	Suggested retail price	Product description
	Biostime Premium Infant Formulas: - Stage 1 — for infants from newborn to 12 months old - Stage 2 — for older infants from 6 to 18 months old - Stage 3 — for toddlers aged from 1 to 3 years old	Laiterie de Montaigu (France)	- Stage 1 - 900g can: RMB290.00 - Stage 2 - 900g can: RMB288.00 - Stage 3 - 900g can: RMB278.00	Each can contains 900g of our Premium Infant Formula, with the following specifications: - contains more β-vegetable oil, a vegetable oil containing 1,3-Dioleoyl 2-palmitoyl triglyceride - adopts full-formulation spray drying technique to promote nutrition dissolution - sources from AOC Milk Source Base in France and sources from Holland to ensure quality of the product - preservation period: 3 years - launched in July 2008 - imported with original packaging Ingredients: skimmed milk, lactose, vegetable oil, whey protein concentrate, GOS, DHA, ARA, mineral, vitamin
	Biostime Supreme Infant Formulas: - Stage 1 — for infants from newborn to 12 months old - Stage 2 — for older infants from 6 to 18 months old - Stage 3 — for toddlers aged from 1 to 3 years old	Laiterie de Montaigu (France)	- Stage 1 - 900g can: RMB386.00 - Stage 2 - 900g can: RMB380.00 - Stage 3 - 900g can: RMB378.00	Each can contains 900g of our Supreme Infant Formula, with the following specifications: - contains LPN whey protein to enhance immunity activity - contains β-vegetable oil , a vegetable oil containing 1,3-Dioleoyl 2-palmitoyl triglyceride - adopts full-formulation spray drying technique to promote nutrition dissolution - sources from AOC Milk Source Base in France and sources from Holland to ensure quality of the product - preservation period: 3 years - stage 1 and 2: launched in July 2008; stage 3: launched in June 2009 - imported with original packaging Ingredients: skimmed milk, lactose, vegetable oil, whey protein concentrate(includes lactopontin), GOS, DHA, ARA, mineral, vitamin

	Product	Product supplier	Suggested retail price	Product description
	Biostime Supreme Care Infant Formulas: - Stage 1 — for infants from newborn to 12 months old - Stage 2 — for older infants from 6 to 18 months old - Stage 3 — for toddlers aged from 1 to 3 years old	Laiterie de Montaigu (France)	- Stage 1 - 900g can: RMB486.00 - Stage 2 - 900g can: RMB480.00 - Stage 3 - 900g can: RMB478.00	Each can contains 900g of our Supreme Care Infant Formula, with the following specifications: - contains protein hydrolysate for easy digestion - contains LPN whey protein to enhance immunity activity - contains β-vegetable oil , a vegetable oil containing 1,3-Dioleoyl 2-palmitoyl triglyceride - adopts full-formulation spray drying technique to promote nutrition dissolution - sources from AOC Milk Source Base in France and sources from Holland to ensure quality of the product - preservation period: 3 years - stage 1: launched in July 2008; stage 2 and 3: launched in September 2009 - imported with original packaging Ingredients: lactose, vegetable oil, hydrolysated whey protein, GOS, hydrolysated casein protein, mineral, whey protein concentrate(includes lactopontin), DHA, ARA, vitamin
	Biostime Premium Mama Nutritional Formulas	Laiterie de Montaigu (France)	900g can: RMB286.00	Each can contains 900g of our Premium Mama Nutritional Formula, with the following specifications: - contains folic acid to prevent nervous system malformations and iron coated by lecithin to improve absorption - low fat to prevent obesity - sources from AOC Milk Source Base in France and sources from Holland to ensure quality of the product - preservation period: 3 years - launched in July 2008 - imported with original packaging Ingredients: skimmed milk, lactose, whey protein concentrate, GOS, milk fat, DHA, mineral, vitamin

Except for our newly introduced Biostime Golden Care Infant Formulas, which were launched in May 2010, and stage 2 and 3 of our Biostime Supreme Care Infant Formulas, which were launched in September 2009, we introduced all of our infant formulas and mother's nutritional formulas in 2008. For the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we sold 209,634

cans, 1,197,769 cans and 1,454,687 cans of our infant formula products, respectively. For the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, sales of our infant formula products accounted for 12.5%, 42.6% and 58.0% of our total sales, respectively.

Dried Baby Food Products

Aiming to accommodate younger mothers, we provide a wide range of supplements to broaden the selection of different supplement combinations to enable children to enjoy their meals whilst taking in the necessary nutrition. Except for our baby cereal products, which are imported with original packaging, we import key ingredients from European countries and the United States to produce and/or package the rest of our dried baby food products in our GMP-certified plant. Our dried baby food products, which are available in powder and flake forms, offer babies with dried nutritional supplements in addition to the liquid food they consume.

Our dried baby food products are designed for infants aged four months old and over. We currently market dried baby food products made from natural food, such as fruits, vegetables, grains and cereals, seafood and meat. The table below illustrates our key dried baby food products:

	Product	Raw material supplier	Suggested retail price	Product description
	Biostime Organic Rice Cereal (imported with original packaging from the United States)	Kerry Ingredients & Flavors (USA)	300g can: RMB98.00	Each can contains 300g of imported rice cereal, oats powder or multi-grain cereal: - contains DHA and ARA to promote the newly-developed eye and brain system - contains FOS prebiotic ingredient to strengthen the immune system - adopts partially hydrolyzed starch technique for easy digestion - preservation period: 3 years - launched in 2009 - imported with original packaging
	Biostime Organic Oats Cereal (imported with original packaging from the United States)		300g can: RMB98.00	Ingredients: organic rice cereal, fructooligosaccharide, ARA, DHA, vitamin, mineral
	Biostime Organic Multi-grain Cereal (imported with original packaging from the United States)		300g can: RMB98.00	organic oat cereal, fructooligosaccharide, ARA, DHA, vitamin, mineral organic multi-grain cereal, fructooligosaccharide, ARA, DHA, vitamin, mineral

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	Product	Raw material supplier	Suggested retail price	Product description
	Biostime Assorted Vegetable Powder:	Diana Naturals (France) Naturex AG (Switzerland)		Each box contains 30 bags of assorted vegetable powders imported from France. The organic vegetable powder is certified by ECOCERT. This product is suitable for children older than 4 months - preservation period: 24 months - launched in 2007 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes Ingredients: vegetables (spinach, French bean, green pea, green cabbage, tomato, pumpkin, corn)
	- regular		- regular 30 bag box (1.2g per bag): RMB39.80	
	- organic		- organic 30 bag box (1.2g per bag): RMB66.00	
	Biostime Assorted Fruit Powder:	Diana Naturals (France) Naturex AG (Switzerland)		Each box contains 30 bags of assorted fruit powders imported from France and Switzerland. The organic fruit powder is certified by ECOCERT. This product is suitable for children older than 4 months - preservation period: 24 months - launched in 2007 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes Ingredients: fruits (strawberry, orange, banana, apple, pear, peach)
	- regular		- regular 30 bag box (1.2g per bag): RMB39.80	
	- organic		- organic 30 bag box (1.2g per bag): RMB66.00	

	Product	Raw material supplier	Suggested retail price	Product description
	Biostime Assorted Other Food Powder	Seagarden ASA (Norway)	30 bag box (1.5g per bag): RMB68.00	Each box contains 30 bags of shrimp, fish, pork liver, or meat powder. This product is suitable for children older than 6 months - preservation period: 18 months - launched in 2007 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes Ingredients: wild cod fish, wild shrimp, chicken, pork liver
	Biostime Assorted Mix Vegetable, Fruit & Meat Powder	Diana Naturals (France) Naturex AG (Switzerland) Seagarden ASA (Norway)	30 bag box (1.2g per bag): RMB49.20	Assorted Mix Vegetable, Fruit & Meat Powder in the packages of 30 bags Each box package of 30 bags contains 10 bags of assorted vegetable powder, 5 bags of strawberry powder, 5 bags of banana powder, 5 bags of cod fish powder and 5 bags of pork liver powder - preservation period for all vegetable and fruit powder: 24 months - preservation period for meat powder: 18 months - launched in 2007 - not imported with original packaging - the manufacturing process of this product takes place in our GMP-certified plant which mainly involves transforming raw materials into the final food product through the sieving, blending and packaging processes Ingredients: vegetables, fruits, wild cod fish, pork liver

Baby Care Products

In May 2010, we started marketing baby care products for infants, children and nursing mothers. Our new product category includes diapers and toiletry kits. These baby care products are marketed under the brand name *BMcare*™. The table below sets forth information regarding our new products and the suppliers from which we source them:

	Product	Product supplier	Suggested retail price	Product description
	Baby diapers - six sizes range from newborn to XXL	First Quality (USA)	- 23 to 50 pieces pack: RMB118.00	- soft stretchy waist and side panels help prevent leaks - hypoallergenic liner delivers botanicals like Aloe, Chamomile and Vitamin E to help soothe the baby's skin - suitable for babies from newborn to 15 kg - preservation period: 3 years - launched in May 2010 - imported with original packaging
	Shampoo, bath gel and baby oil	Sarbec (France)	- Shampoo - 200 ml bottle: RMB98.00 - Bath gel - 200 ml bottle: RMB98.00 - Baby oil - 125 ml bottle: RMB138.00	- mild shampoo, bath gel (bubble forming and regular) and baby oil designed for infants and young children - contains α — GOS, a helpful type of prebiotics to improve the health of babies' skin - preservation period: 3 years - to be launched in the last quarter of 2010 or the first quarter of 2011, depending on the market condition - imported with original packaging

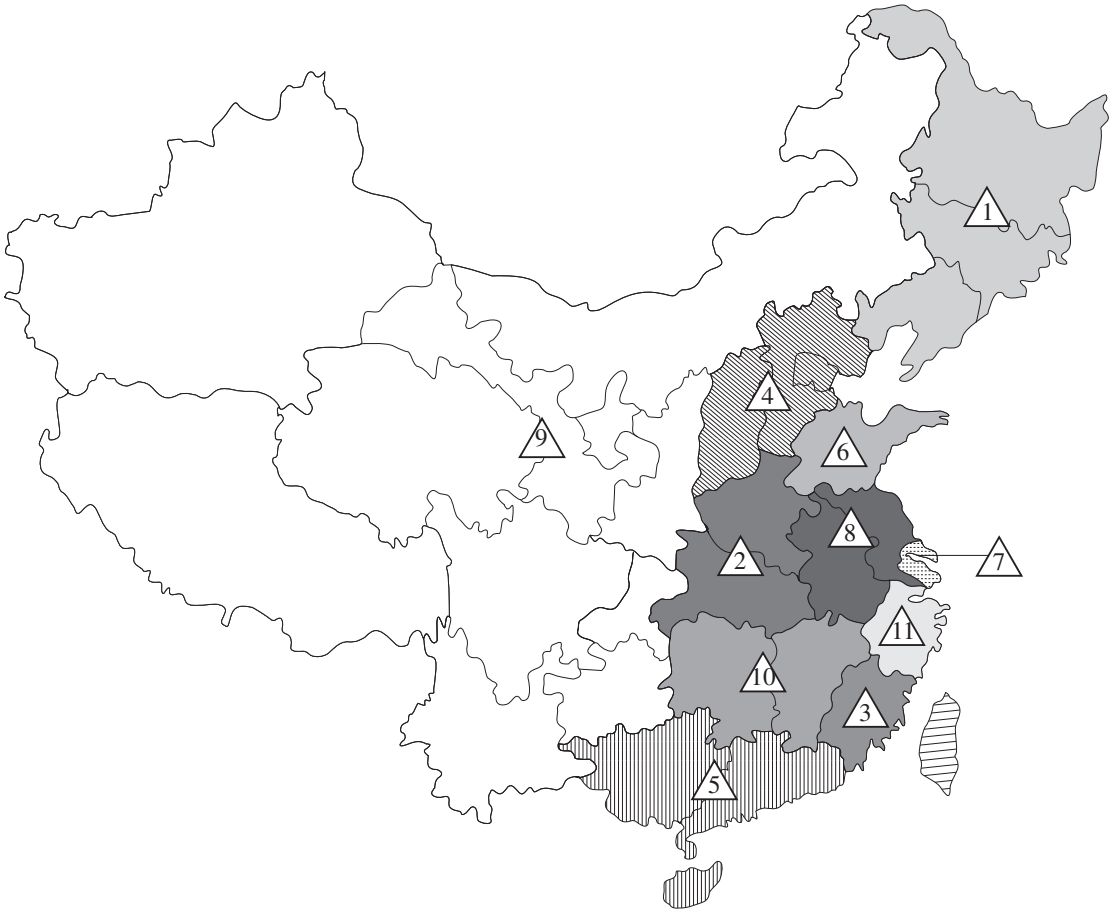
	Product	Product supplier	Suggested retail price	Product description
	Nursing pads	Flawa (Swiss)	30 pieces pack: RMB68.00	- comfortable breast pads designed for nursing mothers - preservation period: 3 years - launched in July 2010 - imported with original packaging

We have contracted with international manufacturers to produce these baby care products. Certain of our baby care products, such as toiletry kits, are jointly developed with our product supplier based on our specifications as to materials and prescriptions. We also engage product suppliers to produce our baby diapers and nursing pads on a private-labelling basis. These products are sold and marketed through our established sales channels. Our baby diapers sales generated RMB27.1 million from product launch in May 2010 to June 30, 2010.

SALES AND DISTRIBUTION CHANNELS

Our Team and Coverage

We centralize our marketing functions at our headquarters in Guangzhou, Guangdong Province, China. In order to effectively conduct our sales and marketing activities, we have divided our sales and marketing team to cover 11 principal geographical regions, which extends our sales network into every province, municipality and autonomous region in China. The following map and table illustrate the market allocation, sales coverage of our sales teams as of the Latest Practicable Date and sales generated by our sales teams located in different regions throughout China in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010:



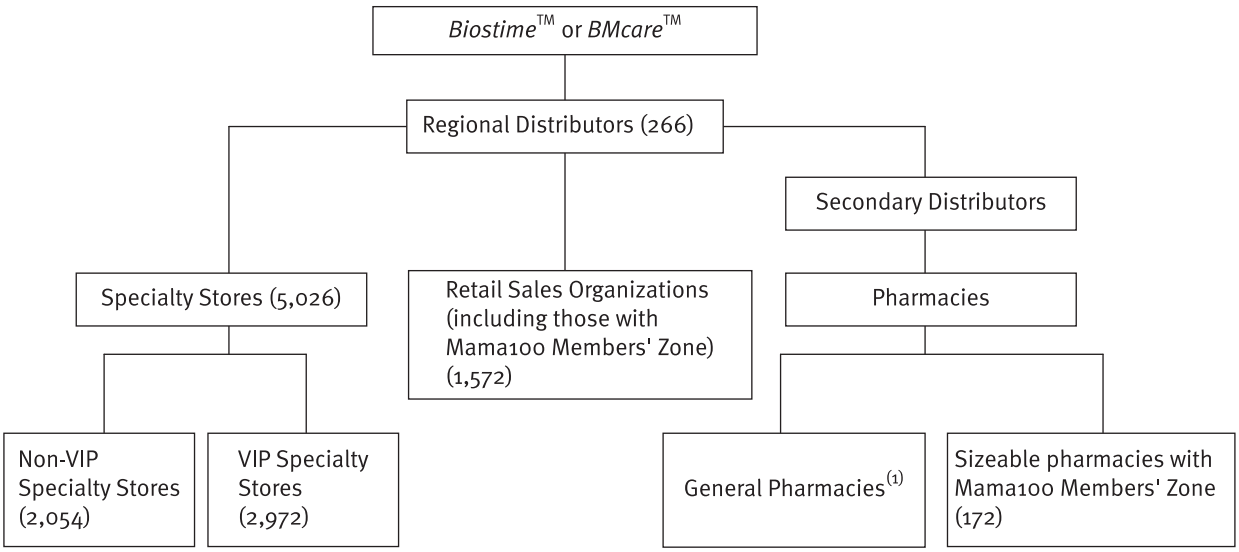
Number	Region	Province and Municipality	No. of sales offices				No. of regional distributors				Total sales (%)			
			As of December 31,			As of June 30,	As of December 31,			As of June 30,	In the year ended December 31,			For the six months ended June 30,
			2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
1	Northeastern China Region	Jilin, Heilongjiang, Liaoning	4	4	5	5	14	8	14	16	5.43	5.77	4.70	4.79
2	E'yu Region	Hubei, Henan	7	5	5	5	16	18	22	26	7.26	8.91	8.54	9.07
3	Fujian Region	Fujian	3	3	4	4	13	16	13	14	4.82	4.90	5.26	5.63
4	Northern China Region	Beijing, Tianjin, Hebei, Shanxi	5	5	5	5	19	19	26	31	7.05	8.26	9.07	9.21
5	Southern China Region	Guangdong, Guangxi, Hainan	12	10	12	10	18	26	32	34	25.76	20.57	16.11	15.23
6	Shandong Region	Shandong	5	5	5	5	18	16	27	29	4.28	5.11	5.45	5.51
7	Shanghai Region	Shanghai	1	1	1	1	3	4	4	5	4.89	4.54	4.59	3.95
8	Suwan Region	Jiangsu, Anhui	8	8	7	7	29	30	30	31	8.23	9.50	11.38	11.80
9	Western China Region	Sichuan, Chongqing, Guizhou, Yunnan, Xinjiang, Sha'anxi, Gansu, Ningxia, Qinghai, Inner Mongolia, Tibet	7	8	9	8	29	25	31	41	13.14	13.54	15.45	16.51
10	Xiang'gan Region	Jiangxi, Hunan	5	5	5	4	14	17	23	26	7.14	7.27	8.35	7.70
11	Zhejiang Region	Zhejiang	5	9	10	8	6	9	12	13	11.74	11.64	11.11	10.61

As of June 30, 2010, our sales and marketing department consisted of 975 staff members. The primary responsibilities of our sales and marketing team are to liaise regularly with our customers, which comprise our regional distributors, as well as *Mama100* members, which comprise individual consumers of our products. Our sales and marketing team also coordinates sales, identifies new business opportunities, promotes our products and manages the *Mama100 Membership Program*, which provides pre-sales and post-sales services.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our selling and distribution costs were RMB95.0 million, RMB168.8 million, RMB248.3 million and RMB190.3 million, respectively, which accounted for 50.5%, 51.9%, 44.4% and 38.4% of our total revenue for the corresponding respective periods.

Sales Channels

As of the Latest Practicable Date, except for minimal direct sales made in exceptional cases, all of our probiotic supplements, infant formulas, dried baby food and baby care products were sold to 266 regional distributors, which we consider to be our direct customers. The regional distributors further place our products to end consumers through 5,026 specialty stores, 1,572 retail sales organizations, and a number of secondary distributors to a large number of pharmacies across every province, municipality and autonomous region in China. Direct sales were only made by us in exceptional cases, such as our employees' direct purchases and direct orders placed by our consumers in remote towns and villages in China without distribution coverage. In accordance with relevant regulatory requirements in the PRC, our regional distributors do not distribute our infant formula products to hospitals in the PRC. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, the total amount of direct sales occurred were RMB2.3 million, RMB2.2 million, RMB4.2 million and RMB2.2 million respectively, which accounted for 1.2%, 0.7%, 0.8% and 0.4% of our total sales for the corresponding respective periods. The following chart illustrates our distribution channel and number of regional distributors and retail outlets as of June 30, 2010:



(1) Pharmacies without *Mama100 Members' Zones* only carry our probiotic supplement products for children sold in the general pack.

We do not possess any ownership or management control over the regional distributors, specialty stores and retail sales organizations. However, we manage to effectively administer and allocate different distribution regions to our regional distributors, and control our products' selling prices at specialty stores and sizeable retail sales organizations. Through our real-time logistics management system, we are able to track continuously the inventory and sales levels of our products at our regional distributors' level to monitor the stability of our distribution system while, through our membership points accumulation system, we can monitor the retail price and other sales information as well as consumers' purchase pattern relating to our products. These systems help us to ensure that our regional distributors, specialty stores and sizeable retail sales organizations comply with our pricing and distribution guidelines.

Regional distributors

Since we sell our products through a comprehensive distribution channel driven primarily by regional distributors, and to ensure an effective distribution network, we adhere to an internal selection policy when selecting our regional distributors. We carefully consider the background and credentials of each potential regional distributor from different regions and examine their suitability before appointing any regional distributor in any particular region. Our internal selection policy also requires all regional sales offices to review relevant licenses and approvals required for the sale of our products obtained by the regional distributors prior to signing or renewing the relevant distribution agreements. In view of the number of regional distributors engaged by us and the absence of any over-reliance by us on any of our regional distributors, we believe our business operations will not be significantly affected in the event any of our regional distributors is subject to legal or administrative penalties owing to its failure to obtain any requisite licenses or approvals. Currently, we are planning to enter into revised distribution agreements with each of our regional distributors, pursuant to which, amongst other things, each regional distributor is required to represent that it holds all relevant licenses or approvals required for such regional distributor to sell our products. We also consider their distribution network and sales channel, financial condition and experience of their distribution personnel. In addition, as we require our regional distributors to meet pre-determined sales targets for each financial year, we closely monitor their sales achievements and inventory levels from time to time through our real-time logistics management system to ensure that their annual targets are met. There is no penalty if our regional distributors do not meet our pre-determined sales targets, but based on our annual evaluations of our regional distributors, we may elect not to renew the relevant distribution agreement if a regional distributor continuously fails to meet the relevant sales target. On the other hand, in order to prevent excessive inventories, all regional distributors must observe a stringent purchase policy, which prohibits them from purchasing more than 150% to 200% of its average monthly order size depending on different categories of our products, for the immediately preceding three months.

Each regional distributor is responsible for establishing its own sales network and contacting its own customers (i.e. retail outlets) in accordance with our distribution plan as set out in our standard distribution agreement.

Major terms of our standard regional distributor's agreement include:

- *Initial payment of lump sum surety.* Any regional distributor whom we engage to distribute our products is required to pay us an initial lump sum surety before we supply them with our

products. The amount of such lump sum surety required to be paid ranges from RMB5,000 to RMB30,000, depending on the range of different categories of products to be distributed and the proposed distribution amount in the first year. We typically retain this payment until the termination of the standard distribution agreement.

- *Conditions for cooperation.* Each newly engaged regional distributor should place orders and make payment of the initial lump sum surety within ten days after entering into the standard distribution agreement. The total monthly purchase amount should not exceed 150.0% for each product item of probiotic supplements and baby care products, and should not exceed 200.0% for each product item of infant formulas and dried baby food, of the average purchase amount for that particular product item by the regional distributor in the previous three months, respectively. For any regional distributor who has been our Group's distributor for less than three months, the relevant total monthly purchase amount will be determined by such regional distributor based on its size, estimated sales and sales areas covered, and such amount will be approved by the relevant sales office of our Group. Meanwhile, the inventory of each product item should not be lower than 30.0% of the average sales volume for that particular product item by the regional distributor in the preceding three months. All regional distributors are also required to comply with our logistics management requirements, and are prohibited from selling our products outside of the agreed sales channels or sales regions, or selling products beyond the prescribed products for distribution, set forth in the standard distribution agreement.

- *Publicity.* All promotional and marketing activities are offered and organized by us, and we will bear all related costs. Regional distributors are not allowed to organize any marketing activities or promote our products without our prior consent. However, all regional distributors are required to participate or contribute in such activities.

- *Incentives.* A reward of 1.0% of the total purchase value will be granted upon application to any regional distributor who has fulfilled the sales target set out in the standard distribution agreement by the end of the year. Additionally, any regional distributor who has met our internal requirements as to the maintenance of logistics records will be granted a quarterly reward of 1.0% of the total quarterly purchase value.

- *Logistics and delivery.* Once payment has been received from a regional distributor, within three days we will engage logistic providers to deliver our products to the city where the regional distributor is located. Delivery costs are incorporated into the selling price of our products.

- *Payments.* Regional distributors are required to pay us in advance for our prompt supply and delivery of products. Credit purchase for orders placed by any regional distributor is generally not allowed. This strict arrangement assists us in maintaining strong cash flows, minimizing our receivables and reducing our exposure to bad debts.

- *Market support.* We provide the necessary certificates and licenses for the distribution of our products to regional distributors. For products imported with original packaging such as infant formula and baby cereal products, we will provide Sanitary Certificate (衛生證書) issued by CIQ regarding such products to the regional distributors; for baby care products imported with original packaging such as baby diapers and nursing pads, we will provide the Certificate of Inspection and Quarantine on Imported Goods (入境貨物檢驗檢疫證明) issued by CIQ; for imported raw materials such as probiotic powder, we will provide inspection reports issued by our Quality Assurance Department. Subject to and upon our prior written approval, we compensate the regional distributors for related marketing fees incurred at the sales terminals.

- *Return and exchange of products.* Regional distributors are entitled to a refund for any defective or damaged products to us, subject to a maximum amount equivalent to 0.5% of the total purchase value incurred for the immediately preceding year. We do not accept refund applications after termination of a regional distributor's agreement.

- *Confidentiality.* All information regarding our distribution system, pricing system, marketing strategy, promotion arrangement, as well as agreements and business correspondence between our regional distributors and us are required to be kept confidential at all times.

- *Termination right.* We are entitled to terminate the agreements with our regional distributors in the event of non-compliance with our distribution policy. These matters may include (i) refusing to perform their obligations by failure of placing any purchase order with us or processing orders from its customer, (ii) violation of our internal requirements as to maintenance of logistics records for four months during the term of distribution, (iii) selling our products outside of the agreed sales channels or sales regions, and (iv) violation of our sales management system for regional distributors.

None of our regional distributors had breached the distribution agreement during the Track Record Period. Other than Yuan Weitai, which is our regional distributor in Xiang'gan Region and owned by an associate of one of our Directors, our regional distributors are all Independent Third Parties who have no past nor present relationship with the Group, its shareholders, directors, senior management or any other connected persons of the Group. We have neither ownership nor management control over our regional distributors. In the years ended 2007, 2008 and 2009 and the six months ended June 30, 2010, sales made to Yuan Weitai were RMB1.5 million, RMB2.9 million, RMB4.6 million and RMB2.5 million, respectively, representing 0.8%, 0.9%, 0.8% and 0.5% of our total sales revenue for the respective periods. As of May 25, 2010, we have terminated our distribution agreement with Yuan Weitai in order to avoid the continuing connected transaction between Yuan Weitai and us. Other than Yuan Weitai, neither our regional distributors nor we have terminated any distribution agreement prior to the relevant expiry date during the Track Record Period. Although currently and during the Track Record Period, our regional distributors do not and did not sell our products on an exclusive basis, we believe that our relationships with them are stable. As of the Latest Practicable Date, we had established relationships of an average of three years with our regional distributors.

The following table sets out the total number of our regional distributors and their movement (including addition and termination) during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Total number of regional distributors at the end of the period	179	188	234	266
Number of additional regional distributors	67	50	62	37
Number of terminated regional distributors[(Note)]	53	41	16	5

Note: The termination of these regional distributors is due to the expiration of the respective distribution agreements entered into by such regional distributors and our Company. Such distribution agreements were not renewed upon expiry because the coverage of such regional distributors did not meet our strategic plan or their performance did not meet our expectations during the previous contractual period.

In the years ended 2007, 2008 and 2009 and the six months ended June 30, 2010, the aggregate sum of initial lump sum surety paid to us from our regional distributors was RMB0.9 million, RMB1.7 million, RMB0.4 million and RMB2.0 million, respectively, while the total amount of incentive payment paid to our regional distributors for meeting sales target and maintenance of logistics records amounted to RMB2.4 million, RMB5.4 million, RMB7.8 million and RMB4.0 million, respectively.

In most cases, we require our regional distributors to pay the purchase price in advance before we ship our products to them. In instances of very limited sales made to customers in remote areas without distribution coverage and to certain long-established distributors with proven track records, we may, upon approval of our senior management, incur trade receivables. In addition, through a real-time logistics management system, we continuously track and monitor inventory levels offered by each of our regional distributors. We also offer our regional distributors periodic training programs to enhance their knowledge of our products and promotional activities. We believe that these features help to ensure low levels of receivables and inventories, and also provide sufficient incentives to our regional distributors. We consider the support from our regional distributors to be a key element in ensuring the effectiveness of our distribution network, which is further strengthened by us, by offering them a logistics support reward equal to 1.0% of their total purchases if they observe the requirements under our real-time logistics management system, including inventory feedback system requirements. We believe that our rigorous real-time logistics management system ensures market order and the successful introduction of our new products in the years to come.

For the years ended December 31, 2007, 2008 and 2009 and as of the Latest Practicable Date, we engaged 179, 188, 234 and 266 regional distributors, respectively. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest regional distributors customers accounted for 32.5%, 23.8%, 12.7% and 11.7% of our total sales revenue for the respective periods. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010,

our single largest regional distributor customer accounted for 10.2%, 7.8%, 3.7% and 3.5%, respectively, of our total sales revenue. None of our Directors, their associates or our Shareholders, who, to the best knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest regional distributors.

Specialty stores

Specialty stores are retailers which sell clothes, food, baby care products and daily necessities for infants and young children. As of June 30, 2010, approximately 5,026 specialty stores were part of our sales network, of which around 2,972 were VIP specialty stores, which receive this classification by meeting pre-determined sales targets annually. We aim to increase the number of specialty stores from 5,026 to 6,000 and upgrade the number of non-VIP specialty stores to 4,000 VIP specialty stores by 2012. Although consumers are able to purchase most of our products in the non-VIP specialty stores, only the VIP specialty stores offer a complete line of our products. As of June 30, 2010, more than 1,000 VIP specialty stores are equipped with POS machines which enable us to collect sales data and analyze consumer shopping patterns. We aim to increase the number of VIP specialty stores that are equipped with our POS machine from 1,000 to 4,000 by 2012.

Approximately 66.0% of our products sold in 2009 were placed through infants and children specialty stores. Although these specialty stores do not sell our products on an exclusive basis, we believe that their relationships with us and our regional distributors are stable.

Pharmacies

Pharmacies are shops licensed to sell prescribed medicines and over-the-counter medicines, as well as limited groceries and food. We believe that we are one of a few pediatric nutrition companies in China that systematically utilize pharmacies as a sales channel. We engage our regional distributors to place our products directly to pharmacies or place our products through secondary distributors, because some secondary distributors have sales channels to reach pharmacies that are not covered by our regional distributors. We believe that the pharmacies that sell our products possess sales forces with significant industry knowledge. We educate pharmacists about the benefits of our products in each of the regions where we market our products. Primary marketing efforts for our products are directed towards securing the recommendation of the *Biostime*™ family of brands products by pharmacists. We offer a complete line of our products in most of our *Mama100 Members' Zones*, while pharmacies without *Mama100 Members' Zones* only carry our probiotic supplement products for children sold in general packages. Nearly all of our *Mama100 Members' Zones* are equipped with POS machines which enable us to collect sales data and analyze consumer shopping patterns. We aim to increase the number of *Mama100 Members' Zones* in pharmacies which sell our products from 172 to more than 500 in the next three years.

Retail sales organizations

Our regional distributors also market our products to other retail sales organizations where our products are purchased by consumers, including department stores and supermarkets. As of the Latest Practicable Date, 1,572 retail sales organizations had joined our sales network. We target to increase the number of retail sales organizations carrying our products from 1,572 to 3,000 within the next three years.

Each of our *Mama100 Members' Zones* will be equipped with our POS machine which enables us to collect sales data and analyze consumer shopping patterns. As of June 30, 2010, approximately 500 retail sales organizations are equipped with POS machines which enable us to collect sales data and analyze consumer shopping patterns. We aim to equip our POS machines in all of the retail sales organizations where our products are marketed by our regional distributors in the next three years.

Approximately 12.0% of our products sold in 2009 were placed through retail sales organizations. Although these retail sales organizations do not sell our products on an exclusive basis, we believe that their relationships with us and our regional distributors are stable.

Sales

We operate 62 sales offices within China. Our sales staff who are located in these sales offices visit all our regional distributors on a regular basis to ensure that they have sufficient stock and that our products are sold to consumers within the designated preservation period. Apart from the distribution agreements entered into between the regional distributors and us, none of our sales offices are, directly or indirectly, connected to the regional distributors. All sales are recorded in our real-time logistics management system, which allows us to monitor the inventory and sales levels of our regional distributors so as to promote the stability of our distribution system. Our sales staff may also assist with customer service and carry out marketing or promotional campaigns.

Our regional distributors are required to prepay the amount for placed orders. Upon receipt of prepayment, we will arrange to deliver the products to the relevant regional distributor. Generally, our regional distributors place orders for our products two to three times each month. The frequency at which our regional distributors place orders depends primarily on the volume of our products sold by the regional distributors.

We recognize revenue from sales of our products to our customers, substantially all of whom are our regional distributors, when the significant risk and ownership have been transferred to them upon acknowledgement of receipt of our products by the distributors.

Other than our baby care products, the sales of our probiotic supplements, infant formulas and dried baby food products are not subject to seasonality. Sales of our baby diapers are higher in the fall and winter seasons than in other seasons as such seasonal fluctuation in respect of market demand is due to the change of weather condition; parents tend to let their babies wear fewer diapers during the summer season for hygiene and comfort reasons.

During the Track Record Period, we experienced a consistent increase in the sales of our products as our business continued to grow and our brand gained increasing recognition as a significant provider of premium pediatric nutritional products in China. The increase was not the result of an accumulation of inventory at the regional distributors' level, because our regional distributors are being incentivized to prevent accumulation of inventory in view of the advance payment terms with us as well as our no refund or exchange of goods policy (except for defective or damaged goods). Accordingly, regional distributors who accumulate inventories run the risk of suffering cash flow problems or incurring losses due to products reaching their expiry dates before on-selling to retail outlets.

We believe that our stringent sales management system provides our regional distributors with sufficient incentives to sell our products, which ensures market order and stability. We believe our well-developed distribution network will help us to ensure the successful introduction of our new products in the years to come.

Pricing

We conduct market research on a regular basis in the markets in which we compete to better understand the prices of our competitors' products. We also take into account principal factors, such as production costs, product type, target market and market prices of similar products when determining the price of our products.

BRANDING AND MARKETING

Branding

We position our Company as a premium pediatric nutritional products provider for infants, young children up to seven years old, expectant mothers and nursing mothers. We believe that our brand recognition and reputation have played a critical role in the growth of our business. We believe that consumers associate our brand with our direct sourcing of high-quality probiotic powder, infant formulas and dried baby food from Europe and the United States, which distinguishes us from our PRC competitors who either produce or source key raw materials domestically. This allows us to compete with major international brands in the premium pediatric nutritional products segment.

We have continuously sought to build brand recognition for our "*Biostime*™" trademark as representing high quality and reliable pediatric nutritional products since our launch of *Biostime*™ brand in 2003. With established consumer loyalty, we believe that our brand recognition can be further strengthened through word of mouth regarding our product quality and the associated health benefits of our products. Our success with our *Biostime*™ brand also provides us with opportunities in other product categories, such as baby care products marketed under the *BMcare*™ brand since May 2010.

Certain anti-counterfeiting features have been implemented into our products, including the printing of unique bar codes on the packaging of our products for examination and verification purposes. As the scale of counterfeiting of our products historically was limited and the amounts involved were minimal, we believe that our brands are adequately protected by our anti-counterfeiting features.

Promotional and Marketing Activities

Our products are designed for consumption by newborn infants and children up to seven years old, as well as expectant and nursing mothers. We target well educated mothers with independent and modern lifestyles who come from families with household annual incomes of more than RMB150,000 as our key consumer category. To promote brand recognition of our products within the consumer group, we engage in a variety of marketing and promotional activities. We conduct marketing campaigns through television advertising and other media channels, such as magazines. In order to expand the consumer base for our products and to enhance brand awareness, we plan to increase expenditure in our marketing and advertising programs in such amounts as necessary to procure such developments.

Our promotional and advertising expenses for the years ended December 31, 2007, 2008 and 2009 and the six months ended in June 30, 2010 were RMB52.1 million, RMB94.6 million, RMB129.2 million and RMB100.8 million, respectively, representing 27.7%, 29.1%, 23.1% and 20.3%, respectively, of our revenue for the respective periods.

As we rely heavily on advertising and promotional activities to increase consumer awareness of our brands and products, our advertisements are designed to promote our brands and products, in a manner that is consistent with our corporate image and culture. Through continuous marketing campaigns to advertise our brands and products, we believe that, in addition to increasing consumer awareness of our brands and products, we can also raise our corporate profile.

We focus in particular on television advertising as it allows us to reach a wide consumer audience. In order to effectively deliver our message to consumers, we purchase leading prime time advertising slots on television networks including China Central Television (CCTV), as well as national and satellite and cable channels. The frequency of our television advertising varies, depending on whether the relevant product is well-established or newly launched, and the need to build and maintain our market presence. We occasionally use other advertising channels such as advertising in newspapers and lifestyle magazines and the distribution of product brochures to the public.

As part of our sales and marketing strategy, we maintain *Mama100 Members' Zones* in certain pharmacies and retail sales organizations. Retail sales organizations and pharmacies with our *Mama100 Members' Zones* are required to install in-store displays featuring our logos to reinforce our brand image.

In accordance with the terms of our standard distribution agreement, our regional distributors are not responsible for marketing our products.

Mama100 Membership Program

The *Mama100 Membership Program* is our service program under the *Biostime*™ family of products, and it aims to provide services to consumers who became members of this program and consumers who purchased our products from major retailing outlets. The establishment of the *Mama100 Membership Program* aims to continuously identify new high-end consumers and solidify our relationship with existing high-end consumers, enhance loyalty of existing members, encourage existing members to purchase a wider range of our products and thereby increase the average spending of each member. A member who purchases any of our products at least once or conducts any membership points redemption activities within the immediate preceding three-month period is considered to be an active member. Joining the *Mama100 Membership Program* is free of charge. We aim to establish a real and virtual community among our consumers, our sales channels and our Company. We believe that our solid consumer base is evidenced by the large number of members of our *Mama100 Membership Program*. The following table

sets forth the numbers of our registered members and active members in the *Mama100 Membership Program* as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
Mama100 Membership Program				
Registered members	713,638	957,026	1,424,746	1,829,810
Active members	46,373	93,171	214,452	322,225
Average expenditure per active member on our products (RMB)	959	1,044	1,665	1,103

Services that the *Mama100 Membership Program* provides include (i) our CNC Hotline, (ii) website and on-line community — *mama100.com*, (iii) on-site members' zone — *Mama100 Members' Zone*, (iv) the membership points accumulation program by recording and processing membership points through POS machines, our CNC Hotline or website after any purchase of our products, and (v) publications, such as the *Mama100* magazine. Our consumers are able to access each of our product categories through the *Mama100 Membership Program.*

Launched in 2003, our CNC Hotline is a popular feature of our *Mama100 Membership Program*. Our CNC Hotline operates seven days a week from 9 a.m. to 9 p.m., and as of June 30, 2010, we had 120 telephone lines set up with call operators including health care professionals such as nutritionists, certified baby care specialists and operators with previous working experience as pediatric doctors in hospitals. Our call operators provide extensive baby care, child nursing and child health information to all members. During any health or medical consultation, our call operators will remind the caller that such consultation is not a substitute to proper medical advice. Consumers seeking medical advice will be referred to medical doctors. In addition, a disclaimer regarding advice provided during these consultation calls to make clear that such calls cannot be treated as a substitute to proper medical advice. Services such as membership points accumulation can also be processed over the telephone for all members, which are usually referred to as off-line accumulation. From January 1, 2010 to June 30, 2010, we received an average of approximately 2,800 phone calls daily relating to consultation on our products or the obtaining of baby health care information.

Established in 2006, our *mama100.com* website is an on-line community that provides a forum for expectant and nursing mothers to interact and share their experiences. Users of *mama100.com* are able to receive product information and provide feedback on our products. In addition, we also enable our registered users of *mama100.com* to check their membership points balance and redeem for merchandise on line.

We have established and maintain members' areas in selected pharmacies and retail sales organizations, which are referred to as our *Mama100 Members' Zones*. Our consumers are offered the full range of our products in the *Mama100 Members' Zones*. Retail outlets with our *Mama100 Members' Zones* are required to install in-store displays featuring our corporate logos to reinforce our brand image.

A number of retail outlets are equipped with POS machines. Membership points are directly awarded to members of the *Mama100 Membership Program* for each of their purchases at the retail outlets equipped with POS machines. The membership point can also be accumulated offline by calling our CNC Hotline and making known the numerical details of the computerized logistics bar code and the anti-counterfeiting two-dimensional code, as well as the name of the store where the product was purchased, to our CNC Hotline operators. Hence, the CNC Hotline operators can at the same time confirm whether the products are genuinely purchased during such membership points registration process by verifying whether the above-mentioned bar codes are valid. Members can then redeem their accumulated membership points for our merchandise or gifts of their choice. As part of our marketing strategy, the amount of membership points that will be awarded to our members when purchasing different types of products varies. The number of membership points earned for each dollar of purchase for our products thus range from 0.81 to 1.45 membership points. Originally, any membership point that was awarded from 2007 to 2009 will last for three years. Due to a change of award system details, any membership point that was awarded before December 31, 2009, will however, expire on December 31, 2010. Subsequently, any membership point that was awarded in 2010 and onwards will expire during the end of each year.

The following table sets forth the total number of member points awarded, redeemed and forfeited during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Total number of member points awarded.....	58,701,900	114,282,690	357,621,110	329,776,713
Number of member points redeemed.....	31,994,940	60,601,500	195,913,300	69,983,465
Number of member points forfeited.....	787,350	1,000,000	1,461,455	287,280

We also utilize purchase information of members of the *Mama100 Membership Program* gathered from the membership points accumulation system to analyze the shopping patterns of our members, the performance of our sales channels and the management of inventory and logistics, which are of great importance to the planning of our marketing and sales strategies as well as for our product development.

We believe that the *Mama100 Membership Program* has proven to be popular among our members, as indicated by the average increase of membership subscriptions of approximately 67,000 per month during the six months between January 2010 and June 2010. During the six months between January 2010 and June 2010, the average circulation of the *Mama100* magazine reached approximately 168,000 per month and the average phone calls received by the CNC call center reached an average of approximately 2,800 every day. Our *mama100.com* website also attracted an average of approximately 170,000 page views per month during the first half of 2010.

MANUFACTURING

We engage quality international product suppliers to manufacture our infant formulas and certain dried baby food products, including baby cereal, as well as baby care products, and import them with original packaging since our Company's business model involves no production for such products. Except for bar code affixing and packaging, we do not provide any other production function in the Guangzhou Plant for these products. We mainly conduct final production process for our probiotic supplement products and certain dried baby food products other than baby cereal, in our GMP-certified Guangzhou Plant. We consider final production to be an important process for transforming raw materials into consumable and marketable food products through the sieving, blending and packaging processes.

Our final production process for probiotic supplements processes and transforms highly concentrated probiotic powders into marketable and consumable final products. We import concentrated probiotic powder, which is an active ingredient of our probiotic supplement products, from our supplier, Lallemand, located in France. Through our final production process, we sieve, blend and package the final products.

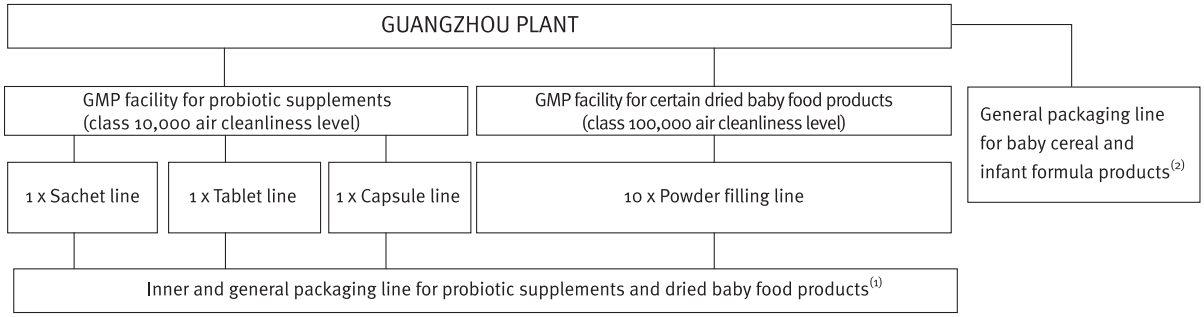
Our final production process for certain dried baby food products involves mixing and transformation of unformulated non-consumable vegetable, fruit or meat powders into marketable and consumable final products. We import all of our fruit, vegetable and meat powders, which are the primary ingredients of our dried baby food products, from suppliers located in France and other European countries, such as Norway and Switzerland. Our final production process mainly consists of the blending and packaging of final products.

Our Production Facilities

We currently operate our production plant in Guangzhou, Guangdong Province, China. The Guangzhou Plant consists of two independent production facilities for the production of probiotic supplement products and dried baby food products. The Guangzhou Plant is leased under a term of 10 years, which will expire on September 30, 2017. We own the equipment and machinery utilized in the Guangzhou Plant. The Guangzhou Plant occupies a total floor area of approximately 9,084.2 sq.m., of which approximately 6,252.6 sq.m. is occupied by our facilities. We currently employ approximately 177 employees at the Guangzhou Plant.

A manufacturer of nutritional supplements in China must pass the examination of the Health Food GMP Certification to cover all aspects of the production process of nutritional supplements. The criteria for obtaining the Health Food GMP Certification include qualifications related to, among other things, production premises and facilities, production process and quality control. Further details are set out in the paragraph headed "Health Food GMP Certification" under the section headed "Main PRC Laws and Regulations of the Industry" in this document. In May 2008, the production facilities in the Guangzhou Plant was accredited with the Health Food GMP Certification.

As of the Latest Practicable Date, the Guangzhou Plant was equipped with the following production facilities:



(1) Inner packaging that involves aluminium bag packaging and general packaging that involves cardboard box packaging for our probiotic supplement and dried baby food products are completed in the GMP-certified plant.

(2) Our baby cereal and infant formula products are imported with original cans which only requires general packaging that involve cardboard box packaging.

We are capable of producing approximately 86 million bags (each containing 1.5g of sachet) of probiotic sachet products, 253 million probiotic tablets and 171 million probiotic capsules per annum in each production facility. The following table sets forth our utilization rates based on actual production against designed capacity for the periods indicated:

Production line	In the year ended December 31,		In the six months ended June 30,
	2008	2009	2010
	%	%	%
Probiotic sachet production line	—	83.4	81.1
Probiotic tablet production line	1.6	1.1	3.9
Probiotic capsule production line	—	0.7	2.2
Dried baby food production line	15.1	18.8	23.1
Infant formula packaging line	2.2	10.6	27.7
Baby cereal packaging line	—	—	8.0
Baby care products barcode affixing line	—	—	6.8

Our probiotic capsules and tablets products were launched in December 2009, while our baby diapers were launched in May 2010. Such products are not our main products, therefore, production capacity of limited months have been factored into calculation of the relevant utilization rate, which led to the apparently low utilization rate of the probiotic tablet and capsule production lines in 2009. In addition, as our infant formula products are only required to be packaged in the Guangzhou Plant, there is capacity to expand the utilization rate of such packaging line further.

The following table sets forth the average production lead time (i.e. from the beginning of production to the moment when the products are ready for delivery) for the probiotic products and dried baby food that we manufactures:

Product	Total days
Vegetable powder	5
Probiotic sachet	7
Probiotic tablets/capsules	7

Facilities at the Guangzhou Plant include imported machinery and equipment manufactured by well-known international manufacturers from Spain and machinery procured domestically from suppliers in Beijing and Zhejiang Province, China. We repair and maintain our machinery, equipment and facilities on a regular basis to ensure the efficient operation of our production facilities. We believe that our existing production facilities are adequate to meet our current requirements, and that suitable additional space will be available as needed to accommodate any further physical expansion of production, corporate operations and for any additional sales offices. We have not experienced any significant interruption in production at any of our production facilities due to equipment failure or breakdown, raw material shortage, power interruption, fire, labor dispute or other causes.

RAW MATERIALS AND KEY SUPPLIERS

Raw Materials

We use a variety of raw materials in our manufacturing processes. The following table sets forth the key raw materials of each category of our products, the key material suppliers, their locations, our total purchases and the percentage of the purchases to our total purchases for the periods indicated:

Supplier	Product category	Key raw material	Country	In the year ended December 31,						In the six months ended June 30,	
				2007		2008		2009		2010	
				RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Lallemand	Probiotic supplements	Probiotic powder	France	35,655	67.2	55,922	48.9	46,400	23.8	27,295	14.1
Diana Naturals	Dried baby food	Vegetable and fruit powder	France	3,122	5.9	3,692	3.2	2,247	1.2	496	0.3

Finished Goods

We also engage a number of product suppliers, such as Laiterie de Montaigu, Sarbec, First Quality and Kerry Ingredients & Flavors to produce our products based on our designs and formulas. The following table sets forth our key products imported from our product suppliers, their locations, our total purchases and the percentage of the purchases to our total purchases for the periods indicated:

Supplier	Product category	Country	In the year ended December 31,						In the six months ended June 30,	
			2007		2008		2009		2010	
			RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Laiterie de Montaigu	Infant formulas and mother's nutritional formulas	France	—	—	27,963	24.5	99,509	51.0	86,992	44.8
Sarbec	Baby care products for infants and children	France	—	—	—	—	—	—	1,705	0.9
First Quality	Baby diapers	US	—	—	—	—	—	—	30,837	15.9
Kerry Ingredients & Flavors	Dried baby food — rice, oat and multi-grain cereal powder	US	—	—	—	—	6,405	3.3	8,206	4.2

Key Suppliers of Raw Materials

We source probiotic powder from Lallemand, which is Lallemand Inc.'s subsidiary in France. Lallemand Inc. is a privately-held Canadian company, founded at the end of the 19th century, specializing in the development, production, and marketing of yeasts and bacteria. It has five major divisions: North American Yeast and Ingredients (based in Memphis, USA), European Yeast and Ingredients (based in Vienna, Austria), Specialty Yeast and Bacteria (based in Toulouse, France), Bio-Ingredients (based in Montreal, Canada) and the British Isles & African Yeast and Ingredients (based in Johannesburg, RSA). Its administrative offices are in Montreal, Canada.

Lallemand Inc. conducts its research and development activities not only through internal projects conducted in its laboratories but also in collaboration with many universities and other governmental and private research institutions around the world. It operates 18 yeast plants in Europe, Africa and North Africa and three bacteria production facilities in France, Canada and the United States.

Major terms of our marketing and distribution agreement with Lallemand Inc. include:

- **Exclusivity:** Lallemand grants us the exclusive right to market and sell our probiotic products produced from the probiotic powder that Lallemand provides targeting at infants, children and expectant and nursing mothers, in China, Hong Kong and Macau. As such, Lallemand shall oblige itself not to sell its probiotic powder in China, Hong Kong and Macau and we shall oblige ourselves not to promote or sell in the above-mentioned areas any of our probiotic products that are not produced by Lallemand's probiotic powder.

- **Terms of Order and Minimum Purchase Requirements:** We are generally required to provide Lallemand with, before October 1 each year, a forecast of our requirement from February of the coming year to January of the second year and place a minimum order in writing for 50.0% of such requirement. We are also required to purchase the probiotic powder for a minimum purchase value of US$4.5 million, US$4.8 million, US$5.1 million, US$5.5 million and US$5.9 million, respectively, for the five years from 2009 to 2013.

- **Duration:** Unless early termination occurs, the agreement shall remain in force from October 2008 to December 2013 and shall be tacitly renewed for a period of 5 years.

- **Termination:** If we fail to purchase at least 80.0% of the minimum purchase value during the first two consecutive years and on an annual basis from 2010, a corrective plan shall be executed between Lallemand and us. If a corrective plan can not be achieved, Lallemand has the right to either terminate supply or transform such exclusive right into non-exclusive right. If Lallemand cuts off or delays the supply of probiotic powder for more than 6 months from the time of ordering, we can opt to terminate the agreement.

- **Indemnification:** Lallemand agrees to indemnify and hold us harmless from all liabilities in relation to death or injury to person or property as a result of any defective or unsafe probiotic powder. We agree to indemnify and hold Lallemand harmless from all liabilities in relation to death or injury to any person or property as a result of any event subsequent to the delivery of the probiotic powder to us, including but not limited to, the storage, handling or distribution and/or sale of our probiotic products.

- **Payment and Delivery:** The probiotic powder ordered by us should be delivered with a lead-time of no more than 4 months at CIF to a destination specified by us. We shall make payment to Lallemand by bank transfer within a maximum of 60 days upon the date of shipment.

We have maintained our business relationship with Lallemand since 2000 and have entered into successive fixed term exclusive marketing and distribution agreements. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our purchases from Lallemand accounted for RMB35.7 million, RMB55.9 million, RMB46.4 million and RMB27.3 million, respectively.

Biostime Pharmaceuticals, through its wholly-owned subsidiary Biostime USA, began to market probiotic supplement products for adults with Lallemand in 2008, through Biostime France. Under such cooperation, Lallemand brings its expertise in the research, development and production of probiotic bacteria. Products of Biostime Nutrition are marketed in China under the brand *Leseil*™.

We source vegetable and fruit natural extracts in powder form from Diana Naturals. Diana Naturals, headquartered in Antrain, France, is a worldwide natural ingredients supplier with sales of more than US$150 million in 2009, with a food-grade facility focused on all-natural, non-GMO products. For more than 20 years, Diana Naturals has been supplying quality food ingredients to food processors around the world and currently, it has five production facilities in France and sales offices in New York, Bangkok, Shanghai and Tokyo. Diana Naturals holds many patents on its ingredients and continues to perform clinical trials to back up efficacy claims.

Diana Naturals is a worldwide natural ingredients specialist providing its customers with innovative sensory and nutritional solutions from selected meats, seafood, fruits and vegetables. Diana Naturals' primary focus in the nutraceuticals industry is its Phytonutriance® range, a line of botanical extracts standardized to naturally-occurring actives and targeting a variety of health conditions. Diana Naturals also offers a full range of natural colors and a broad spectrum of fruit and vegetable powders, flakes, scrunches and concentrates. Organics are also a new focus for Diana Naturals, with products available or under development including acerola, artichoke, black currant, blueberry, broccoli, carrot, cranberry and purple carrot. Major cooperation terms of the supply agreement entered into between Diana Naturals and us include Diana Naturals manufacturing and supplying products according to our specifications and that the end product specifications and certificate of analysis should meet our specification requirements.

We have maintained our business relationship with Diana Naturals since 2006. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our purchases from Diana Naturals accounted for RMB3.1 million, RMB3.7 million, RMB2.2 million and RMB0.5 million, respectively.

Key Suppliers of Products

We import infant formula and mother's nutritional formula products from Laiterie de Montaigu. Laiterie de Montaigu, headquartered in Montaigu, France, is a dairy company established in 1932 with sales of more than USD114 million in 2009. Laiterie de Montaigu sources the milk used for its infant formula products exclusively from the Appellation d'Origine Contrôlée (AOC) Charentes — Poitou, controlled designation of origin from Charentes — Poitou in France, as well as from Holland to ensure the quality and safety of its products.

We import the infant formulas produced by Laiterie de Montaigu with original packaging. Laiterie de Montaigu produces *Biostime*™ products based on our specifications in its factory. All manufacturing processes comply with Hazard Analysis and Critical Control Point, or HACCP, and ISO22000 to ensure the safety of our food products. Laiterie de Montaigu applies a patented full-formulation spray drying technique to produce *Biostime*™ infant formulas to optimize the nutritional quality. Major terms of the subcontracting agreement include:

- **Provision of Nutritional Profiles:** We shall provide Laiterie de Montaigu with nutritional profiles and other information needed to manufacture the infant formulas and mother's nutritional formulas, and we shall also undertake to ensure that the nutritional profiles comply with the regulations in force in China.

- **Terms of Order:** We shall place definite order forms with Laiterie de Montaigu four months in advance in the first week of each month. For each product and for each order, Laiterie de Montaigu shall tolerate a variation of up to 10.0% in the volume of the products ordered.

- **Payment:** We shall make payment for the total amount of each batch of our orders by direct bank transfer to the bank account of Laiterie de Montaigu and letter of credit within a 60-day period following the bill of lading date.

- **Delivery:** Deliveries of the products shall take place on the dates set out in order forms. The products should be shipped through CIF Xinfeng port (新豐港) and/or Guangzhou Huangpu Port (廣州黃埔港) and/or CIP Guangzhou airport, as appropriate.

- **Consequences of Termination:** If either party terminates the agreement before the products are dispatched because of its own reasons, the responsible party shall undertake to pay the agreed price for the volume of products ordered for the next three months.

- **Confidentiality:** Both Laiterie de Montaigu and we are generally obligated to keep confidential any confidential information of the other party, and not to disclose the same to any other third party under any circumstances without the other party's prior written consent.

We have maintained our business relationship with Laiterie de Montaigu since 2008. In the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we imported infant formulas with original packaging of RMB28.0 million, RMB99.5 million and RMB87.0 million, respectively, from Laiterie de Montaigu.

SARBEC
COSMETICS

We import baby care products for infants and children from Sarbec. Sarbec, established in 1972, is an independent, family-owned group in France. It has designed, manufactured and sold ranges of cosmetics, perfumes, wipes, toiletry and hair products for over 35 years. Over the years, Sarbec has built four international brands which are being sold in more than 110 countries, four local French brands and a brand for the use of professionals. The Sarbec group currently employs 550 people in Europe, working in four different production sites and seven subsidiaries.

BUSINESS

We import our toiletry products, including shampoo, bath gel and baby oil, made by Sarbec with original packaging. Sarbec produces our *BMcare*™ toiletry products based on our designs and formulas in its factory. All manufacturing processes comply with ISO9001 certification to ensure the safety of our toiletry products. Major cooperation terms of the exclusive supply agreement that we entered into with Sarbec include Sarbec complying with all European regulations applicable to the products that Sarbec produces for us and being responsible for developing products based on our designs and formulas. We shall bear all costs incurred by the necessary tests for creating the products, which shall take place in specialized independent laboratories in France according to the relevant European regulations. Sarbec should provide us with all appropriate technical, commercial and quality inspection documents for registration, marketing, sale, delivery and other uses of the products.

We have maintained our business relationship with Sarbec since 2009, and have entered into successive fixed term exclusive supply agreements. For the first half of 2010, we imported shampoo, bath gel and baby oil products with original packaging of RMB1.7 million from Sarbec.

We import baby diapers from First Quality, a company forming a part of the First Quality Group Companies founded in 1989. First Quality, headquartered in New York, USA is a diversified group that manufactures baby diapers, adult incontinence products, feminine hygiene products (tampons), non-woven roll goods, baby wipes, adult washcloths and consumer paper products serving institutional and retail markets throughout the world. For more than 20 years, First Quality has supplied international brands with their diversified products.

We import the baby diapers from First Quality with original packaging. First Quality provides our *BMcare*™ baby diapers based on our brand design in its factory. All manufacturing processes comply with applicable US national health and safety standards to ensure the safety of our diapers. Major cooperation terms of the supply agreement entered into between First Quality and us include First Quality supplying products according to our specifications and that all the end product specifications and certificate of analysis should meet our specification requirements.

We have maintained our business relationship with First Quality since 2009. For the first half of 2010, we purchased baby diapers with original packaging of RMB30.8 million from First Quality.

We import rice, oat and multi-grain cereal with original packaging from Kerry Ingredients & Flavors. Kerry Ingredients & Flavors is the largest division of Kerry Group Plc, producing over 15,000 ingredients, flavors and integrated solutions from more than 112 manufacturing sites across the Americas, EMEA and Asia-Pacific regions. Serving major sectors of the food and beverage industry in over 140 countries, Kerry Ingredients & Flavors has established itself as one of the leading suppliers of ingredients and flavors to the world's major food, beverage and food service companies.

By a series of strategic acquisitions and internal growth and development of the company, Kerry Ingredients & Flavors has become a technologically advanced provider of technology-based ingredients,

flavors and integrated systems. The company has a team of some 500 food scientists working in partnership with its customers to provide technology-based solutions that meet its customer's unique product development needs. Major cooperation terms of the supply agreement entered into between Kerry Ingredients & Flavours and us include Kerry Ingredients & Flavours manufacturing and supplying products according to our specifications and that all the end product specifications and certificate of analysis should meet our specification requirements.

We have maintained our business relationship with Kerry Ingredients & Flavors since 2009. In the year ended December 31, 2009 and the six months ended June 30, 2010, we imported baby cereal products from Kerry Ingredients & Flavors of RMB6.4 million and RMB8.2 million, respectively.

Packaging Materials

Packaging materials used by us mainly include printed cardboard boxes and aluminum foil package that can be purchased from several domestic suppliers in China. The quantity and price of these materials are secured by supply agreements with an initial fixed term not exceeding two years with our various suppliers.

Our implementation of various inventory and resource management systems enables us to plan the allocation of resources effectively and ensure a steady and timely supply of packaging materials. Our procurement department is responsible for the procurement of packaging materials, based on the requirements provided by each production division. The procurement department evaluates our key suppliers and negotiates the price of the packaging materials for our Company.

As of the Latest Practicable Date, we had not experienced any significant delay or constraint in production due to any disruption in the supply of materials and components. We believe that there are sufficient alternative suppliers for all of our important packaging materials which would allow us to use such other supply channels if necessary.

Supply Chain Management

Our established long-term relationships with the suppliers of our principal raw materials, including probiotic powder as well as vegetable and fruit powder, and our original imported products such as infant formulas and baby cereal products, and our stable demand for large quantities of these raw materials and original imported products, enable us to manage the quality, quantity and price of our raw materials and original imported products. As we are a developer of pediatric nutritional and baby care products, rather than a trader of these products, and per normal commercial practice, we must establish relationships with our co-developers and suppliers long before a new product is produced and placed on the market. Prior to a product being ready for mass production, we take part in product development work and projects that focus on the functionality, safety, quality and marketability of the relevant product. For example, Laiterie de Montaigu, as our product supplier of infant formula products, has been cooperating with us since September 2006. Prior to our commencement of sales of infant formula products in July 2008, we and Laiterie de Montaigu spent almost two years developing our infant formula products, working out the specifications of the relevant formula, nutritional values and prices of our products, original packaging details, as well as product compliance with the relevant EU and PRC regulatory standards. For our baby cereal products, we have also been in cooperation with Kerry Ingredients & Flavors (originally named

NutraCea prior to its acquisition by Kerry, Inc. in February 2010) since January 2008 to work on the pricing proposal of the production of our products, the specifications of the mixture and contents to be used in our products, the shipment and packaging details and logistics as well as compliance with applicable regulatory standards. It is therefore important for us to have established long-term relationships with our product and raw material suppliers. We have a stable supply base and, although we are currently dependent on a limited number of suppliers, we maintain contact with potential alternative suppliers. Further details are set out in the paragraph headed "Risks relating to our business operations — We rely on a limited number of independent suppliers" under the section headed "Risk Factors" in this document. However, because of their highly substitutable nature, we do not expect any disruption in our final production to be caused by substituting our suppliers with alternative suppliers. In case we need to import probiotic powders from suppliers other than Lallemand, a transition period of up to two months may be required. Currently, we keep probiotic powder inventory that is sufficient for three-month's full production.

The following table sets forth information of alternative suppliers with which we had maintained contact as of Latest Practicable Date:

Product category	Business	Location
Probiotic supplements	Biotech researcher and manufacturer	Denmark
Infant formulas	Dairy products manufacturer	Netherlands, Denmark and Switzerland
Dried baby food	Baby food products manufacturer	Spain and Netherlands
Baby care	Baby care products manufacturer	Germany and the United States

Any new supplier that we engage is required to pass our internal quality control procedures. We evaluate our suppliers based on certain evaluation standards which include our careful consideration of the background, quality of ingredients and price, and industry experience of relevant suppliers. In order to meet our production needs, our suppliers are also required to have sufficiently large production scale, good reputation and the ability to deliver quality products on time. All of our raw materials and original imported products must also satisfy our quality standards and the standards set by AQSIQ.

In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, purchases from our five largest suppliers accounted for approximately 84.7%, 83.6%, 82.2% and 82.2%, respectively, of our total purchases, and purchases from our largest supplier accounted for 67.2%, 48.9%, 51.0% and 44.8%, respectively, of our total purchases. None of our Directors, senior management, their associates, or any shareholders holding more than 5.0% of the issued share capital of our Company held any interest in any of our five largest suppliers in the three years ended December 31, 2009 and the six months ended June 30, 2010.

Energy

Electricity used for our production and business operations is currently sourced from a local power grid. In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, electricity expenses for our business operations amounted to RMB0.2 million, RMB0.7 million, RMB1.1 million and RMB0.9 million, respectively. The local power grid has provided an electrical power line for the Guangzhou Plant. We also maintain a backup electricity power generator in the Guangzhou Plant so as to reduce the risk that our operations may be affected by any regional power shortage in the future.

INVENTORY MANAGEMENT AND LOGISTICS

Inventory Management

Our inventory comprises of raw materials, finished products and packaging materials. We manage our inventory levels based principally on expected demand patterns and the volume of sales orders.

We use an ERP system to monitor and control our inventory levels of raw materials, and finished products to optimize 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 powdered materials are appropriately distanced from the walls of the storage room to avoid exposure to humidity.

We have inventory management procedures that ensure the planning and allocation of storage space and stock of our inventory to meet delivery requirements and schedules.

All our products are sold to our regional distributors on a first-come-first-serve basis. The details of our products, including names of the suppliers, the date of entry and the preservation period, are recorded in our ERP system, which enables us to write off any obsolete inventory. We also dispose of any damaged or defective products which are returned by regional distributors. Further details are set out in the paragraph headed "Management's discussion and analysis of financial condition and results of operations — Financial position, liquidity and capital resources — Trade and bills receivables, inventories and trade payables turnover — Inventories" under the section headed "Financial Information" in this document.

Logistics

We store our inventory primarily in warehousing facilities which we lease and independently manage. We lease and operate a 984 sq.m. warehouse in the Guangzhou Plant. In addition, we have entered into a storage service agreement with an Independent Third Party for an additional 6,800 sq.m. warehouse in an adjacent location, which is exclusively occupied by us.

We outsource substantially all of our product transportation in China to logistics companies. Delivery costs are incorporated into the selling price of our products. These outsourcing arrangements allow us to reduce our capital investment and reduce the risk of liability for transportation accidents, delivery delays or loss.

All of our logistics providers are Independent Third Parties. We have long-term relationships with a large number of third-party logistics providers. The majority of our products are delivered by truck with the remainder being delivered by rail from our production facilities to the logistic providers' warehouse at the destination, and, to a limited extent depending on the size of order, to our regional distributors' designated site, such as their warehouses. The majority of the third-party logistics companies that we use have provided services to us for over three years.

Our logistics providers are selected through our tender process. We enter into annual supply contracts with logistics companies. The performance of our logistics providers are reviewed and assessed by us on a quarterly basis according to key performance indicators. We evaluate the results of our assessment with our logistics providers and discuss with them areas for improvement. Under the terms of the contracts, we are entitled to terminate the services of our logistics providers if they fail to meet our standards and requirements.

COMPETITION

The competition of our products, including premium pediatric nutritional products such as probiotic supplements, infant formulas and dried baby food products within our *Biostime*™ product family, as well as baby care products for infants and children within our *BMcare*™ product family, is very intensive. Competition in our product categories is based on the following factors: brand recognition and loyalty; product quality; effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences; product innovation; distribution and availability of products; and price.

While we believe that we are widely recognized as a significant provider of premium pediatric nutritional products in China under the brand name *Biostime*™, the probiotic supplements, infant formula and dried baby food markets are highly competitive and subject to aggressive pricing. To remain competitive, we believe that increasing our investment in the area of research and development as well as increasing our expenditure for marketing and advertising are necessary to maintain and expand our position in the markets in which we compete. We believe that increased expenditure in marketing and advertising programs is critical to raise product and brand awareness among the consumers.

We provide premium pediatric nutritional products in China under the brand name *Biostime*™, and recently expanded into the baby care products market. We believe that we are well-positioned to compete in the premium pediatric nutritional products segment and baby care products market in China with our high product quality, strong brand, research and development capabilities, established sales and service network, and favorable cost structure.

Domestic and international infant formula producers are our major competitors within China's infant formula market. We believe that infant formula brands in China can be categorized into three main groups: (i) international brands; (ii) domestic brands whose infant formula is produced from milk powder sourced from overseas and imported into China; and (iii) domestic brands which source all or most of their milk powder and produce their infant formula in China. We position our Company and our products as, and therefore compete with, domestic brands whose infant formula is produced from milk powder sourced from overseas and imported into China, because all our infant formula products are produced and packaged by our product supplier in France. We believe that our products can compete in the supreme-tier

and high-tier infant formulas market on the basis that products under our brands are recognized as high-quality products and produced overseas, our well-developed distribution network, and fair pricing. We believe that we are well-positioned to compete with international brands in the premium pediatric nutritional products segment in China.

We believe that the premium quality and safety of our *Biostime*™ products have gained us the trust and confidence of our existing consumers, and can hence better ensure the success and boost competitiveness of our new line of baby care products — *BMcare*™ in the baby care products market. The *BMcare*™ products include a variety of baby diapers and toiletry kits for infants, children and nursing mothers. Consistent with our *Biostime*™ products' operation, we engage product suppliers in the United States and European countries to produce such products to better ensure their high quality and safety. By leveraging our well-established sales channel and consumer recognition of our *Biostime*™ products, we believe that our *BMcare*™ products will be as competitive as the leading brands in the baby care products market.

Our Directors are of the view that our competitive strengths, including our high-quality products, recognized brand name, extensive distribution network and strong position in the premium pediatric nutritional products segment will increase our competitiveness in China as a provider of premium pediatric nutritional and baby care products and allow us to effectively target consumers who are seeking to purchase quality pediatric nutritional and baby care products for their children.

QUALITY ASSURANCE, QUALITY CONTROL AND SAFETY

Quality control is essential for pediatric nutritional and baby care products in China, since all of our pediatric nutritional and baby care products are designed for the consumption and use by infants, young children as well as expectant and nursing mothers. We believe that the only way to achieve and maintain the high quality of our products is through conducting tests, experiments and trials in order to comply with applicable PRC health and safety regulations for food products. We have therefore instituted a comprehensive quality assurance program and group-wide quality policy to ensure the production of high-quality products.

Our Quality Assurance Department

In order to implement our quality assurance program comprehensively, as of June 30, 2010, we had established a Quality Assurance Department with 13 employees, accounting for approximately 7.3% of our production staff. 7 out of the 13 employees in the Quality Assurance Department hold professional degrees in pharmacy, Chinese medicine or quality control. In addition, they possess technical expertise as well as quality control and management capabilities gained from work experience in the field of food or pharmaceutical research and analysis as analysts, food inspectors and nutritionists. The Quality Assurance Department which consists of quality control teams, and the Procurement Department which comprises 7 employees, are managed and overseen by the head of the Quality Assurance Department, Dr. Zhang Wenhui, who is an executive Director and the chief technology officer of our Company. Though Dr. Zhang Wenhui does not habitually reside in the PRC, he spends a substantial amount of time with us for quality control each year. Capitalizing on the well-established internal control system of our Group regarding quality assurance and international procurement, as well as the assistance from other members of the senior management team such as Ms. Mao Xiaoqing, and considering that Dr. Zhang

Wenhui's responsibilities mostly relate to management and supervision, rather than being required to be stationed on daily basis at our manufacturing facilities to perform, he is able to discharge his role and responsibilities within our Group. Staff from the Quality Assurance Department will form a number of dedicated quality control teams and be stationed at our manufacturing facilities to perform a series of quality assurance and quality control testing. To ensure consumers' satisfaction and to gain their trust and confidence, our focus on quality extends not only to product quality but also to management quality, employee work quality and customer service quality.

Conduct Supplier Quality Assessments Including Incominig Raw Materials Quality Control

We believe that product quality assurance starts at the raw material procurement stage, where our Procurement Department performs detailed evaluation on our raw materials and product suppliers. In order to effectively perform incoming raw materials quality control, we evaluate areas including the background, industry experience, personnel expertise, financial condition and world-wide reputation of the relevant supplier, and most importantly, the quality and safety of the suppliers' products or raw materials. Our quality control team will perform sample inspection for each batch of different types of imported raw materials and imported products with original packaging. The inspection process includes inspecting the appearance, details of nutrition labels affixed on the packages and completeness of the imported raw materials and products. Subsequently, a small amount of random samples of each batch of imported raw materials and products are passed over to our quality control team to conduct laboratory experiments by utilizing advanced testing apparatus such as the ultraviolet spectrophotometer and the constant temperature incubator to analyse the nutrition contents and sulphur oxide, and to detect the growth rate and amount of microorganisms, as well as to verify and ensure that the composition and nutritional values of such raw material or products comply with PRC national standards. Such samples will also be sent to the CIQ for their inspection and a sanitary certificate (衛生證書) will be issued to us if those sample satisfy the relevant PRC national standards. In addition, before the raw materials that we ordered are transferred to the sterile zone for production, such material will be transferred to a room where their packaging will be carefully removed and the raw material contents will be disinfected by an ultra violet disinfectant screen.

Inspections at Each Step of Our Production Process

A full in-house quality test is performed by our suppliers' quality control teams and our in-house Quality Assurance Department to ensure each batch of our products meets the high-quality standards that we set. Taking probiotic sachet as an example, we perform our initial laboratory experiments to create or improve our own formula as we place great emphasis on the accurate amounts and the correct percentage of all substances making up our formula. Detailed assessments are then performed where our quality control team performs full inspection of such products at respective stages when the nutrition substances are being added, by utilizing advanced testing equipments to measure and detect all nutrition contents as required by relevant PRC regulatory standards as well as other groups of specific nutrients and substances. Such assessments are performed according to the requirements of the SFDA to comply with the standards as stipulated in *the Appraisal Standard of Probiotics Healthy Food* (真菌類保健食品評審規定) and *List of Probiotics Applicable for Healthy Food* (可適用於保健食品的真菌菌種名單) promulgated by the MOH.

To fully comply with the appraisal standards set forth by the MOH or other applicable standards set forth by other relevant authorities on color, taste, nutrition levels and safety, a random sample of each batch of our food products will undergo experiments that are performed by our suppliers' quality control teams and/or our in-house Quality Assurance Department to verify and ensure that such requirements are fully complied with before proceeding to the final stage.

Final Inspections and Delivery Control

As soon as we receive the relevant confirmation that our products have complied with all the applicable requirements and are ready to be produced, we will launch our final stage of the quality assurance program — the industrial trial. Taking probiotic sachet as an example, a SFDA confirmation will be granted if all of the SFDA's requirements are complied with. Such SFDA confirmation granted will last for five years and the SFDA will perform another check on such products once the five-year period expires for the extension of the SFDA confirmation validity.

For all products produced in our factory or products imported with original packaging, our quality control team performs random sample testing for each batch of products to confirm the quality as well as the safety of our products and a test report will also be issued. The in-house quality control team of our raw material and product suppliers such as Lallemand and Laiterie de Montaigu will also ensure their raw materials or products are in compliance of international food safety standards such as the regulation of EC n° 1999/2 of the European Parliament and of the Council of February 22, 1999, the good manufacturing practice requirements of WHO, European Directives - 96/22 EC, 37/2010/CE, 1881/2006/CE, 2006/141/CE and 1999/879/EC where the European Union strictly prohibited its member states to use hormonal growth promotants on dairy cows by any means, and local France health products regulations, before their raw materials or products are being delivered to us. Based on the annual statements of compliance with the above-mentioned European Directives issued by Laiterie de Montaigu to us confirming Laiterie de Montaigu's strict compliance with the relevant European Directives (including the relevant European Directives which prohibit the use of hormonal growth promotants on dairy cows by any means), and the fact that our infant formula products have never been subject to any legal penalty, the Directors confirmed that our infant formula products have never been found to have excessive hormone contents. As there is no PRC laws or regulations that require us to perform testing on the hormone contents level of infant formula products and based on the annual statements of compliance with the relevant European Directives issued by Laiterie de Montaigu to us where Laiterie de Montaigu strictly complies with the relevant European Directives stating the member states of the European Union are being strictly prohibited in using hormonal growth promotants on dairy cows by any means, we do not perform additional testing on the hormone contents level of the infant formula products upon receiving Laiterie de Montaigu's delivery.

We conduct our manufacturing and packaging processes in a GMP-certified plant, where the production of probiotic supplement products, vegetable powder and baby cereals is conducted under class 10,000 and class 100,000 air cleanliness levels, respectively. The air-conditioning level meets the required GMP standard, all production facilities are cleaned and disinfected regularly, and production workers have to strictly follow disinfection rules by disinfecting their outfits and hands regularly and conduct each production and packaging process in accordance with the standard operating procedures. All of the above are designed to preserve any ingredients or raw materials from any contamination.

Full Compliance with Laws and Regulations and Rigorous Implementation of Our Quality Assurance Program

Although our products are not sold to the United States at the moment, we also comply strictly with the organic food production requirements and standards under *the Organic Food Production Act of 1990* during the production of our organic nutritional products. We believe that by setting a high standard for the quality of our products we will gain consumer trust and confidence in our brands, which in turn may boost our sales.

The production process of those products made in China is conducted in our GMP-certified plant to meet applicable national quality standards of China. Our Certificate of GMP for Health Food (certificate no.: BGMP20080048) was issued by the Guangdong Food and Drug Administration on May 12, 2008 and is valid until May 12, 2012. Its scope of inspection covers the production of our probiotic sachet, tablet and capsules. While our quality control team will conduct assessments on our suppliers and incoming raw materials, inspections at each stage of the production process in our GMP-certified plant will also be carefully monitored and regular sample testings of each batch of our products are conducted. Final inspection will also be performed for each batch of products to ensure the quality of our products.

Our employees, in particular staff from our production and Quality Assurance Department, frequently take part in internal training and external educational programs. We believe that through rigorous implementation of our quality assurance program, we will be able to achieve a reputation for maintaining a consistently high product quality and safety, which is a reputation that will allow us to retain existing consumers and attract new consumers among industry leaders in the premium pediatric nutritional products segment and baby care products market.

We also follow strict government regulations on safety in the workplace and require all employees to comply with safety rules at all times. We also provide safety-related trainings to our employees and have established safety standards which are specific to each stage of our production process. We have also maintained a full body injury insurance coverage for all of our employees.

During the Track Record Period, we were in full compliance with laws and regulations applicable to us all. Our products have passed quality tests, including the melamine-related tests. The melamine incident in 2008, which related to and affected domestically-sourced milk, did not cause any known impact on our financial positions or operating results because: (i) all of our infant formula products are imported from France with original packaging; (ii) we consistently target high-end consumers with strong purchasing power since the launch of our infant formula products; and (iii) we focus on producing supreme- and high-tier infant formula products.

RESEARCH AND DEVELOPMENT

We believe that our research and development efforts support and improve our ability to introduce innovative, technologically advanced new products and materials and improve our production processes to meet market demands. We intend to invest significant resources in building up our in-house research and development activities, as well as strengthening our development partnerships with reputable third-party research and development institutes.

Our research and development approach is mainly focused on joint development or cooperation with our raw material suppliers and product suppliers to integrate innovative technology, high-quality ingredients and advanced production processes to develop premium products for infants, children and mothers, thereby leveraging on our management's biotechnology background, understanding of prevailing market demands and stable relationships with our raw material suppliers and product suppliers. During the Track Record Period, achievements of our joint development and cooperation program included ingredient upgrades of our probiotic supplements, and development of special formulas of our infant formulas, new recipes for our baby cereals and our new baby care products product line. For products manufactured entirely by our product suppliers, as the proprietor of our brand of products and the developer and owner of the relevant formulas, we work closely with our product suppliers in the selection of ingredients and control components and usually designate specific ingredients and components for our products pursuant to the supply contracts in order to ensure our standards with respect to output, function, safety, quality and cost for any specific product are met. Integration of technology, ingredients and production, particularly for premium health food and infant formula products like ours, is a complicated process that requires biotechnological and nutritional knowledge and experience. Our research and development team, led by a group of experienced biotechnology specialists, are mainly responsible for the integration of innovative ingredients and advanced technology, currently available and utilized globally, to produce our products. While we do not hold or possess all of the innovative technologies and ingredients used for the production of our products, we do, through cooperation with our suppliers, apply or procure the application of these technologies and ingredients in the production of our products. Examples include the adding of β-vegetable oil to our infant formula products and the application of full-formulation spray drying technique to promote nutrition dissolution.

Prior to commercial production, we cooperate with our suppliers to jointly modify the specifications and/or improve the formulas of our products through extensive feasibility studies and laboratory research conducted by our suppliers and us. We believe that the integration and implementation of innovative and proprietary technologies in our products are key to our success. Therefore, we plan to increasingly invest in research and development activities to maintain and enhance our position in the markets in which we compete.

We have a dedicated research and development team responsible for improving the range and quality of our products. Our product development process focuses on improving and developing our existing product lines, including quality improvement and introduction of new flavors. Our sales representatives also provide us with timely and direct customer feedback to assist our product development. As of June 30, 2010, our research and development team comprised of 14 members, nine of which held post-graduate degrees in biological, biochemical, pharmaceutical or medical engineering.

Our research and development team is overseen by Dr. Zhang Wenhui, the chief technology officer of our Company, who has over 15 years of experience in the field of biotechnology. Dr. Zhang graduated from South China University of Technology with a doctor's degree in fermentation engineering. He has also spent one year at the University of Osaka in Japan in international post graduate university course in microbiology and a further six years at the University of Nebraska of the United States as a Ph.D researcher and research assistant professor where he has published 13 research papers. Dr. Zhang then worked for an American bio-pharmaceutical company, XOMA Ltd., for two years. In 2005, Dr. Zhang returned to China and joined us as the chief technology officer, leading our research and development team in developing our present range of products.

Our product development process is focused and market-oriented. We carry out thorough market analysis prior to launching any new products. We assess consumer preferences and identify consumers' needs, and analyze the ingredients and materials to ensure that new products suit consumers' needs. We also conduct a cost-benefit analysis on our new products and aim to optimize our existing production facilities where possible for the production of our new products. Our new product launches are scheduled in accordance with our marketing plan. Our focus for research and development in the near future will be on baby care products for infants and children.

We also have cooperation arrangements with our suppliers to develop our products:

Supplier	Products	Development	Relationship since
Lallemand	Probiotic supplements	Ingredients upgrade	2000
Laiterie de Montaigu	Infant formula products	New series and special formula products	2006
Kerry Ingredients & Flavors	Baby cereal products	New series and flavor of baby cereal products	2009
Sarbec	Baby care products for infants and children	New product line	2009
First Quality	Diapers	New product line	2009

Our total research and development costs for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were RMB3.7 million, RMB2.2 million, RMB4.3 million and RMB1.6 million, respectively. We invest in research and development to maintain strong business momentum, as demonstrated by our historical performance and our track record of successfully introducing new products to the market.

AWARDS, CERTIFICATES, ACCREDITATIONS, PERMITS AND REGISTRATIONS

As of the Latest Practicable Date, we had received the following major awards and accreditations:

- Received the "Chinese Children's Philanthropist" award (中國兒童慈善家) in 2005, awarded by Organizing Committee of Charity Day for Children in China (中國兒童慈善活動日組委會) and China Children and Teenager's Fund (中國兒童少年基金會);

- Received the "Shanghai Children's Choice" award (上海市兒童喜愛產品) in 2005, awarded by Shanghai Women's Federation (上海市婦女聯合會), Shanghai Quality Inspection Association (上海市質量檢驗協會), Shanghai Children's Fund (上海市兒童基金會), Xinmin Evening News (新民晚報社) and Shanghai Exhibition Center (上海展覽中心);

- Received the "Star Enterprise for Public Welfare" award (公益明星企業) in 2005, awarded by Organizing Committee of Charity Day for Children in China (中國兒童慈善活動日組委會) and China Children and Teenager's Fund (中國兒童少年基金會);

- Received the "Most Popular Nutritional Products among Guangzhou Citizens" award (廣州市民最喜愛保健品) in 2005, awarded by Guangdong Xinkuai Newspaper (廣東新快報社).

All of these above-mentioned institutions that granted these awards and accreditations are Independent Third Parties.

LICENSES AND PERMITS FOR PRODUCTION AND PRODUCTS

Probiotic Supplements

The table below sets forth the detail of the licenses/permits required for the production/sales of our probiotic supplement products:

Licenses/permits required for production and sales of our probiotic supplement products	**Issuance Authority**	**Expiry date**
Hygiene License for the Production of Health Food Products （保健食品生產企業衛生許可証）	Guangzhou Food and Drug Administration	March 18, 2012
Hygiene License for the Sales of Health Food Products（保健食品經營企業衛生許可証）	Guangzhou Food and Drug Administration	April 1, 2012
Production License for Industrial Products （全國工業產品生產許可証）no. QS440113010791 for confectionary products	Guangdong AQSIQ	February 11, 2012

Licenses/permits required for production and sales of our probiotic supplement products	Issuance Authority	Expiry date
Registration Approval of Health Food （保健食品注冊批件）no. Guo Shi Jian Zi G20090356 for Children's probiotic supplement products	SFDA	without a specific expiring date[(Note)]
Registration Approval of Health Food （國產保健食品批准証書）no. Guo Shi Jian Zi G20090291 for probiotic capsules	SFDA	January 12, 2011

Note:

Neither specific expiring date nor regulatory validity period was stipulated on the *Registration Approval of Health Food* issued before July 1, 2005 when *the Measures on the Registration of Health Food*（保健食品注冊管理辦法）became effective which provides that *Registration Approval of Health Food* shall be valid for five years. The relevant government authorities have not completed the progress of drafting the plan regarding sorting out of the health food registrations or other relevant regulations, to prescribe a period of validity for those registrations issued before July 1, 2005. We will comply with the relevant regulations that may come into effect from time to time in the future and accordingly renew our no. Guo Shi Jian Zi G20090356 *Registration Approval of Health Food*.

The table below sets forth the details of the food and hygiene regulation that is applicable to Lallemand, as our raw material supplier:

Food and hygiene regulation applicable	Effective date
Scientific Opinion of the Panel on Biological Hazards, lays down the maintenance of the list of Qualified Presumption of Safety microorganisms intentionally added to food or feed	December 10, 2008

Infant Formulas

The table below sets forth the details of the licenses/permits required for the production/sales of our infant formulas:

Licenses/permits required for production and sales of our infant formula products	Issuance Authority	Expiry date
Food Hygiene License（食品衛生許可証）for the sale of standardized packaging infant formulas	Health Office of Luogang District of Guangzhou Municipality	June 3, 2012
Import and export commodity registration certificate	Chinese Customs	December 30, 2011

The table below sets forth the details of the food and hygiene regulation that is applicable to Laiterie de Montaigu, as our product supplier:

Food and hygiene regulation applicable	Effective date
Commission Directive 2006/141/EC, lays down compositional and labeling requirements for infant formulas and follow-on formulas intended for use by infants in good health in the Community and amending Directive 1999/21/EC (Commission Directive 1999/21/EC of March 25, 1999 on dietary foods for special medical purposes).....	December 22, 2006

Dried Baby Food Products

The table below sets forth the details of the licenses/permits required for the production/ sales of our dried baby food products:

Licenses/permits required for production and sales of our dried baby food products	Issuance Authority	Expiry date
Food Hygiene License （食品衛生許可証） for manufacturing and sale of special nutritional food (including vegetable powder, fruit powder and meat meal); powder, tablets"	Health Department of Guangdong Province	February 27, 2012
Food Hygiene License （食品衛生許可証） for processing and sale of edible fruit and vegetable products, edible meat meal and edible compressed candy.....	Health Office of Luogang District of Guangzhou Municipality	June 3, 2012
Production License for Industrial Products (全國工業產品生產許可証) no. QS440117020044 for fruit products (dried fruits) packaging	Guangdong AQSIQ	December 23, 2011
Production License for Industrial Products (全國工業產品生產許可証) no. QS441006010336 for vegetable products (vegetable powder and related products packaging.....	Guangdong AQSIQ	December 23, 2011
Production License for Industrial Products (全國工業產品生產許可証) no. QS440128010098 for other food (instant meat and vegetable powder).....	Guangdong AQSIQ	December 23, 2011
Organic Product Certificate (有機產品認証証書) no. 00710010035RoS for the compliance of the PRC National Standards GB/T19630.2-2005 organic products:processing, GB/T19630.3-2005 organic products: labeling and marketing, GB/T19630.4-2005 organic products: management system.....	Guangzhou Zhongjian Certification Company Limited	May 21, 2011
Import and export commodity registration certificate (baby cereals)	Chinese Customs	January 29, 2013

BUSINESS

The table below sets forth the details of the food and hygiene regulations that are applicable to our raw material suppliers:

Food and hygiene regulations applicable	Effective date
Commission Directive 91/155/EEC, defines and lays down the detailed arrangements for the system of specific information relating to dangerous preparations in implementation of Article 10 of Directive 88/379/EEC (Council Directive 88/379/EEC of June 7, 1988 on the approximation of the laws, regulations and administrative provisions of the Member States of the European Union relating to the classification, packaging and labeling of dangerous preparations)	March 5, 1991
Directive 1999/45/EC of the European Parliament and of the Council, lays down the approximation of the laws, regulations and administrative provisions of the Member States of the European Union relating to the classification, packaging and labeling of dangerous preparations	May 31, 1999
Regulation (EC) No 1829/2003 of the European Parliament and of the Council, lays down the regulations regarding genetically modified food and feed	September 22, 2003
Regulation (EC) No 1830/2003 of the European Parliament and of the Council, lays down the regulations regarding the traceability and labeling of genetically modified organisms and the traceability of food and feed products produced from genetically modified organisms and amending Directive 2001/18/EC (Directive 2001/18/EC of the European Parliament and of the Council of March 12, 2001 on the deliberate release into the environment of genetically modified organisms)	September 22, 2003
Directive 2000/13/EC of the European Parliament and of the Council, relates to the approximation of the laws of the Member States relating to the labeling, presentation and advertising of foodstuffs	March 20, 2000
Commission Directive 2005/26/EC, establishes a list of food ingredients or substances provisionally excluded from Annex IIIa of Directive 2000/13/EC of the European Parliament and of the Council	March 21, 2005
Directive 1999/2/EC of the European Parliament and of the Council, relates to the approximation of the laws of the Member States of the European Union concerning foods and food ingredients treated with ionizing radiation	February 22, 1999
Directive 1999/3/EC of the European Parliament and of the Council, relates to the establishment of a Community list of foods and food ingredients treated	February 22, 1999
Commission Regulation (EC) No 1881/2006, lays down the details of maximum levels for certain contaminants in foodstuffs	December 19, 2006
Council Regulation (EEC) No 2377/90, lays down the procedure for the establishment of maximum residue limits of veterinary medicinal products in foodstuffs of animal origin	June 26, 1990
Commission Directive 2006/125/EC, relates to processed cereal-based foods and baby foods for infants and young children	December 5, 2006

Baby Care Products

The table below sets forth the details of the licenses/permits required for the production/sales of our baby care products:

Licenses/permits required for production and sales of our baby care products	Issuance Authority	Expiry date
Import Registration Certificate for Non-Special Cosmetics (進口非特殊用途化妝品備案憑證) no. Guangzhuangbeizi J20101436 for *BMCare*™ baby form bath	SFDA	February 25, 2014
Import Registration Certificate for Non-Special Cosmetics (進口非特殊用途化妝品備案憑證) no. Guangzhuangbeizi J20101424 for *BMCare*™ baby hair & body wash 2-in-1	SFDA	February 25, 2014
Import Registration Certificate for Non-Special Cosmetics (進口非特殊用途化妝品備案憑證) no. Guangzhuangbeizi J20101425 for *BMCare*™ baby body oil	SFDA	February 25, 2014
Import Registration Certificate for Non-Special Cosmetics (進口非特殊用途化妝品備案憑證) no. Guangzhuangbeizi J20101418 for *BMCare*™ baby cleansing water	SFDA	February 25, 2014
Import Registration Certificate for Non-Special Cosmetics (進口非特殊用途化妝品備案憑證) no. Guangzhuangbeizi J20101414 for *BMCare*™ baby shampoo	SFDA	February 25, 2014

The table below sets forth the details of the food and hygiene regulations and standards that are applicable to our product suppliers:

Food and hygiene regulations applicable	Effective date
Regulation (EC) No 1223/2009 of the European Parliament and of the Council, lays down the regulations regarding cosmetic products	November 30, 2009
Council Directive 76/768/EEC, lays down the approximation of the laws of the Member States relating to cosmetic products	July 27, 1976
BS EN ISO 11609:1998, lays down the requirements, test methods and marking of dentistry and toothpastes	August 15, 1998
ISO 20126:2005, lays down the general requirements and tests methods of dentistry and manual toothbrushes	September 15, 2005
ISO 22254:2005, lays down the resistance of tufted portion to deflection of dentistry and manual toothbrushes	August 15, 2005
Directive 2001/95/EC of the European Parliament and of the Council, relates to general product safety	December 3, 2001

INTELLECTUAL PROPERTY

We rely on a combination of trademarks and contractual rights to protect our intellectual property rights. We also possess unregistered intellectual property rights, such as know-how. Our intellectual property rights are of fundamental importance to our businesses since we rely to a significant extent on consumer recognition of our brand name. As of the Latest Practicable Date, we were in the process of registering our corporate logo as a trademark in Hong Kong. Further details of our registered intellectual property portfolio are set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document.

We actively take steps to protect our intellectual property rights and implement a set of internal intellectual property management rules. We had not experienced any infringement of our intellectual property rights which had a material effect on our business as of the Latest Practicable Date.

INFORMATION SYSTEM

We believe that our information technology systems play an important role in our operations. We have successfully implemented an enterprise resource planning, or ERP system, by using UFIDA enterprise software applications and business solutions, to support our operations and administration. Our ERP system supports various functional units, including marketing, finance, production, and human resources. Other key systems include, among others:

- *Membership points accumulation system*: our membership points accumulation system records sales of our products through registering with our CNC Hotline, our website or POS machines which are located in most of the retail sales organizations. Our POS machines are designed to support the use of our membership points accumulation cards. Through such system, our management will be able to review sales in a real-time basis.

- *CRM system*: our CRM system can record the data related to the consumption conducted by the consumer, consumption history and pattern and the communication with the consumer from time to time, record the participation of each consumer in our promotion activities and benefits enjoyed by the consumer. We also use the system to analyze the consumers based on sex, location and preferences and conduct promotion activities for and proactively communicate with our targeted consumers.

- *CENTRA system*: we use the CENTRA system to host video conferences and conduct continuing training among our managerial personnel and sales teams from time to time. The system increases our productivity with shorter and more effective meetings instead of physical meetings and helps to control costs.

- *Real-time logistics management system*: We print computerized logistics bar codes on the packaging material to facilitate the delivery and retail of our products. We also install the bar code scanners in our and regional distributors' warehouses to scan all logistics bar codes before delivery of our products. We also require our regional distributors to scan all logistics

bar codes before their sub-distribution of our products. The inclusion of these intricate bar code details is aligned with the logistics needs of our products. As such, we can easily trace the destination where the products are sold and calculate the bonus points for each consumer when he/she buys our products.

We are constantly upgrading our information systems, which we believe will enhance our operations and increase our sales.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include *the PRC Environmental Protection Law, the PRC Law on the Prevention and Control of Water Pollution*, *the PRC Law on the Prevention and Control of Atmospheric Pollution*, *the PRC Law on the Prevention and Control of Pollution From Environmental Noise* and *the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste*. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. Although we do not operate in a highly polluted industry, our manufacturing processes generate solid and liquid waste as well as discharge of waste water. Liquid waste generated from our manufacturing processes mainly includes water used for cooling or cleaning purposes. In 2008, our production facility obtained the Health Food GMP Certification for our production management and complies with all relevant environmental and manufacturing standards required by the GMP certification system.

In order to ensure effective compliance with all applicable PRC environmental laws and regulations, our Company has adopted specific policies such as the environmental protection measures, construction projects and environmental management measures, solid waste control measures and environmental pollution incident control and management measures since 2007. To further enhance our overall environmental safety and preventive measures, we have, since 2006, engaged a specialist who is responsible for monitoring our compliance with various environmental and occupational health and safety requirements under PRC laws and regulations on a regular basis and providing timely reports and advice to the management. Such position and responsibilities have been undertaken by one member of our senior management team, Mr. Sun Rigao since May 2008, who has abundant experience in environmental protection and pollution management in the production process of our products. Our annual cost of compliance with the applicable environmental rules and regulations was approximately RMB27,000, RMB47,000, RMB89,000 and RMB112,000 during the Track Record Period. We expect such cost to increase between 100.0% to 200.0% in the near future.

As of the Latest Practicable Date, we had not been subject to any fines or legal action for non-compliance with any PRC environmental laws or regulations.

INSURANCE

We contribute to social welfare insurance for our employees as required by relevant PRC regulations. Such contributions include pension benefits, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

We also maintain insurance policies with insurance companies, Independent Third Parties, with respect to property, equipment, and inventory covering loss due to fire, explosion, earthquake, typhoon, flood and certain other risks. As of the Latest Practicable Date, all of our products were sold in the PRC. We currently maintain product liability insurance for our products.

While we believe that our insurance policies to be adequate and in line with industry norms in China, significant damage to any of our manufacturing and production facilities, whether as a result of fire or other causes, could have a material adverse effect on our Company. We do not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

PROPERTIES

Details of our Group's properties are set out in "Property Valuation" in Appendix IV to this document.

Our Group has leased a property with a total gross floor area of approximately 9,084.2 sq.m. for production and office purposes in Guangzhou Economic and Technological Development Zone, Guangzhou City, Guangdong Province, PRC as the Guangzhou Plant. As advised by our PRC legal advisor, Jingtian & Gongcheng, the lessor of such property has legal rights to lease the relevant property to us and our leasehold interests under such lease agreement are protected by PRC laws and regulations.

In addition, our group also leased and occupied 12 properties in the PRC and Hong Kong with a total gross floor area of approximately 3,788.84 sq.m. for office purpose as of October 31, 2010, of which 2 lease agreements of the leased properties have not been registered with the relevant PRC authority by the lessors. As confirmed by our PRC legal advisor, Jingtian & Gongcheng, the non-registration of the lease agreements would not affect the possession and use of the leased properties by us according to the lease agreements and PRC law and regulations.

Our Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or become payable by any members of our Group as a direct or indirect result of any title defects of the land or property of our Group after [●], particulars of which are set out in the paragraph headed "Estate duty, tax and other indemnity" in Appendix VI to this document.

EMPLOYEES

As of December 31, 2007, 2008, 2009 and June 30, 2010, our Company had 585, 732, 964 and 1,265 employees, respectively. The table below sets forth the number of our full-time employees as of June 30, 2010:

Function	Number of employees as of June 30, 2010
Management and administration	68
Production (including procurement)	177
Sales and marketing	975
Finance and accounting	18
Quality assurance	13
Research and development and technical support	14
Total	1,265

Our employment policies are influenced by a number of factors, including current market conditions, business demands and future capacity expansion, and our employees are selected through a competitive process.

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. Our Company conducts periodic performance reviews for all our employees, and salaries and bonuses of employees are performance-based. In addition, our Company has implemented training programs for different job requirements. Our Directors believe that these initiatives have contributed to increased employee productivity.

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits including medical care, unemployment, occupational injury insurance and other miscellaneous items. As required by applicable regulations, we participate in various retirement pensions for our employees. Our Directors believe that our management has a good relationship with our employees.

We believe that the quality of our human resources, particularly our management and professional personnel, is critical to our ability to compete effectively. We aim to achieve and exceed international standards of performance excellence by adhering to international best practices for management processes and corporate governance. We also seek to continue to attract and retain highly skilled and experienced domestic and international management and engineering personnel through the continued implementation and refinement of our incentive bonus programs.

The Labor Contract Law, which became effective on January 1, 2008, calls for stricter requirements in human resources management in terms of signing labor contracts with the employees, stipulating probation period and violation penalties as well as social security premiums.

Training

We emphasize the long-term training of our managerial personnel and employees. For our management team, we have established a training plan that aims to support and encourage our management team to continue improving their management skills. The plan includes reimbursement for training costs, and arranging seminars and workshops for them. For example, we support the members of our management team to enroll in EMBA programs and reimburse such costs. For our other employees, we have training programs organized by different departments. The training programs focus on providing training to newly hired employees and continuing training for existing employees.

We also provide regular training for the sales staff working in our sales offices. These training programs includes promotion skills training, operational knowledge training and product display training, all of which seek to improve their sales skill to better serve our consumers. We also organize competition events for the sales staff to improve their skills and facilitate better communication among our sales staff from different locations.

INTERNAL CONTROL

We focus on enhancing our internal control and risk management systems. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control and risk management procedures and other measures throughout our Company.

Our Company has established internal control and risk management procedures, systems and controls, including anti-corruption measures, legal compliance measures, and internal audit policies since July 2010. In order to manage internal risks of our Company effectively, a risk management department was set up in February 2010 to oversee and minimize our Company internal risks as well as to review internal audit reports prepared by the internal audit team and legal compliance on a regular basis. As of the Latest Practicable Date, the risk management department comprised of four employees, while the internal audit team comprised of one employee.

LEGAL COMPLIANCE AND PROCEEDINGS

Our Company or any of our subsidiaries may be from time to time involved in litigation incidental to the conduct of its business. As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries which could have a material adverse effect on our financial condition or results of operations.

As advised by our PRC legal advisor, Jingtian & Gongcheng, our Group has obtained all licenses and permits required under PRC law which are material to the business operations of our Group. To the best knowledge of our Directors, none of the PRC subsidiaries is in violation of any PRC laws or the Articles of Association in any material respects, the result of which has subjected any of the PRC subsidiaries or our Company to any material judicial, administrative or regulatory punishment measures under the PRC laws.

We will ensure that we comply with applicable PRC laws and regulations in the future by (i) empowering the risk management department to oversee and maintain our compliance with applicable PRC laws and regulations through, among other things, establishing policies to monitor tax return filings and payments with the relevant tax authority and strictly implementing monthly reporting procedures on legal matters; (ii) providing regular trainings or updates in respect of PRC laws and regulations to our Directors on a bi-annual basis, and to senior management and the relevant staff on a monthly basis; and (iii) seeking external legal advice where appropriate and necessary. Our Directors considered that the internal control measures relating to compliance were adequate and effective.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Upon completion of the [●], our Controlling Shareholders will remain the controlling shareholders of our Company with substantial control over our issued share capital. In addition to their interests in our Company, our Controlling Shareholders also indirectly own and operate a wholesale business of health (functional) food products exclusively for adults through Biostime Nutrition (the "Excluded Businesses"), a company established in the PRC on September 18, 2009. As of the Latest Practicable Date, the only health (functional) food product carried by Biostime Nutrition was adult probiotic supplements. Biostime Nutrition is wholly-owned by Biostime France, a simplified joint-stock company established under the laws of France, which is in turn owned as to 50.0% by Biostime USA and 50.0% by Lallemand. Biostime USA is wholly-owned by Biostime Pharmaceuticals.

In addition, Biostime Nutrition and Lallemand will enter into a distribution agreement in the future after negotiation to conduct the Probi's products (with the probiotic bacterial strain lactobacillus plantarum Lp299v) business, and the specific plans on the production and sales of the Probi's products will be further negotiated between Biostime Nutrition and Lallemand and reflected in the distribution agreement. Our Directors do not expect any distribution agreement to be entered into between Biostime Nutrition and Lallemand prior to the [●]. The Probi's products are designed to manage gastrointestinal malfunctions and will be developed for adults only.

Our Directors have confirmed that to the best of their knowledge, information and belief, neither our Controlling Shareholders nor our Directors have any interest in businesses which may directly or indirectly compete against the businesses of our Company.

THE EXCLUDED BUSINESSES

General Information about the Excluded Businesses

Bisotime Nutrition was principally engaged in the wholesale of health (functional) food products, comprising only adult probiotic supplement products as of the Latest Practicable Date. As of June 30, 2010, Biostime Nutrition had 44 employees. According to its management accounts, Biostime Nutrition's revenue for the six months ended June 30, 2010 was approximately RMB0.88 million, and its loss in the corresponding period was approximately RMB8.34 million.

Mr. Luo Fei, Mr. Luo Yun, Dr. Zhang Wenhui, Mr. Olivier Philippe Clech, Mr. Zhou Yong and Mr. Cheng Xiang are directors of Biostime Nutrition. Mr. Olivier Philippe Clech,Mr. Zhou Yong and Mr. Cheng Xiang are designated representatives of Lallemand. Lallemand owns a 50.0% interest in Biostime France, which in turn wholly owns Biostime Nutrition. Daily operations of Biostime Nutrition are managed by a management team, comprising its directors and senior management members (namely, Ms. Wang Hui, Mr. Feng Wenguang, Ms. Zhang Ying, Mr. Lin Zhongzheng and Ms. Sun Binbin), which is separate from that of our Company. During the Track Record Period, Mr. Luo Yun, Mr. Feng Wenguang and Ms. Zhang Ying once worked with us. Mr. Luo Yun worked with us from August 1999 to September 2009. Mr. Feng Wenguang worked with us from June 2008 to September 2009. Ms. Zhang Ying worked with us from February 2009 to September 2009. There is currently a complete separation of staff, and the respective staff and senior management members of Biostime Nutrition and our Group are on separate payrolls.

Prior to establishing its own GMP-certified plant, Biostime Nutrition has entrusted all production of its products to our Company through an entrusted production agreement (the "Entrusted Production Agreement") between Biostime Nutrition and Biostime Health. Biostime Health produces high-quality products for Biostime Nutrition. Biostime Nutrition provides Biostime Health with the relevant product formula, together with the relevant raw materials, for Biostime Health's production. Biostime Health has obtained a Registration Approval of Health Food (保健食品注冊批件) No. Wei Shi Jian Zi (2003) 0114 for the production of "Leseil Probiotic Capsule" with the consent of Biostime Nutrition. As advised by our PRC legal advisor, Jingtian & Gongcheng, such registration approval can only be issued to an entity with a GMP-certified plant. For details of the Entrusted Production Agreement between Biostime Nutrition and Biostime Health, please refer to the section headed "Connected Transactions" in this document.

As of the Latest Practicable Date, there were 29 suppliers supplying, among other things, raw materials, packaging materials and equipment to Biostime Nutrition, among which 26 were also suppliers to us. Biostime Nutrition sources the key raw material for its adult probiotic supplement products, probiotic powder, from Lallemand, which is also the key supplier of probiotic powder for our probiotic supplement products. The live bacteria contained in the probiotic powder purchased by Biostime Nutrition differs from the live bacteria contained in the probiotic powder purchased by us from Lallemand. For the six months ended June 30, 2010, purchases from these 26 suppliers represented 84.74% of Biostime Nutrition's total purchase and 12.56% of our total purchase.

As Biostime Nutrition only commenced its operation in March 2010, it has maintained a sales force in Guangdong Province. For sales to regions outside of Guangdong Province, Biostime Nutrition utilizes our sales team to distribute its products based on a sales agency agreement (the "Sales Agency Agreement") entered into between Biostime Guangzhou and Biostime Nutrition. As of the Latest Practicable Date, Biostime Nutrition had a total of 61 regional distributors, all of which were also our regional distributors. For the six months ended June 30, 2010, we generated 35.65% of our total revenue from these 61 regional distributors while Biostime Nutrition generated all of its revenue from them. Biostime Nutrition intends to establish and maintain an independent sales force to cover other regions of China and to cease its use of our sales team before the [●], at which time the Sales Agency Agreement will be terminated accordingly.

Comparison of our Businesses and the Excluded Businesses

The Excluded Businesses and our probiotic supplement products business occupy different specialized segments of the same industry, and did not compete and are not likely to compete with each other. The adult probiotic supplement products produced by Biostime Nutrition are distinctive from our probiotic supplement products in various aspects, including functions, formulas and ingredients, target consumer groups, business focus and regulations.

a. Functions

While both adult probiotic supplements and probiotic supplements contain live probiotic ingredients, our probiotic supplements function differently from Biostime Nutrition's adult probiotic supplements. Our probiotic supplements are designed and formulated specifically for children and pregnant women with relatively low immunity levels. Our probiotic supplements contribute to the healthy

growth of children, including fetus carried by pregnant women. Biostime Nutrition's adult probiotic supplements are a solution to constipation caused by environmental inadaptability which is usually suffered by travellers. As a result of their distinct intended functions, consumers use our probiotic supplements and those of Biostime Nutrition for different purposes.

b. Different formulas and ingredients

Our probiotic supplements are a completely different product distinguishable from Biostime Nutrition's products. The formula of our probiotic supplement products consists of three probiotic strains. The formula of Biostime Nutrition's probiotic supplement products consists of four probiotic strains. The following table illustrates the live ingredients of our probiotic supplements and those of Biostime Nutrition:

Our probiotic supplements	**Biostime Nutrition's adult probiotic supplements**
(each 100g contain)	
bifidobacterium infantis and bifidobacterium bifidum (1.9×10^{10})	streptococcus thermophiles (9.0×10^{10})
	lactobacillus acidophilus (6.6×10^{10})
lactobacillus acidophilus (6.4×10^{11})	bifidobacterium longum (1.4×10^{10})
	bifidobacterium breve (1.2×10^{10})

The main ingredients of Biostime Nutrition's adult probiotic supplements are streptococcus thermophilus, lactobacillus acidophilus, bifidobacterium longum and bifidobacterium breve, whereas the main ingredients of our supplement products are lactobacillus acidophilus, bifidobacterium bifidum, and bifidobacterium infantis.

There are several strains differences between the two products, the most critical of which is streptococcus thermophilus. Streptococcus thermophilus is effective in managing gastrointestinal malfunctions, including constipation and diarrhea, to which travellers are most susceptible. As Biostime Nutrition's adult probiotic supplements are designed to manage gastrointestinal malfunctions, it uses streptococcus thermophilus as its key functional ingredient and Biostime Nutrition's products are targeted at travelling adults and not designed for, or aimed at, expectant and nursing mothers.

Bifidobacterium infantis is the key to the formula of our probiotic supplement products. It is the predominant bacterial group in the normal intestinal flora of healthy breast-fed infants. Bifidobacterium infantis produces significant levels of urease activity. Urease activity in infants is very important to help kidney functions and to prevent sudden infant death from respiratory syndrome.

On the above bases, the respective formulas of our probiotic supplement products and Biostime Nutrition's adult probiotic supplements are distinctive and not interchangeable, and are specific to each product type and their designed functions. Such products are not designed to be consumed interchangeably.

As of the Latest Practicable Date, our Company and Biostime Nutrition maintained separate research and development teams and capabilities. These research and development teams will conduct product development for two completely different products, which have different functions and are targeted at different consumer groups. There will not be any information exchange in connection with these respective research teams.

c. Different target consumer groups

Since its inception, we have positioned our Company as a provider of premium pediatric nutritional products and focused our business on food and personal care products exclusively for babies and young children. Specifically, our probiotic supplements are designed for babies and young children with low immunity levels. Although a small amount of our pediatric probiotic supplements are consumed by pregnant women, a group we consider as special consumers whose immunity level is not as high as normal adults, we categorize such consumption as pediatric-related as the ultimate purpose for such consumption relates to healthy fetal growth.

Biostime Nutrition's probiotic supplements are designed for, and targeted at, travelling adults who may suffer from constipation caused by environmental inadaptability. Biostime Nutrition's products are not, and were not, specifically designed or developed for consumption by expectant and nursing mothers, such group being referred to as sensitive population in the cautionary statements relating to the consumption of Biostime Nutrition's products. These products are not suitable for consumption by children and are not targeted at expectant and nursing mothers. It is not recommended for expectant and nursing mothers to consume Biostime Nutrition's products on precautionary grounds.

As a result of the different target consumer groups, we conduct marketing campaigns through television advertising and other media channels while Biostime Nutrition conducts its marketing campaigns through outdoor billboards at airports, train stations and bus stations.

d. Different business focus

We currently focus, and intend to focus going forward, our Company's business on providing premium pediatric nutritional products, such as pediatric probiotic supplement products, infant formulas and dried baby food products, as well as baby care products, as we believe that such products are more specialized and generally have higher profit margins than generic nutrition products. On the other hand, Biostime Nutrition focuses, and will continue to focus, on the manufacturing of health (functional) food products for adults, which are relatively less specialized and generally have lower profit margins than pediatric nutritional products, due to the increasing competition among nutrition companies and less purchase willingness of the target customers.

e. Regulations

Biostime Nutrition's business is mainly subject to the PRC laws and regulations governing the health (functional) food industry, including *Food Safety Law of the PRC*, the *Production Safety Law of the PRC* (中華人民共和國安全生產法) and the *Regulations for the Implementation of the Food Safety Law of the PRC*. Its business and products are also subject to *the Measures on the Administration of Health Food* (保健食品管理辦法), *the Good Manufacturing Practices for Health Food* (保健食品良好生產規範), *the*

Measures on the Registration of Health Food (for Trial Implementation) (保健食品註冊管理辦法(試行)), and *the Provisions on Declaration and Evaluation of Probiotics Health Food (for Trail Implementation)* (益生菌類保健食品申報與審評規定(試行)). In addition, since Biostime Nutrition categorises its products as functional food, it must obtain an approval from the SFDA.

In addition to these rules and regulations, production and sales of our probiotic supplements are subject to the relevant regulations governing food additives by reason that our pediatric probiotic supplements are designed as supplements to the regular food of infant and young children. Special rules governing pediatric food products are also applicable to us because we focus on the sales and marketing of food products for infants and young children. For further details, please refer to the section headed "Main PRC Laws and Regulations of the Industry" in this document.

Management and Financial Independence

Our businesses and the Excluded Businesses are currently managed and operated by separate management teams. Except for Mr. Luo Fei, Mr. Luo Yun and Dr. Zhang Wenhui, none of our Directors currently hold any directorship or management role in the Excluded Businesses. Mr. Luo Fei and Dr. Zhang Wenhui take an active role in managing our Company and are not actively involved in managing the Excluded Businesses. Under the director service agreements between our Company and each of Mr. Luo Fei and Dr. Zhang Wenhui, they have both agreed to continue to devote their time and resources to our Company and focus on our Company's businesses and development, and not to take any active role in the Excluded Businesses. As such, there is no cross-reliance or inter-dependence between our management team and that of the Excluded Businesses, and their respective decision making processes are independent of each other.

Further, our Company and the Excluded Businesses are financially independent from each other. There is no amount owed by our Company to the Excluded Businesses or vice versa, nor is there any financing arrangement between our Company and the Excluded Businesses. For the reasons set out above, the transactions between Biostime Nutrition and us will not affect our Company's independence.

Reasons to Exclude such Businesses from Our Group

In accordance with our business strategy, we will continue to concentrate our efforts and resources on the manufacturing and sales of our premium pediatric nutritional and baby care products, which help improve the health and development of infants and children in China.

To maintain our position as one of China's significant providers of premium pediatric nutritional products, we will continue to target infants, young children and expectant and nursing mothers as our consumers based on our achievements to date. Our Directors believe that focusing on premium pediatric nutritional products and baby care products will also help us allocate our resources more efficiently to pursue sustainable development of our businesses.

In addition, given that Biostime Nutrition commenced its business only in March 2010, the future development of its businesses will incur significant costs including costs relating to products research and development, marketing and promotion, and sales channels development. In addition, compared

with China's premium pediatric nutritional products and baby care products market which is of great business potential, the nutrition market for adults in which Biostime Nutrition is operating is full of uncertainties in terms of future development.

For the above reasons and in order to focus on the principal businesses of our Group, our Directors consider that it is neither necessary nor appropriate to include such non-core businesses and have decided to exclude businesses conducted by Biostime Nutrition from our businesses. Our Directors consider that there is no material competition between us and Biostime Nutrition. As such, our corporate structure has not been formed, by way of excluding Biostime Nutrition from our Group, solely for the purpose of enhancing the apparent attractiveness for the [●].

We are not aware of any current plan of our Controlling Shareholders to inject the Excluded Businesses into our Group or any current plan on the part of Biostime Nutrition to engage in the production of pediatric nutritional products.

Notwithstanding the aforesaid, in view of the uncertainties in terms of future development as mentioned above, our Controlling Shareholders have undertaken to dispose of all equity interest in Biostime Nutrition to Independent Third Party(ies) through Biostime Pharmaceuticals. In view of the estimated time required for finding a potential buyer and to conduct relevant negotiations with such buyer, our Controlling Shareholders expect to complete the disposal of such equity interest on or prior to December 31, 2011. Our Controlling Shareholders also undertake change the name of Biostime Nutrition so that it will not contain the word "Biostime" before the disposal of such equity interest. We will not enter into the adult probiotic supplements market prior to such disposal.

NON-COMPETE UNDERTAKING

To safeguard the interest of our Group, each of our Controlling Shareholders has entered into the Deed of Non-competition in favor of our Company, pursuant to which each of our Controlling Shareholders has undertaken to our Company (for itself and for the benefit of its subsidiaries) that it/he/she would not, and would procure that its/his/her associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "Restricted Business").

Such non-compete undertaking does not apply to:

(a) any interests in the shares of any member of our Group; or

(b) interests in the shares of a company other than our Group which shares are [●] on a recognized [●] provided that:

  (i) the turnover or the net asset value of any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10.0% of that company's total consolidated turnover or total consolidated assets, respectively, as shown in that company's latest audited accounts; or

(ii) the total number of the shares held by our relevant Controlling Shareholder and/or its/his/her respective associates in aggregate does not exceed 5.0% of the issued shares of that class of the company in question and such Controlling Shareholders and/or its/his/her respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by such Controlling Shareholders and/or its/his/her respective associates in aggregate; or

(iii) the relevant Controlling Shareholder and/or its/his/her respective associates do not have the control over the board of such company.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares remain [●] on the [●]; and (ii) in relation to our Controlling Shareholder, it/he/she or its/his/her associate holds (directly or indirectly) an equity interest in our Company; and (iii) the relevant Controlling Shareholder and/or its/his/her respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30.0% in aggregate of the voting power at general meetings of our Company.

Each of our Controlling Shareholders has further undertaken to procure that, during the restricted period, if any business opportunity is offered to any of our Controlling Shareholders or their respective associates which falls within the scope of the Restricted Business, our Controlling Shareholders will immediately notify or cause their associates to notify our Company of such business opportunity, and will assist our Company (and/or its subsidiaries) to obtain such business opportunity on the same terms as those offered to them or their associates, or on more favorable terms or on terms acceptable to our Company (and/or its subsidiaries).

Our Controlling Shareholders will be entitled to pursue such business opportunity only if (i) our Controlling Shareholders and/or their respective associates have given a written notice to our Company in relation to the terms and detailed information with respect to their investment, participation and engagement in and/or operation of such business opportunity; and (ii) such business opportunity as offered by the third party has first been offered to our Company (for itself and for the benefit of its subsidiaries), including: (a) the terms of offer between our Company (for itself and for the benefit of its subsidiaries) and the third party; or (b) the terms on which our Company (and/or its subsidiaries) to engage in the Restricted Business with our Controlling Shareholders and/or their respective associates, and our Company, after review and approval by the independent non-executive Directors or at any general meeting of Shareholders (if applicable), where our Controlling Shareholders shall abstain from voting, has confirmed that our Company (and/or its subsidiaries) does not intend to invest in, conduct, operate or participate in such business opportunity and has made relevant written confirmation to our Controlling Shareholders, and the major terms on which our Controlling Shareholders and/or their respective associates invest in, conduct, operate or participate in such business opportunity subsequently will not be more favorable than those terms offered to our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DIRECTORS

Each of our Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their respective service agreements, our executive Directors will not at any time during their terms of service with our Group without the prior written consent of the Board be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

(i) our independent non-executive Directors will review, on an annual basis, (a) the compliance with the non-competition undertaking by our Controlling Shareholders under the Deed of Non-competition and the undertaking on disposal of the equity interest in Biostime Nutrition; and (b) the options, pre-emptive rights and/or rights of first refusal granted by our Controlling Shareholders pursuant to the Deed of Non-competition and whether any circumstances have arisen under which such rights may be exercised and, where applicable, whether any such rights should be exercised;

(ii) our independent non-executive Directors will be empowered to engage professional advisors at our costs for advice on matters relating to the Restricted Business, and the decision on whether any such professional advisors should be engaged should be made only by our independent non-executive Directors;

(iii) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the reporting accountants on the enforcement of the Deed of Non-competition (including, without limitation, enforcement of all options, pre-emptive rights and/or rights of first refusal granted pursuant to the Deed of Non-competition) and the undertaking on disposal of the equity interest in Biostime Nutrition;

(iv) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of our Controlling Shareholders under the Deed of Non-competition, the exercise or non-exercise of options, pre-emptive rights and/or rights of first refusal granted by our Controlling Shareholders pursuant to the Deed of Non-competition and the undertaking on disposal of the equity interest in Biostime Nutrition in the annual reports of our Company; and

(v) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition and the undertaking on disposal of the equity interest in Biostime Nutrition in the annual report of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the [●]:

Management Independence

Our Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Except for Mr. Luo Fei, Mr. Luo Yun and Dr. Zhang Wenhui, none of our Directors is currently holding any directorship or management role in the Excluded Businesses. Mr. Luo Fei and Dr. Zhang Wenhui take an active role in managing our Group and are not actively involved in managing the Excluded Businesses. Though Mr. Luo Yun will remain substantially involved in the management of the Excluded Businesses, he is a non-executive Director of our Company and will not be involved in the daily operation and management of our Group. As he is one of our Controlling Shareholders, Mr. Luo Yun could provide advice to our Group at the strategic level due to his years of experience in our Group's businesses and his in-depth knowledge in business and economic management, which we believe is beneficial to the operation and development of our Group.

Apart from the above, our Company and Biostime Nutrition are managed by different management teams, and none of our Directors or senior management holds any position or has any roles or responsibility in Biostime Nutrition.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant Board meetings in respect of such transactions and will not be counted in the quorum. There are also provisions in our Articles of Associations requiring that all Directors with conflicted interests shall absent themselves from participation and voting in meetings of the Board when matters in which they or their associates have a material interest are discussed, unless expressly requested to attend by a majority of our independent non-executive Directors.

We have an independent senior management team who are all independent of the Excluded Businesses and are all full-time employees of our Group to carry out the business decisions of our Group independently. In addition, each of our independent non-executive Directors holds other directorships and senior positions in other listed companies or well-established corporations or has strong academic backgrounds and extensive experience in business management. Each of our independent non-executive Directors has also attended the trainings for directors on the duties and responsibilities of an independent non-executive director for a listed company. Accordingly, they possess the necessary knowledge and experience in respect of corporate governance practices in public companies in general. Our Company will implement adequate corporate governance mechanism in place to manage conflicts of interest between our Company and our Controlling Shareholders, and to protect minority Shareholders' rights.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our businesses independently from our Controlling Shareholders after the [●].

Operational Independence

We have established our own set of organizational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our businesses.

Financial Independence

Our Group has established, and maintains, independent internal control and accounting systems, accounting and finance departments, independent treasury function for cash receipts and payments, and independent access to third party financing. Accordingly, there is no financial dependence on our Controlling Shareholders.

CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions with a party who is a connected person of our Company and the transactions will continue after the [●], thereby constituting continuing connected transactions of our Company under the relevant rules. A summary of these continuing connected transactions is set out below:

	Type of Transaction	Term	Relevant Rules	[●] Sought
1.	Lease agreement with Biostime Nutrition	from November 24, 2010 to December 31, 2011	[●]	None (De minimis transaction)
2.	Entrusted production agreement with Biostime Nutrition	from November 24, 2010 to December 31, 2011	[●]	None (De minimis transaction)

CONNECTED PERSON

The relevant connected person, with whom two members of the Group have entered into continuing connected transactions, is Biostime Nutrition. Biostime Pharmaceuticals, our Controlling Shareholder, through Biostime USA beneficially owns a 50.0% equity interest in Biostime France which in turn owns the entire equity interest in Biostime Nutrition. Accordingly, Biostime Nutrition is a connected person of our Company under [●] of the relevant rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following connected transactions will constitute exempt continuing connected transactions for our Company under [●] of the relevant rules and accordingly, will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements stipulated under the relevant rules. These exempt continuing connected transactions are undertaken on an arm's length basis and on normal commercial terms and the percentage ratios (other than the profit ratios) in respect of the following transactions on an annual basis are all less than 0.1% or if more than 0.1% is less than 5.0% and the annual considerations are less than HK$1.0 million.

1. Lease agreement with Biostime Nutrition

Nature of Transaction

Biostime Nutrition is principally engaged in the manufacturing and sale of adult probiotic supplement products. It has been leasing certain properties in Guangzhou, Guangdong Province, from Biostime Guangzhou, a wholly-owned subsidiary of our Company, since August 1, 2009 as its office and warehouse premises and will continue to lease the same properties from Biostime Guangzhou in its ordinary course of business. In the year ended December 31, 2009 and the six months ended June 30, 2010, Biostime Nutrition has paid nil and RMB118,000 for the lease of the properties, respectively.

To continue to lease the same properties from Biostime Guangzhou, Biostime Nutrition and Biostime Guangzhou have entered into a property lease agreement for a term ending December 31, 2011. Pursuant to this agreement, Biostime Guangzhou will agree to lease the properties to Biostime Nutrition from time to time on normal commercial terms which are no less favorable than those available from Independent Third Parties.

Price Determination

The prices for the leased properties are agreed between Biostime Guangzhou and Biostime Nutrition from time to time on an arm's length basis after making reference to the annual rent offered by the landlord who leased the properties to us, as well as prevailing market prices. If consensus regarding the price cannot be reached, an internationally recognized property evaluation company will be retained to conduct an evaluation of such properties and the evaluation result will be adopted by both parties.

Annual Caps

Our Directors anticipate that the annual cap for the rent from Biostime Nutrition will be approximately RMB0.30 million and RMB0.38 million, respectively, for each of the two years ending December 31, 2010 and 2011. The above annual caps have been determined after arm's length negotiations between the parties with reference to the annual rent offered by the landlord who leased the properties to us and prevailing market prices.

2. Entrusted Production Agreement between Biostime Health and Biostime Nutrition

Nature of Transaction

Biostime Health has been producing for Biostime Nutrition all adult probiotics supplement products in its GMP-certified Guangzhou Plant, Guangdong Province since March 2010. In the two months ended June 30, 2010, Biostime Nutrition incurred RMB15,000 as production fees for the production services of adult probiotics supplement products provided by Biostime Health. Biostime Health as one of the few GMP-certified manufacturers in this area can provide the production service to Biostime Nutrition, and steady income will be generated for our Group by manufacturing the products for Biostime Nutrition. It is expected that Biostime Nutrition will continue to entrust Biostime Health to produce in accordance with its specific requirements in such GMP-certified Guangzhou Plant high-quality products that satisfy the production needs of Biostime Nutrition after the [●]. The raw materials will be provided by Biostime Nutrition at its own cost. Biostime Health has entered into an entrusted production agreement (the "Entrusted Production Agreement") with Biostime Nutrition for a term ending December 31, 2011.

Price Determination

The production fees are agreed between the relevant parties for the entrusted production based on arm's length negotiations and are determined on the basis of actual costs and expenses incurred by Biostime Health for such production plus a reasonable profit and by reference to prevailing market prices. Such fees will be reviewed and adjusted on a yearly basis. In addition, within each quarter, in the event that any material fluctuation in connection with the production cost occurs, such fees will be adjusted on arm's length negotiations between Biostime Health and Biostime Nutrition. "Material fluctuation" means any increase or decrease of over 10.0% of the production cost within one month.

Annual Caps

Our Directors anticipate that the annual cap for the production fees to Biostime Nutrition will be approximately RMB0.05 million and RMB0.17 million, respectively, in each of the two years ending December 31, 2010 and 2011. The above annual caps for the production fees have been determined based on (i) the actual average production cost per unit incurred in the four months ended June 30, 2010; and (ii) the expected sales volumes prepared by the management team of Biostime Nutrition; and (iii) a reasonable profit by reference to prevailing market prices.

CONFIRMATION FROM DIRECTORS

Our Directors confirm that the exempt continuing connected transactions were entered into in their ordinary and usual course of business and undertaken on an arm's length basis and on normal commercial terms.

Save as disclosed in this section, our Directors currently do not expect that immediately following the [●], there will be any transaction which will constitute a continuing connected transaction of our Company under the relevant rules. On the basis of the above and given that there are no connected transactions or agreements which would constitute connected transactions under the relevant rules upon the [●], no [●] application to exempt non-exempt continuing connected transactions (as defined in the relevant rules) has been made.

We will comply with the relevant requirements under [●] of the relevant rules if any connected transaction (as defined in the relevant rules) occurs on or after the [●].

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board consists of nine Directors, including three executive Directors, three non-executive Directors, and three independent non-executive Directors. The functions and duties of our Board include convening Shareholders' meetings, reporting to Shareholders at general meetings, implementing resolutions of our Shareholders, determining our Company's business plans and investment plans, formulating our Company's annual budget and final accounts, formulating proposals for our Company's dividend and bonus distributions and for the increase or reduction of capital, and exercising other powers, functions and duties as authorized by our Articles of Association.

The following table below sets forth information regarding our Directors.

Name	Age	Appointment Date	Position	Roles and Responsibilities
Mr. Luo Fei	46	April 30, 2010	executive Director, chairman and chief executive officer	overall strategies, planning and business development of our Group
Dr. Zhang Wenhui	45	May 12, 2010	executive Director and chief technology officer	Research and development, product quality control and technology support, as well as international supply chain management of our Group
Ms. Kong Qingjuan ...	48	May 12, 2010	executive Director and chief operating officer	overall procurement, logistics, production, as well as internal compliance and control of our Group
Mr. Wu Xiong.....	54	May 12, 2010	non-executive Director	providing strategic advice to our Group, attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Luo Yun	49	May 12, 2010	non-executive Director	providing strategic advice to our Group, attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Chen Fufang	46	May 12, 2010	non-executive Director	providing strategic advice to our Group, attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Ngai Wai Fung.....	48	July 12, 2010	independent non-executive Director	attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Tan Wee Seng	55	July 12, 2010	independent non-executive Director	attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations
Professor Xiao Baichun	62	July 12, 2010	independent non-executive Director	attending meetings of the Board to perform duties, but not participating in the day-to-day management of our business operations

Executive Directors

Mr. Luo Fei (羅飛), aged 46, was appointed as an executive Director on April 30, 2010 and is the chairman and chief executive officer of our Company. He is also a director of our subsidiaries Biostime Health and BMcare Guangzhou. He is primarily responsible for our overall strategies, planning and business development. He has approximately 17 years of experience in the industry of products of biotechnology. From June 1989 to October 1990, he was in the full time employ of Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, he established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as the legal representative and general manager. In December 1994, he established Guangzhou Biohope, a company engaged in import and distribution of raw materials for personal care products and household cleaning products, and he was the legal representative of this company from December 1994 to June 2010, and a director from December 1994 to date. In August 1999, he established Biostime Guangzhou and has served as the general manager in Biostime Guangzhou since then. He has also been a director of Biostime Nutrition since its establishment in September 2009. Mr. Luo's current social undertakings include vice-chairman of the Mommy Baby Products Association of Guangdong (廣東省孕嬰童用品協會) and chairman of the management committee of Biostime China Foundation for Mothers and Children. Mr. Luo is the younger brother of Mr. Luo Yun, one of our non-executive Directors.

Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). He has also completed China Europe International Business School's (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Dr. Zhang Wenhui (張文會), aged 45, was appointed as an executive Director on May 12, 2010 and is the chief technology officer and head of the Quality Assurance Department of our Company. He is also a director of our subsidiaries Biostime Health and BMcare Guangzhou. He has been a director of Biostime Nutrition since its establishment in September 2009. He is primarily responsible for the research and development, product quality control and technology support, as well as international supply chain management. He has almost 15 years of experience in the industry of biotechnology, through teaching in universities and working for several companies of this industry. He joined us in October 2005 as the chief technology officer of Biostime Guangzhou. Prior to that, he was a lecturer of bioengineering in South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, he was employed as a research assistant professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, he served as a scientist for the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005.

Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994,

respectively. From October 1996 to September 1997, he was engaged in international post graduate university course in microbiology in Osaka University (大阪大學). He conducted researches as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln in the United States from October 1997 to November 2000.

Ms. Kong Qingjuan (孔慶娟), aged 48, was appointed as an executive Director on May 12, 2010 and is the chief operating officer of our Company. She is also a director of Biostime Guangzhou. She has over 15 years of experience in the industry of products of biotechnology and is mainly responsible for the overall procurement, logistics, production, as well as internal compliance and control. She joined us in July 2000 and became the chief operating officer of Biostime Guangzhou in January 2006. Prior to joining us, she worked for Hospital of Traditional Chinese Medicine of Hebei Province (河北省中醫院) from January 1983 to July 1995. From August 1995 to February 2000, she was employed by Dalian Sanzhu Bio-Cosmetic Co., Ltd. (大連三株生態化妝品有限公司).

Ms. Kong graduated from Hebei Medical University (河北醫科大學), formerly known as Hebei Medical Institute (河北醫學院), with a bachelor's degree in clinical medicine in July 1985.

Non-executive Directors

Mr. Wu Xiong (吳雄), aged 54, was appointed as a non-executive Director on May 12, 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operation. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, he worked for Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, he was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975.

Mr. Luo Yun (羅雲), aged 49, was appointed as a non-executive Director on May 12, 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has been a director and the general manager of Biostime Nutrition since its establishment in September 2009, where he is responsible for the overall strategies and business development. From 1980 to 1993, he was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). He then worked as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, he held various positions in Biostime Guangzhou including the sales director and the director in charge of *Mama100* membership center. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. He has also enrolled in the EMBA course of Fudan University (復旦大學) in Shanghai since November 2008. Mr. Luo is the elder brother of Mr. Luo Fei, one of our executive Directors.

Mr. Chen Fufang (陳富芳), aged 46, was appointed as a non-executive Director on May 12, 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he is in charge of the overall business operations and

management. Prior to that, he worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparels, from 1988 to 1997, where he was recognized as chemical fiber assistant engineer (化纖助理工程師) and chemical fiber engineer (化纖工程師) in March 1988 and November 1992, respectively. He graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fiber in July 1985 and a master's degree in chemical fiber in June 1988.

Independent Non-executive Directors

Mr. Ngai Wai Fung (魏偉峰), aged 48, was appointed as an independent non-executive Director on July 12, 2010. Mr. Ngai is the managing director of MN Consulting Limited, a vice president of the HKICS and a chairman of the membership committee of HKICS. He was a director and head of [●] Services of KCS Hong Kong Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton) from 2007 to 2010 and its associate director from 2005 to 2007. Prior to that, Mr. Ngai held various senior management positions including executive director, chief financial officer and company secretary in a number of companies listed in Hong Kong, including Cosco Group, China Unicom Limited (中國聯通股份有限公司) and Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行〈亞州〉有限公司). Mr. Ngai was an independent non-executive director of Code Agriculture (Holdings) Limited (科地農業控股有限公司), formerly known as M21 Technology Limited (智庫科技有限公司) from October 2004 to October 2007 and an independent non-executive director of China Life Insurance Company Limited (中國人壽保險股份有限公司) from December 2006 to May 2009.In addition, Mr. Ngai is currently an independent non-executive director and a member or chairman of the audit committee of the below companies, the shares of which are listed on the Main Board. Details of such information are set out in tabular format below.

Company Name (English)	Company Name (Chinese)	Stock Code	Appointment Date
Bawang International (Group) Holdings Limited	霸王國際(集團)控股有限公司	1338 (Main Board)	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	3998 (Main Board)	September 2007
China Railway Construction Corporation Limited	中國鐵建股份有限公司	1186 (Main Board)	November 2007
Franshion Properties (China) Limited	方興地產(中國)有限公司	817 (Main Board)	May 2007
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	1238 (Main Board)	June 2008
Sany Heavy Equipment International Holdings Limited	三一重裝國際控股有限公司	631 (Main Board)	November 2009
SITC International Holdings Company Limited	海豐國際控股有限公司	1308 (Main Board)	September 2010

Mr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many state-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services. Mr. Ngai is a member of the Association of

Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute.

Mr. Ngai received a master's degree in corporate finance from Hong Kong Polytechnic University in 2002 and a master's degree in business administration from Andrews University of Michigan in 1992. He is a doctoral candidate in finance at Shanghai University of Finance and Economics (上海財經大學).

Mr. Ngai has extensive experience in accounting and financing as well as in corporate governance, which is relevant to our Company in matters relating to corporate governance practices such as internal control and internal audit. Based on the interview conducted by the [●] with Mr. Ngai, the [●] does not believe that the various positions currently held by Mr. Ngai would result in Mr. Ngai not having sufficient time to act as an independent non-executive Director or not properly discharging his related fiduciary duties.

Mr. Tan Wee Seng (陳偉成), aged 55, was appointed as an independent non-executive Director on July 12, 2010. Mr. Tan is a professional in value and business management consultancy. He has been a non-executive director of Sa Sa International Holdings Limited (莎莎國際控股有限公司) since March 2010 and Xtep International Holdings Limited (特步國際控股有限公司) since March 2010, the shares of both of which are listed on the Main Board, an independent director of ReneSola Ltd. since April 2009, and 7 Days Group Holdings Limited since November 2009, the shares of both of which are listed on the New York Stock Exchange. Below are Mr. Tan's current directorships in listed companies in tabular format.

Company Name (English)	Company Name (Chinese)	Stock Code	Appointment Date
Sa Sa International Holdings Limited .	莎莎國際控股有限公司	178 (Main Board)	March 2010
Xtep International Holdings Limited ...	特步國際控股有限公司	1368 (Main Board)	March 2010
ReneSola Ltd.....	N/A	SOL (New York Stock Exchange)	April 2009
7 Days Group Holdings Limited	N/A	SVN (New York Stock Exchange)	November 2009

Mr. Tan has over 30 years of experience in financial, operation and business management and has also held various senior management positions in a number of companies and multi-national corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited (李寧有限公司), the shares of which are listed on the Main Board. Mr. Tan is a fellow of the Chartered Institute of Management Accountants, the United Kingdom, and a fellow of the Hong Kong Institute of Directors. Based on the interview conducted by the [●] with Mr. Tan, the [●] does not believe that the various positions currently held by Mr. Tan would result in Mr. Tan not having sufficient time to act as an independent non-executive Director or not properly discharging his related fiduciary duties.

Professor Xiao Baichun (蕭柏春), aged 62, was appointed as an independent non-executive Director on July 12, 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to our

business operations in matters relating to corporate governance practices. From April 1994, he was with Seton Hall University as an associate professor and was promoted to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University in 1998. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since September 18, 2005.

Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, He has been a faculty member of Peking University (北京大學) since January 2005, a visiting professor of Chinese University of Hong Kong (香港中文大學), a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) since May 2004, a distinguished professor of EMBA program in Fudan University (復旦大學) since August 2005 and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學).

Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

Our Directors confirm that, save as disclosed above, there are no other matters concerning their appointments that need to be brought to the attention of our Shareholders and the [●] and there are no other matters which shall be disclosed pursuant to [●] of the relevant rules.

SENIOR MANAGEMENT

Mr. Zhao Li (趙力), aged 41, joined our Group in October 2004 and is our sales and marketing general manager. He was employed by Chenzhou Institute for Drug Control (郴州市藥品檢驗所) till January 2003. He joined us in October 2004 as the regional sales manager for Guangdong Province, and was promoted to be our regional sales manager for South China in December 2006, sales and marketing director for infant formula products in July 2007, and sales and marketing director in December 2007. Mr. Zhao was appointed as our sales and marketing general manager in May 2010 and is now in charge of the operation of sales channels, overall marketing strategies and promotion tactics, by leveraging his abundant experience in sales and marketing. Mr. Zhao obtained a bachelor's degree in Chinese medicine from Hunan College of Traditional Chinese Medicine (湖南中醫學院) in July 1991. He has also enrolled in the EMBA courses of South China University of Technology (華南理工大學) since December 2009.

Mr. Zhu Dingping (朱定平), aged 34, joined our Group in February 2007. He is our sales director and is mainly responsible for the overall sales affairs. Before joining our Group, he had over ten years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in

pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈庵總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) and received the certificate of completion in February 2003. He is currently enrolling in the EMBA courses of Management School, Jinan University (暨南大學管理學院). He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles Reform Work Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003.

Dr. Patrice Malard, aged 56, joined our Group in October 1, 2010. He is our chief scientific officer and is mainly responsible for providing technical support and advice to the research and development of our products. He was the scientific consultant of Biostime Guangzhou from March 1, 2008 to September 30, 2010. Dr. Patrice has almost 20 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director. From April 1990 to June 1991, he was employed by CPIAA SA as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer France Maïs SA. He also has worked as a director of Silab Sarl and sales and marketing director of Lallemand SAS for the period from February 1995 to October 2007. From March 2008 till now, he was the owner of Kloarys Développement Sarl and acted as the general manager. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

Mr. Chen Guanghua (陳光華), aged 35, joined our Group in March 2008. He is the director in charge of *Mama100* membership center and is mainly responsible for the operation and development of such center. He had over ten years of working experience in the field of information technology, especially the ERP system, CRM system and enterprise informatization, before joining our Group. From July 1997 to January 1999, he worked in Guangdong Fotao Group Co., Ltd. (廣東佛陶集團股份有限公司) as an assistant engineer. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd. (廣州天劍計算機系統工程有限公司) and assumed positions including software engineer, department manager and deputy general manager, respectively. Mr. Chen was selected as an expert in science and technology for the database of experts by Science and Information Technology Bureau of Guangzhou (廣州市科技和信息化局) and he also won the "Science and Technology Award of Guangzhou" (廣州市科學技術獎) by Guangzhou Municipal Government in October 2006 and the "Science and Technology Award of Foshan" (佛山市科學技術進步獎) by Foshan Municipal Government in June 2006. In July 1997, Mr. Chen obtained a bachelor's degree in silicate science and engineering from Tongji University (同濟大學). In December 2004, he obtained a master's degree in computer technology from South China University of Technology (華南理工大學).

Ms. Laetitia Garnier (安玉婷), aged 30, joined our Group in July 2010. She is our international cooperation director and is mainly responsible for the establishment and maintenance of our relationships with foreign entities. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and operational support to French companies exporting and investing in China, especially in the field of consumer goods and

health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January 2001 to June 2001, the Banque Populaire Group in Paris from July 2001 to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Cao Wenhui (曹文輝), aged 32, joined our Group in March 2007. He is our chief finance officer and is mainly responsible for the overall financial and accounting affairs. He has over seven years of experience in financial management. He worked in Guangzhou Blue Moon Co., Ltd. (廣州藍月亮有限公司) as an accounting supervisor (管理會計) until May 2003. Between July 2003 and June 2005, Mr. Cao was an assistant finance manager in Guangzhou Devotion Thermal Equipment Co., Ltd. (廣州迪森熱能設備有限公司). From July 2005 to February 2007, he was with Mead Johnson (Guangzhou) Co., Ltd. (美贊臣(廣州)有限公司) as a senior accountant. Mr. Cao obtained a bachelor's degree in accounting from Anhui Finance & Trade College (the predecessor to Anhui University of Finance and Economics) (安徽財貿學院(現為安徽財經大學)) in December 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota since September 2010. Mr. Cao is now a non-practicing member of Guangdong Provincial Institute of Certified Public Accountants (廣東省註冊會計師協會). He also obtained the qualification of certified tax agent (註冊税務師) by the Department of Human Resources of Guangdong Province (廣東省人事廳) in June 2005.

Ms. Qin Xia (秦霞), aged 32, joined our Group in November 2006. She is our senior marketing manager and is mainly responsible for the overall marketing affairs. Ms. Qin has almost eight years of experience in marketing and corporate strategic planning. From October 2002 to October 2003, she worked in Guangdong Yazhida Advertisement Co., Ltd. (廣東雅志達廣告有限公司) as a copy director. From August 2004 to July 2005, she was with Guangzhou Star Advertising & Promotion Co., Ltd. (廣州星際藝術傳播有限公司) as a strategy manager. Ms. Qin obtained a bachelor's degree in advertising from Beijing Technology and Business University (北京工商大學) in July 2002. She has also enrolled in the EMBA courses of Lingnan (University) College, Sun Yat-Sen University (中文大學嶺南（大學）學院) since May 2010.

Mr. Hu Xiaocheng (胡曉成), aged 33, joined our Group in November 2004 and is our senior key accounts manager. His experience is mainly in the sector of marketing and sales. He worked as a sales specialist for the Beijing sales branch of Jiangxi Tecom Science Co., Ltd. (江西特康科技有限公司) from 2000 to 2003, and was mainly responsible for selling products to hospital clients in north China. He joined us as the manager of our Shangrao sales office in Jiangxi Province. Due to his sound working performance, he was promoted to be our sales manager for Ningbo City in February 2005, regional sales manager for Shanghai in February 2006 and senior manager for sales administration in February 2007. Mr. Hu was appointed as our senior key accounts manager in May 2010 and by leveraging his experience in marketing and sales, he is now responsible for our sales channel of retail sales organizations. Mr. Hu received a junior college diploma in computer accounting from Jiangxi Radio and TV University (江西廣播電視大學) in July 1999. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Lesheng (徐樂生), aged 35, is our senior strategy and development manager and is mainly responsible for our strategies and planning affairs. He has been with our Group since August 2001. Before joining our Group, Mr. Xu had rich experience in the pharmaceutical industry, serving in different positions in product development, marketing and corporate strategic planning. From November 1998 to

June 1999, he was employed by Xiamen Feipeng Industrial Co., Ltd. (厦門飛鵬工業有限公司). From June 1999 to March 2001, he worked in Nanjing Cuccess Pharmaceutical Co., Ltd. (南京臣功製藥有限公司). Mr. Xu obtained a bachelor's degree in chemical engineering and biochemistry engineering from Huaqiao University (華僑大學) in July 1998. He has also enrolled in the EMBA courses of graduate school of Xiamen University (廈門大學） since September 2010.

Mr. Xu Zhenjie (許振傑), aged 32, joined our Group in December 2006. He is our senior human resource manager and is responsible for the overall human resource affairs. He has nearly ten years of working experience in human resource management. From July 2001 to March 2006, he worked in the strategy development department and then was a human resource and administration manager in Guangzhou Ouya Mattress & Furniture Co., Ltd. of Symbol Group (廣州歐亞床墊家具有限公司). Between March and May of 2006, he was with Guangzhou Baiyun Tianjun International Media Co., Ltd. (廣州白雲天駿國際傳媒有限公司) as a human resource manager. Mr. Xu obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota since September 2010. Mr. Xu has participated in several professional training courses. For instance, senior human resources manager training program by the Professor & Manager Institute of Sun Yat-Sen University (中山大學教授經理研究會) from March 30, 2002 to April 14, 2002, tsinghua project management training by Aura International Management Training Centre in December 2008 and human resources management program by China Europe International Business School (中歐國際工商學院) in December 2008. He received the occupational qualification certificate of the first level of enterprise human resource management consultant (企業人力資源管理師) in December 2009 and the certificate of talent assessment consultant (人才評測師) in May 2006.

Mr. Xiong Huoyan (熊火焰), aged 38, is our senior promotion manager and is mainly responsible for promotion affairs. He joined our Group in December 2001 as the business representative for Guangdong Province and has been with our Group since then. He has over eight years of experience in product promotion. He was promoted to be our promotion manager in March 2006 and senior promotion manager in March 2008, and is now mainly responsible for promotional affairs of our Group. Mr. Xiong received a certificate of graduation in thermal power engineering after three years' study in the department of Material Science & Engineering of Jingdezhen Ceramic Institute (景德鎮陶瓷學院) in July 1996. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學） since September 2010.

Ms. Mao Xiaoqing (毛曉青), aged 38, joined our Group in July 2007. She is our senior medical and technical support manager and is mainly responsible for medical and technical affairs regarding our products. Ms. Mao obtained a bachelor's degree in pharmaceutical analysis from China Pharmaceutical University (中國藥科大學) in July 1995. She obtained a master's degree in biochemistry from Nanjing University (南京大學) in June 2000 and the other master's degree in medical anthropology from University of Amsterdam in August 2001. In August 2007, she finished five and a half years' study at University of Missouri-Columbia (US) and obtained a doctorate in biochemistry. Besides, Ms. Mao participated in several professional training courses in the past. For instance, in September 2007, she finished the training course for public nutritionist at Guangdong Zhongda Pharmaceutical Professional Training School, Sun Yat-Sen University (中山大學廣東中大醫藥職業培訓學院) and received certificate of completion; in May 2008, she participated in and completed an online course of eight class hours on protection of human subject research participants, which was designed for those involved in the design

and/or conduct of research involving human participants and presented information about protections for human participants in research, and received the relevant certificate of completion from the National Institutes of Health (NIH) Office of Extramural Research. The NIH is a part of the US Department of Health and Human Services, and is the nation's medical research agency.

Mr. Sun Rigao (孫日高), aged 37, joined our Group in May 2008. He is our production plant manager and is mainly responsible for production affairs, as well as various environmental and occupational health and safety issues under PRC laws and regulations, on a regular basis. He has nearly ten years of experience in production management. He worked as a production supervisor in Schering Pharmaceutical (Guangzhou) Co., Ltd. (先靈(廣州)藥業有限公司) between June 2001 and August 2005. From September 2005 to April 2008, he worked in Baxter Healthcare (Guangzhou) Co., Ltd. (廣州百特醫療用品有限公司) as a senior production supervisor. Mr. Sun obtained a bachelor's degree in pharmaceutical preparation from Shenyang Pharmaceutical University (沈陽藥科大學) in July 1997. In June 2009, he obtained a MBA degree from Sun Yat-Sen University (中山大學). He also obtained a certificate of licensed pharmacist (執業藥師註冊證) issued by the Guangdong Food and Drug Administration (廣東省食品藥品監督管理局) in June 2010.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), aged 53, was appointed as one of our joint company secretaries and authorized representative of our Company on July 12, 2010. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited. Prior to joining Tricor Group in 2000, she was a senior manager of the company secretarial services department at Deloitte Touche Tohmatsu in Hong Kong. Ms. Wong is a Chartered Secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and the HKICS. She also received a master's degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009 and holds the Practitioner's Endorsement Certificate issued by HKICS. Ms. Wong has over 25 years of experience in providing corporate secretarial services.

Ms. Yang Wenyun (楊文筠), aged 26, joined our Group in August 2005 and was appointed as one of our joint company secretaries on July 12, 2010. She is also the manager of the risk control department and assistant to the chief executive officer of our Company. Ms. Yang started her professional career with our Group and has obtained substantial experience in administration, corporate governance, legal affairs and public relations over the past five years with us. From August 2005 to December 2008, she was working as an assistant of public affairs and was mainly responsible for our legal affairs and public relations. Concurrently, being an assistant to the general manager since November 2006, she has been responsible for part of our administrative affairs. From December 2008 to February 2010, she was promoted to be our legal manager and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the position of the manager of the newly-established risk control department and she has been in charge of legal affairs, public relations and internal audit of our Group. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

MANAGEMENT PRESENCE IN HONG KONG

[●] of the relevant rules requires that a new applicant applying for a primary [●] on the [●] must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business operations and production facilities of our Group are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, Ms. Wong Tak Yee, one of the joint company secretaries of our Company, is ordinarily resident in Hong Kong but none of the executive Directors is ordinarily resident in Hong Kong or based in Hong Kong. We have been granted a [●] by the [●] from the strict compliance with the requirement under [●] of the relevant rules.

REQUIREMENTS UNDER [●]

As Ms. Yang Wenyun does not possess the qualifications required under [●] of the relevant rules, given the important role of a company secretary in the corporate governance of our Company, particularly in assisting our Company as well as our Directors in complying with the relevant rules and other relevant laws and regulations, we have the following arrangement and measures:

- Our Company has appointed, and will continue to do so for a minimum period of three years after the [●], Ms. Wong Tak Yee, who meets the requirements under [●] of the relevant rules, to act as our joint company secretary to assist Ms. Yang so as to enable her to acquire the relevant experience (as required under [●] of the relevant rules) to fulfill the functions as company secretary of our Company. In particular, Ms. Wong will guide Ms. Yang in the discharge of her duties as a joint company secretary and in gaining the relevant experience as required by the relevant rules. Ms. Yang is expected to work closely with Ms. Wong in a timely manner for any communications with the [●].

- Ms. Yang had attended the training relating to the relevant rules conducted by our Hong Kong legal advisors. In addition, we will ensure that she had access to the relevant training and support to enable her to familiarize herself with the relevant rules and duties required of a secretary of a [●] on the [●].

- Our Company has appointed Guotai Junan Capital Limited as our [●] and other relevant professionals to assist Ms. Yang in discharging her duties as our company secretary as necessary.

We have applied to the [●] for, and have been granted, a [●] from strict compliance with the requirements of [●] of the relevant rules for the period of three years from the [●]. It is understood that the [●], if granted, may be revoked if Ms. Wong no longer provides assistance and guidance to Ms. Yang or our joint company secretary, and our Company is not able to recruit a suitable replacement on a timely basis. Upon expiry of the three-year period, the qualifications of Ms. Yang will be re-evaluated to determine whether the appointment of Ms. Yang as our company secretary will satisfy the requirements laid down in [●] of the relevant rules, and whether on-going assistance should be arranged so that Ms. Yang's appointment as a joint company secretary of our Company continues to satisfy the requirements under [●] of the relevant rules.

OUR GROUP'S RELATIONSHIP WITH EMPLOYEES

We recognize the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We continue to provide training to our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

Our Group offers our staff competitive remuneration packages. Our Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to our Group's profitability, our Group may also provide a performance-based bonus to our employees as an incentive for their contribution to our Group. The primary goal of the remuneration policy with regard to the remuneration packages of our Group's executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Group's executive Directors remuneration packages include basic salaries and performance-based bonuses.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding performance-based bonus and share-based payment compensation granted under the [●] Share Option Scheme) in the year ending December 31, 2010 will be approximately RMB 1.70 million.

We have not experienced any significant problem with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulty in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on November 25, 2010 in compliance with [●] of the relevant rules. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. At present, the audit committee of our Company consists of three members who are Mr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun. Mr. Ngai Wai Fung is the chairman of the audit committee.

Remuneration Committee

Our Company established a remuneration committee on November 25, 2010 with written terms of reference. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Luo Fei, Mr. Ngai Wai Fung and Mr. Tan Wee Seng. Mr. Tan Wee Seng is the chairman of the remuneration committee.

Nomination Committee

We established a nomination committee on November 25, 2010. The nomination committee consists of three members, comprising Mr. Luo Fei, Mr. Ngai Wai Fung and Mr. Tan Wee Seng. The chairman of the nomination committee is Mr. Luo Fei. The primary functions of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

SHARE CAPITAL

Assuming the [●] is not exercised at all, our Company's issued share capital immediately following completion of the [●] will be as follows:

	HK$
Authorized share capital:	
10,000,000,000 Shares	100,000,000

RANKING

The [●] are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this document.

THE [●] SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

We have adopted the [●] Share Option Scheme and the Share Option Scheme. Under the [●] Share Option Scheme, certain persons were granted options immediately prior to the [●] to subscribe for Shares. Further details of the principal terms of the [●] Share Option Scheme and the Share Option Scheme are summarized in the sections headed "[●] Share Option Scheme" and "Share Option Scheme", respectively, in Appendix VI to this document.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(i) 20.0% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [●] (excluding any Shares which may fall to be issued pursuant to the [●]); and

(ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

(i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which our Company is required by law or our Articles of Association to hold our next annual general meeting; or

(iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further details of this general mandate are set out in the paragraph headed "Further information about our Company — Written resolutions of our sole Shareholder passed on November 25, 2010" in Appendix VI to this document.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the [●] and taking no account of any Shares which may be allotted and issued upon the exercise of the [●] or Shares which may be allotted and issued pursuant to the exercise of any options granted under the [●] Share Option Scheme or which may be granted under the Share Option Scheme), so far as the Directors are aware have interests or short positions in our Shares or underlying Shares which are required to be disclosed to our Company and the [●] under the provisions of Divisions 2 and 3 of Part XV of the [●], or, directly or indirectly, be interested in 10.0% 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 Group:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Biostime Pharmaceuticals *(Note)*	Beneficial owner	[●]	[●]

Note: Biostime Pharmaceuticals is owned as to 28.15% by Mr. Luo Fei, 26.0% by Mr. Wu Xiong, 19.55% by Mr. Luo Yun, 11.9% by Mr. Chen Fufang, 10.0% by Dr. Zhang Wenhui and 4.4% by Ms. Kong Qingjuan.

Save as disclosed in this document, our Directors are not aware of any person (not being our Director or chief executive) who will, immediately following completion of the [●] (taking no account of any Shares which may be issued pursuant to the exercise of options or the exercise granted under the [●] Share Option Scheme and the Share Option Scheme or the exercise of the [●]), have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the [●] under the provisions of Divisions 2 and 3 of Part XV of the [●], or, directly or indirectly, be interested in 10.0% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

Selected Combined Financial Information

The selected combined statements of comprehensive income and combined statements of cash flows in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 and the selected combined statements of financial position information as of December 31, 2007, 2008 and 2009 and June 30, 2010 set forth below are extracted from our audited financial statements included in this document and are qualified in their entirety by reference to such financial statements, including the notes thereto, and should be read in conjunction with them and with the paragraph headed "Management's discussion and analysis of financial condition and results of operations" under this section and the section headed "Share Capital" in this document.

The table below sets forth our selected combined statements of comprehensive income information for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	188,297	325,540	558,969	225,643	496,140
Cost of sales	(50,425)	(88,666)	(163,016)	(67,365)	(143,700)
Gross profit	137,872	236,874	395,953	158,278	352,440
Other income and gains	554	922	3,061	1,162	4,549
Selling and distribution costs	(95,026)	(168,844)	(248,299)	(103,425)	(190,319)
Administrative expenses	(9,992)	(20,321)	(26,462)	(10,165)	(28,361)
Other expenses	(6,006)	(4,025)	(6,100)	(1,471)	(2,514)
Profit before tax	27,402	44,606	118,153	44,379	135,795
Income tax expense	(9,916)	(9,444)	(9,836)	(8,911)	(19,042)
Profit for the year/period	17,486	35,162	108,317	35,468	116,753
Profit for the year/period attributable to:					
Owners of the Company	17,487	35,066	108,317	35,468	116,753
Non-controlling interests	(1)	96	—	—	—
	17,486	35,162	108,317	35,468	116,753

FINANCIAL INFORMATION

The table below sets forth our selected statements of financial position information as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	15,487	27,869	29,755	37,307
Current assets	88,265	147,429	253,664	394,814
Current liabilities	63,494	86,625	112,862	180,151
Net current assets	24,771	60,804	140,802	214,663
Net assets	40,258	88,673	170,557	251,970

The table below sets forth our selected statements of cash flows information for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash and cash equivalents at beginning of year/period	31,104	47,935	59,765	59,765	133,795
Net cash flows from operating activities	24,314	23,183	109,798	13,545	143,030
Net cash used in investing activities	(9,926)	(11,605)	(9,835)	(14,037)	(6,798)
Net cash flows from/(used in) financing activities	2,443	263	(25,930)	—	(24,703)
Effect of foreign exchange rate change, net	—	(11)	(3)	(2)	5
Cash and cash equivalents at end of year/period	47,935	59,765	133,795	59,271	245,329

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide premium pediatric nutritional and baby care products in China. Our family of products includes premium probiotic supplements for children, infant formulas and dried baby food products marketed under the brand name *Biostime*™. We are committed to developing premium pediatric nutritional brands and products that help to improve the health and development of infants, children and expectant mothers in China. The high-quality pediatric nutritional products that we produce have enabled us to successfully establish as one of the significant brands within the premium pediatric nutritional products market in China. Our technological know-how, optimized manufacturing capabilities, ability to maintain cost-effectiveness, and high-quality production, have enabled us to become one of various

brands in China to offer a variety of premium pediatric nutritional products that meet the varying pediatric needs of our consumers. During the Track Record Period, our product segments consisted of:

- probiotic supplements in the form of sachet, capsules and tablets for infants, children and expectant mothers;
- infant formulas for children under three years old and milk formulas for expectant and nursing mothers;
- dried baby food products made from natural food, such as meat, seafood, fruits and vegetables for infant and young children; and
- baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads.

We experienced significant growth in our revenue and earnings during the Track Record Period. Our total revenue increased from RMB188.3 million in the year ended December 31, 2007 to RMB325.5 million in the year ended December 31, 2008, and to RMB559.0 million in the year ended December 31, 2009, representing a CAGR of 72.3% from 2007 to 2009. Our net profit increased from approximately RMB17.5 million in the year ended December 31, 2007 to RMB35.2 million in the year ended December 31, 2008, and to RMB108.3 million in the year ended December 31, 2009, representing a CAGR of 148.8% from 2007 to 2009. In the six months ended June 30, 2010, our revenue amounted to RMB496.1 million, representing an increase of 119.9% over the same period in 2009, and in the six months ended June 30, 2010, our net profit amounted to RMB116.8 million, representing an increase of of 229.0% over the same period in 2009.

Our significant net profit growth during the Track Record Period was mainly attributable to the significant growth in our revenue and, to a lesser extent, a decrease in our selling and distribution costs as a percentage of revenue as a result of our enhanced operating efficiency and effective cost management. By conducting part of our product advertisement and promotion through our *Mama100 Membership Program* platform to selected consumers, coupled with relatively low staff training expenses incurred due to our stable sales team, we are able to manage our expenditures in advertising and promotion. In addition, the preferential tax treatment enjoyed by our subsidiaries, Biostime Health, during the Track Record Period also contributed to a lower effective income tax rate and, as a result, our significant net profit growth.

Basis of Presentation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on April 30, 2010. In anticipation of the [●] of our Shares on the [●], we underwent a reorganization in 2010 as detailed in the paragraphs headed "Further information about our Company — Incorporation" and "Further information about our Company — Changes in share capital of our Company", each under Appendix VI to this document.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period include the results and cash

flows of all companies now comprising our Group, as if our current corporate structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment, whichever is the shorter period. Our combined statements of financial position as of December 31, 2007, 2008 and 2009 and June 30, 2010 have been prepared to present the state of affairs of our Company as if the current corporate structure had been in existence and in accordance with the respective equity interest and/or the power to exercise control over the individual companies attributable to our Company as of the respective dates. All significant intra-group transactions and balances have been eliminated on combination. Our combined subsidiaries as of and in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 are set out in Section II-1 of Appendix I to this document.

Factors Affecting Our Results of Operations and Financial Condition

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our combined financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

Levels of disposable income and consumer spending in the PRC

We source key raw materials and infant formula ingredients from European countries and the United States for production and sales in China. Before we launch any new products to the market, we will make reference to the average market selling price of the relevant product category and set a selling price that is consistent with our marketing strategy. Our financial results have been, and we expect them to continue to be, affected by levels of disposable income and consumer spending in China. The significant growth of the PRC economy has led to increased per capita disposable income. According to the *National Bureau of Statistics of China*, per capita annual disposable income of urban residents grew from RMB10,493 in 2005 to RMB17,175 in 2009, representing a CAGR of 13.1%, while the per capita annual disposable income of rural residents increased from RMB3,255 in 2005 to RMB5,153 in 2009, representing a CAGR of 12.2%. Furthermore, as per capita disposable income has increased, expectant and nursing mothers in China have tended to spend more on nutritional and baby care products for their children and themselves. Further details are set out in the paragraph headed "The PRC economy — Growth in disposable income of urban and rural households in China" under the section headed "Industry Overview" in this document. We expect that our results of operations will continue to be affected by changes in the per capita disposable income and consumer spending in China.

Sales volume and production capacity

Our results of operations are directly affected by our sales volumes, which in turn depend on market demand and our ability to widely distribute our products, as well as our production capacity. The following table sets forth the sales volume of each of our product segments for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
Sales volume					
Probiotic supplements (kg)	67,637	97,644	102,124	42,697	48,307
Infant formulas (900g cans)	—	209,634	1,197,769	422,660	1,454,687
Dried baby food products (kg)	19,634	32,745	127,713	40,580	132,714
Baby care products (piece)	—	—	—	—	8,684,003

Our ability to increase future sales volumes will depend significantly upon our focused marketing policy and promotional activities, such as our *Mama100 Membership Program*. These marketing campaigns and promotional activities are costly, and we expect advertising expenses to continue to increase in the near future, which in turn will increase our selling and distribution costs. In addition, our new products, such as baby cereal products, infant formulas and baby care products, generally involve higher selling and distribution costs per unit than our existing products, such as probiotic supplements, which is caused by more frequent advertisement and promotional activities. Our selling and distribution costs amounted to RMB95.0 million, RMB168.8 million, RMB248.3 million and RMB190.3 million in the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

As a further way to increase sales volume, we plan to expand our sales distribution network to extend our consumer base. We also plan to develop the current retail outlet channels by offering more incentives for them to promote the sale of our products. As of the Latest Practicable Date, we sold our products to end consumers through 266 regional distributors, who further distributed our products to more than 5,000 specialty stores, 1,500 retail sales organizations and a large number of pharmacies. As of June 30, 2010, among the retail outlets that carried our products, 2,972 out of 5,026 specialty stores were VIP specialty stores, and 172 sizeable pharmacies had a designated *Mama100 Members' Zone*. We aim to increase the number of specialty stores from 5,026 to 6,000 and upgrade the number of non-VIP specialty stores to VIP specialty stores to 4,000 by 2012. In addition, we plan to increase the number of *Mama100 Members' Zones* in pharmacies from 172 to more than 500 and retail sales organizations carrying our products from 1,572 to 3,000 within the next three years.

Increases in our production capacity by installing new production lines as well as our facilities utilization rates can also have a significant effect on production volumes, unit costs and gross profit margins. As of the Latest Practicable Date, the Guangzhou Plant was equipped with two tablet casting lines, two capsule filling lines, one sachet production line, ten powder filling lines and three packaging lines where two are for infant formulas and the other one is for our baby care products. We are capable of

producing approximately 86 million bags of sachet products, 253 million probiotic tablets and 171 million probiotic capsules per annum in each production facility. The following table sets forth our utilization rate based on actual production against our designed capacity for the periods indicated:

	In the year ended December 31,		In the six months ended June 30
Production line	**2008**	**2009**	**2010**
	%	%	%
Probiotic sachet production line	—	83.4	81.1
Probiotic tablet production line	1.56	1.1	3.9
Probiotic capsule production line	—	0.7	2.2
Dried baby food production line	15.1	18.8	23.1
Infant formula packaging line	2.2	10.6	27.7
Baby cereal packaging line	—	—	8.0
Baby care products barcode affixing line	—	—	6.8

In 2008, Chinese authorities found significant levels of melamine in Chinese dairy materials used in certain infant formula products of other manufacturers in China, which led to the deaths of several infants in September of the same year. As a result, a nationwide investigation was launched on all infant milk formulas and dairy products for traces of melamine and, as a result, the aggregate sales volume of domestically-made infant formula products decreased significantly. The melamine incident that occurred in 2008 did not have any known positive or negative impact on our business operations. Our infant formula products are positioned to be the premium products, focusing on high-end consumers. Our Directors believe that we did not benefit directly from the melamine incident. In addition, since all of our infant formula products are imported from France with original packaging, the melamine incident caused by domestically-sourced milk in 2008 did not have any negative impact to our results of operations and financial performance.

Average selling price

The selling prices of our products are generally determined by supply and demand in the domestic market. However, due to our focused marketing strategy and premium pricing policy, market competition plays a very limited role in our pricing practice. As such, during the Track Record Period, except for a small number of products under promotion, the average selling price for each group of our products remained stable.

As advised by our PRC legal advisor, Jingtian & Gongcheng, in accordance with *the Pricing Law of the PRC* (中華人民共和國價格法) which became effective on May 1, 1998, prices of most commodities and services which are market-based, shall be practiced and determined autonomously, except those commodities or services to which government-guided prices and government-set prices have been set and applicable under this law. Moreover, this law further stipulates that the PRC Government may guide or fix prices for a small number of commodities and services in relation to public interests if necessary, and the scope of such commodities and services shall be determined by the central and local pricing catalogues. As of the Latest Practicable Date, our probiotic supplements, infant formulas, dried baby food and baby care products were not listed in the central or local pricing catalogues, therefore, the selling

prices of such products are not subject to price controls imposed by the PRC Government. However, there is no assurance that regulatory pricing will not be applied to our products in the future. In addition, there is no assurance that such prices will remain at recent or current levels, or that they will increase in the future.

Product mix

During the Track Record Period, our range of products included probiotic supplements, infant formulas, dried baby food and baby care products. The following table sets out our revenue and the percentage of our total revenue by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements[1]	172.2	91.4	253.8	78.0	265.9	47.6	122.5	54.3	138.5	27.9
Infant formulas[2]	—[3]	—[3]	40.8	12.5	238.1	42.6	81.8	36.3	287.8	58.0
Dried baby food	16.1	8.6	30.9	9.5	55.0	9.8	21.3	9.4	42.7	8.6
Baby care products	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	27.1	5.5
Total revenue	**188.3**	**100.0**	**325.5**	**100.0**	**559.0**	**100.0**	**225.6**	**100.0**	**496.1**	**100.0**

(1) Include probiotic supplements exclusively for expectant mothers.

(2) Include milk formulas for expectant and nursing mothers.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

We launched our *Biostime*™ probiotic supplement products in 2003, followed by dried baby food products in 2007 and infant formula products in 2008. In May 2010, leveraging our market position in premium pediatric nutritional products, we began marketing baby care products, such as baby diaper and toiletry kits for infants, children and nursing mothers under our newly-introduced *BMcare*™ brand. While revenue generated from our infant formula products increased substantially since 2008 due to the increased sales volume, sales of our other products, including probiotic supplements were relatively stable during the Track Record Period. We expect that our infant formula products will become our main source of income in the foreseeable future. However, our strategy is to continue to maintain and further strengthen our position in China as a significant provider of premium pediatric nutritional products and expand our market share in the baby care products sector. Product mix also affects margins as different products and specifications may provide different margins depending on the market at a particular point in time. Our diversified portfolio of products affect our margins as a complementary product mix enables us to achieve better operating efficiencies. To meet market demand at different points of time, we may adjust the product mix within our product range, which could have an impact on our margins.

Cost of raw materials, packaging materials and finished products

One of the main components of our cost of sales during the Track Record Period was the cost of raw materials, packaging materials and certain finished products.

During the Track Record Period, we used and in the future we plan to continue to use various primary raw materials for the final production of our probiotic supplement and dried baby food products at the Guangzhou Plant. We consistently source key raw materials and engage suppliers from European countries, such as France and Switzerland, as well as from the United States. For example, we import probiotic powder for our probiotic supplement products from Lallemand. We also import all of our infant formula products with original packaging from Laiterie de Montaigu, who manufactures our infant formula and mother's nutritional formula products according to our own proprietary specifications.

Fluctuation of packaging costs will also impact our operating results. In 2009, we decided to reposition our dried baby food products from supplement food for infants to multi-nutritional food for infant and elder babies so as to expand our consumer base. In addition, during this repositioning process, we decided to package assorted flavored multi-nutritional food in one box and encouraged parents to prepare a "DIY" (do-it-yourself) meal in accordance with the preferred taste of, or nutrition required by, their babies. While we believe the re-packaging strategy substantially increased the overall consumption of our dried baby food products, we incurred increased packaging material costs in 2009. As a result, all dried baby food products involved in this process incurred substantially more packaging costs than other products, which drove down our profit margin in 2009.

Any price increase for raw materials, packaging materials and finished products may result in less competitive product pricing, particularly if we are unable to pass on the additional costs to the consumers. To sustain our price competitiveness and maintain our market share, we take into consideration market conditions and costs of raw materials, packaging materials or finished products to decide whether to increase the price of our products. As a result, increased costs of raw materials, packaging materials or finished products may materially reduce our profitability.

Fluctuation of foreign exchange rates

During the Track Record Period, we imported all of our key materials from European countries and the United States. Although our operations are principally located in China, approximately 9.5%, 29.4%, 52.7% and 46.0%, respectively of our purchases were denominated in Euros and approximately 67.2%, 52.3%, 27.6% and 32.4%, respectively of our purchases were denominated in US dollars for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. Certain products, such as infant formulas and baby cereal, were manufactured by our product suppliers in France and the United States, respectively, and imported by us with original packaging. As a result, we are subject to foreign exchange risk that arises from purchases made in currencies other than our functional currency, the Renminbi. Foreign currency fluctuations, particularly fluctuations in the US dollar and Euro against RMB, have affected, and will continue to affect, our results of operations.

The value of the Renminbi against other foreign currencies is affected in part by changes of the PRC Government's policies, as well as international economic and political developments. The PRC Government reformed the exchange rate regime in July 21, 2005 by moving to a managed floating exchange mechanism based on market supply and demand with reference to a basket of currencies. There has been pressure from foreign countries on China recently to adopt a more flexible Renmibi exchange rate system that could lead to further appreciation of the Renminbi. The PBOC recently announced that they will proceed with further reform of the Renminbi exchange regime and will enhance the Renminbi exchange rate flexibility. The Renminbi may be revalued further against the US dollar, Euro or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or Euro. It is uncertain if the exchange rates of the US dollar and Euro against the Renminbi will further fluctuate. However, we are evaluating the advantages and disadvantages of hedging as a way to minimize the impact of foreign exchange fluctuations on our financial results.

Taxation

Pursuant to the then applicable PRC national and local tax laws, our subsidiaries located in the PRC were subject to the EIT, at the statutory rate of 33.0% during the two years ended December 31, 2006 and 2007. Since January 1, 2008, under the new *EIT Law* promulgated on March 16, 2007, the EIT rate was reduced from 33.0% to 25.0%. *The EIT Law* imposes a uniform tax rate of 25.0% on all PRC enterprises, including foreign-invested enterprises, unless they qualify under certain limited exceptions. The effect of this change has been reflected in the calculation of deferred taxes as of December 31, 2007.

We derive substantially all of our revenue through our wholly-owned subsidiaries in China, including Biostime Health. Biostime Health is a foreign-invested enterprise, or FIE, which engages in manufacturing and has been exempted from the EIT since 2008 for two years, and is entitled to a 50.0% tax reduction for the subsequent three years, or the FIE Tax Holiday. Accordingly, Biostime Health was exempted from the EIT in the two years ended December 31, 2008 and 2009, and is subject to CIT at a reduced rate of 11.0%, 12.0% and 12.5% in the years ending December 31, 2010, 2011 and 2012, respectively. Termination or revision of various types of PRC preferential tax treatments that certain of our subsidiaries currently enjoy will have a negative impact on our financial condition and results of operations.

As a result of the foregoing, our income tax expenses in 2007, 2008 and 2009 and the six months ended June 30, 2010 were RMB9.9 million, RMB9.4 million, RMB9.8 million and RMB19.0 million, respectively. The effective tax rate for the same periods was 36.2%, 21.2%, 8.3% and 14.0%, respectively.

Critical Accounting Policies and Practices

The discussion and analysis of our results of operations and financial condition is based on our audited combined financial information, which have been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our combined financial information. Historical experience and various other assumptions are the assumptions and estimates we currently believe to be reasonable, and forms

the basis for making our judgments on matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as the facts, circumstances and conditions may experience change or as a result of different assumptions.

Our management team considers the following factors in reviewing the respective consolidated financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies, as well as the sensitivity of reported results to changes in conditions and assumptions, are all factors you should consider when reviewing our audited financial information. Our significant accounting policies are summarized in Section II-3 to the Accountants' Report of our Company in Appendix I to this document. We believe that the following critical accounting policies and practices involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

Revenue recognition

We recognize revenue when it is probable that the economic benefits will flow to us and when the revenue can be reliably measured, on the following basis, depending on the source of such revenue: (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and (b) interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Customer loyalty program and deferred income

We operate a customer loyalty program which allows customers to earn points when they purchase products from us. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when we fulfill our obligations to supply services or products or when the points are expired.

The amount of deferred income attributable to the points earned by the members of our customer loyalty program is estimated based on the fair value of the points awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the points that will be available for redemption in the future after allowing for points which are not expected to be redeemed.

Inventories

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

Our management reviews our ageing analysis of inventories at each reporting date, and makes provision for identified obsolete and slow moving inventory items that are no longer suitable for sale.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand, 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 our Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made from the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the statements of comprehensive income.

Income tax provisions

The determination of income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

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Description of Components of Results of Operations

Revenue

During the Track Record Period, we generated substantially all of our revenue from the manufacturing and sale of pediatric nutritional products, including probiotic supplements, infant formulas and dried baby food products, as well as our baby care products. The following table breaks down the sources of our revenue and percentage of our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements[1]	172.2	91.4	253.8	78.0	265.9	47.6	122.5	54.3	138.5	27.9
Infant formulas[2]	—[3]	—[3]	40.8	12.5	238.1	42.6	81.8	36.3	287.8	58.0
Biostime Golden Care Infant Formulas	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	—[4]	39.3	7.9
Biostime Premium Infant Formulas	—[5]	—[5]	19.5	6.0	108.0	19.3	41.3	18.3	94.0	18.9
Biostime Supreme Infant Formulas	—[6]	—[6]	12.5	3.8	78.8	14.1	25.6	11.4	89.3	18.0
Biostime Supreme Care Infant Formulas	—[7]	—[7]	5.7	1.8	36.7	6.6	9.3	4.1	51.4	10.4
Biostime Premium Mama Nutritional Formulas	—[8]	—[8]	3.1	0.9	14.6	2.6	5.6	2.5	13.8	2.8
Dried baby food	16.1	8.6	30.9	9.5	55.0	9.8	21.3	9.4	42.7	8.6
Baby care products	—[9]	—[9]	—[9]	—[9]	—[9]	—[9]	—[9]	—[9]	27.1	5.5
Total revenue	**188.3**	**100.0**	**325.5**	**100.0**	**559.0**	**100.0**	**225.6**	**100.0**	**496.1**	**100.0**

(1) Include probiotic supplements exclusively for expectant mothers.

(2) Include milk formulas for expectant and nursing mothers.

(3) We commenced marketing and sales of infant formulas in July 2008.

(4) The Biostime Golden Care Infant Formulas were launched in May 2010.

(5) The Biostime Premium Infant Formulas were launched in July 2008.

(6) The Biostime Supreme Infant Formulas were launched in July 2008.

(7) The Biostime Supreme Care Infant Formulas were launched in July 2008.

(8) The Biostime Premium Mama Nutritional Formulas were launched in July 2008.

(9) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

A small portion of our revenue during the Track Record Period was generated from discounted sales made to our employees. In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, discounted sales to our employees amounted to approximately RMB0.5 million, RMB0.9

million, RMB2.0 million and RMB1.8 million, respectively. Such discounted sales were offered as part of our employee welfares and subject to a quota limit. The selling prices for discounted sales were calculated by the selling prices of our products we offered to our regional distributors, deducting relevant expenses for logistic arrangement and distribution.

Upon collecting a minimum number of membership points, our loyalty program's members are able to redeem membership points for our products. Our consideration received or receivable generated from the products sold is allocated between the points earned by the consumers and other components of the sales. The recognition of the amount allocated to the membership points earned by the consumer from our sales is deferred until the membership points are redeemed or the membership points are expired. As of June 30, 2010, the balance of the deferred income from our sales attributable to the points earned by the members of our customer loyalty program was RMB19.6 million. Further details are set out in Note 19 and 22 of the Accountants' Report set out in Appendix I to this document.

Cost of sales

By type

Cost of sales includes primarily material costs, labor costs and production overhead. The following table sets forth the breakdown of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Cost of sales										
Materials[1]	46.9	93.1	82.0	92.5	152.1	93.3	63.1	93.8	134.8	93.8
Labor	1.7	3.4	3.0	3.4	3.7	2.3	1.6	2.4	3.4	2.4
Production overhead	1.8	3.5	3.6	4.1	7.2	4.4	2.6	3.8	5.5	3.8
Total cost of sales	**50.4**	**100.0**	**88.6**	**100.0**	**163.0**	**100.0**	**67.3**	**100.0**	**143.7**	**100.0**

(1) Includes raw materials, such as probiotic ingredients, dried baby food ingredients and other materials purchased from our material suppliers and finished infant formulas and certain dried baby food products purchased from our product suppliers, as well as packaging materials.

The costs of materials, including the costs of raw materials, finished products and packaging materials, were the main component of our cost of sales, representing approximately 93.1%, 92.4%, 93.3% and 93.8%, respectively, of our total cost of sales in each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. Raw materials used in our premium pediatric nutritional products production mainly include probiotic powder, fruit and vegetable powder. In addition, we categorize the costs paid to our product suppliers for the manufacturing of our imported infant formula

products with original packaging from France and baby cereal products from United States as material costs. Packaging materials used for our products mainly include printed cardboard boxes and aluminum foil packages. During the Track Record Period, we sourced all our packaging materials from domestic suppliers with prices of these materials largely following domestic market trends.

Labor costs comprised mainly of wages and employee benefits for the employees working at our production facilities.

During the Track Record Period, our costs of sales also included production overhead in connection with final production of our probiotic supplements and certain of our dried baby food products, such as depreciation and amortization expenses, repair and maintenance costs, rental expenses, water and electricity and other utility expenses and surcharges.

By product

Our cost of sales for each product segment during the Track Record Period was as follows:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Cost of sales										
Probiotic supplements	45.6	90.5	63.8	72.0	62.6	38.4	31.7	47.1	28.2	19.6
Infant formulas	—(1)	—(1)	14.7	16.6	77.8	47.7	27.5	40.9	90.9	63.3
Biostime Golden Care Infant Formulas	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	13.0	9.0
Biostime Premium Infant Formulas	—(3)	—(3)	7.6	8.5	38.9	23.9	15.0	22.2	32.8	22.8
Biostime Supreme Infant Formulas	—(4)	—(4)	4.0	4.5	24.4	15.0	8.1	12.1	25.9	18.0
Biostime Supreme Care Infant Formulas	—(5)	—(5)	1.7	2.0	9.3	5.7	2.4	3.6	14.1	9.9
Biostime Premium Mama Nutritional Formulas	—(6)	—(6)	1.4	1.6	5.2	3.2	2.0	3.0	5.1	3.6
Dried baby food	4.8	9.5	10.1	11.4	22.6	13.9	8.1	12.0	13.1	9.1
Baby care products	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	11.5	8.0
Total cost of sales	**50.4**	**100.0**	**88.6**	**100.0**	**163.0**	**100.0**	**67.3**	**100.0**	**143.7**	**100.0**

(1) We commenced marketing and sales of infant formulas in July 2008.
(2) The Biostime Golden Care Infant Formulas were launched in May 2010.
(3) The Biostime Premium Infant Formulas were launched in July 2008.
(4) The Biostime Supreme Infant Formulas were launched in July 2008.
(5) The Biostime Supreme Care Infant Formulas were launched in July 2008.
(6) The Biostime Premium Mama Nutritional Formulas were launched in July 2008.
(7) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

Our cost of sales for each product segment during the Track Record Period was generally in line with the revenue generated from the respective product segment, but the PRC custom duty we paid changed following our domestic production of probiotic supplement products. Before our GMP-certified plant located in Guangzhou, Guangdong Province, China commenced commercial production of, among other products, probiotic supplements, we imported the probiotic supplement products from France with original packaging. Following the commercial operation of our GMP-certified plant, we commenced final production of probiotic supplement products in our own manufacturing facilities using imported key raw materials in September 2009. The PRC customs duty for finished products is 20.0%, where there is no PRC custom duty on the import of raw materials.

Gross profit

Gross profit is equal to revenue less cost of sales. Gross profit margin is equal to gross profit divided by revenue. In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our gross profit was approximately RMB137.9 million, RMB236.9 million, RMB396.0 million and RMB352.4 million and our gross profit margin was 73.2%, 72.8%, 70.8% and 71.0%, respectively.

The following table sets out our gross profit and gross profit margin by product segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Probiotic supplements	126.6	73.5	190.0	74.9	203.3	76.5	90.8	74.1	110.3	79.6
Infant formulas	—(1)	—(1)	26.1	64.0	160.3	67.3	54.3	66.4	196.9	68.4
Biostime Golden Care Infant Formulas	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	—(2)	26.3	66.9
Biostime Premium Infant Formulas	—(3)	—(3)	11.9	61.0	69.1	64.0	26.3	63.7	61.2	65.1
Biostime Supreme Infant Formulas	—(4)	—(4)	8.5	68.0	54.4	69.0	17.5	68.4	63.4	71.0
Biostime Supreme Care Infant Formulas	—(5)	—(5)	4.0	70.2	27.4	74.7	6.9	74.2	37.3	72.6
Biostime Premium Mama Nutritional Formulas	—(6)	—(6)	1.7	54.8	9.4	64.4	3.6	64.3	8.7	63.0
Dried baby food	11.3	70.2	20.8	67.3	32.4	58.9	13.2	62.0	29.6	69.3
Baby care products	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	—(7)	15.6	57.6
Total gross profit/average gross profit margin	**137.9**	**73.2**	**236.9**	**72.8**	**396.0**	**70.8**	**158.3**	**70.2**	**352.4**	**71.0**

(1) We commenced marketing and sales of infant formulas in July 2008.

(2) The Biostime Golden Care Infant Formulas were launched in May 2010.

(3) The Biostime Premium Infant Formulas were launched in July 2008.

(4) The Biostime Supreme Infant Formulas were launched in July 2008.

(5) The Biostime Supreme Care Infant Formulas were launched in July 2008.

(6) The Biostime Premium Mama Nutritional Formulas were launched in July 2008.

(7) We commenced marketing and sales of baby diapers, the first and one of the key products of our baby care products category, in May 2010.

Our generally higher gross profit margin as compared to that of other infant formula companies in the PRC is mainly attributable to the higher average selling prices of our infant formula products. The higher average selling price of our products is a result of our strategy to target and focus on high-end consumers who demand products with high quality. As we conduct substantially all of our marketing and promotional activities for our products by ourselves and our distributors are not responsible for such activities, we also take into consideration relevant costs for marketing and promotion of our products when we set the selling price to regional distributors. In addition, the higher gross profit margins of our probiotic supplement products as compared with infant formula products also contributed to our high gross profit margin overall.

Other income and gains

Other income and gains mainly consist of bank interest for our interest-bearing bank deposits, the income generated from trial sales of new products that were not in any of our product categories, mainly including probiotic supplements for adults other than expectant and nursing mothers that are currently carried out by the Excluded Businesses, exchange gain from the depreciation of the Euro against the Renminbi and other gains on provision of rental, entrusted product sales and sales agency services. For 2007, 2008 and 2009 and the six months ended June 30, 2010, our other income and gains were RMB0.6 million, RMB0.9 million, RMB3.1 million and RMB4.6 million, respectively. The following table sets forth the breakdown of our other income and gains for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Bank interest	0.5	83.3	0.7	77.8	0.8	25.8	0.3	25.0	0.9	19.6
Exchange gain	—	—	—	—	—	—	—	—	3.1	67.4
Income from trial sales[1]	0.1	16.7	0.2	22.2	2.3	74.2	0.9	75.0	—	—
Others	—	—	—	—	—	—	—	—	0.6	13.0
Total other income and gains	**0.6**	**100.0**	**0.9**	**100.0**	**3.1**	**100.0**	**1.2**	**100.0**	**4.6**	**100.0**

(1) mainly includes sales of probiotic supplements for adults other than expectant and nursing mothers that are currently carried out by the Excluded Businesses.

Selling and distribution costs

Our selling and distribution costs consist primarily of expenses for advertisements and promotional activities, staff costs and office expenses such as salaries and benefits for our sales and marketing personnel, travel expenses and rent relating to our regional offices as well as other expenses, including depreciation costs and relevant expenses for meeting and meals.

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We engage in a variety of marketing and promotional activities to promote brand recognition of our products and our promotional expenses mainly comprise costs of promotional materials and service fees paid to sales specialists who are not our employees. These sales specialists mainly provide service relating to the sales and promotion of our products, other than stage one infant formula, in selected pharmacies and retail sales organizations where a *Mama100 Members' Zone* is maintained. To the best of our knowledge, none of these sales specialists have any past or present relationship with our Company, our Shareholders, directors, senior management, or any of their respective associates. Each sales specialist is offered a basic salary that ranges from RMB700 to RMB1,400 per month and will receive an extra commission of 1.0% to 3.0% of the total sales made, depending on the total amount of sales made, during each month. Meanwhile, it is our policy that each sales specialist should make true representations as to the function and features of our products. False claims or representations by such sales specialist could lead to termination of his qualification as our sales specialist and payment of indemnity for any economic loss cause to us. In the three years ended December 31, 2009 and the six months ended June 30, 2010, a total of 213, 810, 1,590 and 2,240 sales specialists, respectively, have been providing such promotional services for our products, for which we expended RMB1.6 million, RMB7.6 million, RMB21.8 million and RMB21.1 million, respectively, in service fees. We conduct marketing campaigns through television advertising and other media, such as magazines.

For 2007, 2008 and 2009 and the six months ended June 30, 2010, our selling and distribution costs were RMB95.0 million, RMB168.8 million, RMB248.3 million and RMB190.3 million, respectively, as a result of additional promotional and marketing activities carried out by an increased number of personnel, in support of our growth of revenue. Meanwhile, during the same periods, the percentage of our selling and distribution costs to our total revenue changed from 50.5% in 2007, to 51.9% in 2008, to 44.4% in 2009 and to 38.4% in the six months ended June 30, 2010. Such changes during the Track Record Period were primarily due to the launch of our infant formula products in 2008, the cost efficiencies for our promotional and marketing activities as a result of the enhanced recognition for our brands and our increased economies of scale.

The following table sets forth the breakdown of our selling and distribution costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Staff costs and office expenses	34.7	36.5	54.9	32.5	92.5	37.3	34.7	33.6	61.3	32.2
Promotional expenses	16.9	17.8	37.3	22.1	72.6	29.2	25.5	24.7	55.2	29.0
Advertising expenses	35.2	37.1	57.3	34.0	56.6	22.8	30.3	29.3	45.6	24.0
Others	8.2	8.6	19.3	11.4	26.6	10.7	12.9	12.4	28.2	14.8
Total selling and distribution costs	**95.0**	**100.0**	**168.8**	**100.0**	**248.3**	**100.0**	**103.4**	**100.0**	**190.3**	**100.0**

Administrative expenses

Administrative expenses consist primarily of salaries and benefits for our administrative and management staff, office expenses and rental, travel expenses for our staff, professional service fees and other expenses. Professional service fees primarily include relevant expenses we paid for external professional services, in particular for the preparation of the [●] in 2010. Other expenses include transportation and car-service expenses, other taxes, such as stamp duty and flood prevention taxes as well as miscellaneous office expenses.

The following table sets forth the breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Salaries and other benefits	5.8	58.0	13.1	64.5	15.9	60.0	5.9	57.8	10.7	37.7
Office expenses and rental	2.4	24.0	3.8	18.7	4.4	16.6	1.8	17.6	4.9	17.3
Travel expenses	0.6	6.0	1.2	5.9	1.6	6.0	1.0	9.8	0.5	1.7
Professional service fees	0.1	1.0	0.4	2.0	0.8	3.1	0.2	2.0	9.2	32.4
Others	1.1	11.0	1.8	8.9	3.8	14.3	1.3	12.8	3.1	10.9
Total administrative expenses	**10.0**	**100.0**	**20.3**	**100.0**	**26.5**	**100.0**	**10.2**	**100.0**	**28.4**	**100.0**

Other expenses

Other expenses mainly comprise research and development expenses and donations to charity organizations. We focus our research and development efforts on new product development, manufacturing process optimization and production system integration. Our donations to charity include the donation of RMB0.1 for each box or can of any of our products sold since 2007 as well as our donation relating to the Sichuan Earthquake in 2008. For 2007, 2008 and 2009 and the six months ended June 30, 2010, our other expenses were RMB6.0 million, RMB4.0 million, RMB6.1 million and RMB2.5 million.

Following table sets forth the breakdown of our other expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Research and development expenses	3.7	61.7	2.2	55.0	4.3	70.5	1.0	66.7	1.6	64.0
Donation to charity	1.5	25.0	0.9	22.5	0.6	9.8	0.3	20.0	0.5	20.0
Others	0.8	13.3	0.9	22.5	1.2	19.7	0.2	13.3	0.4	16.0
Total other expenses	**6.0**	**100.0**	**4.0**	**100.0**	**6.1**	**100.0**	**1.5**	**100.0**	**2.5**	**100.0**

Income tax expenses

Pursuant to the then applicable PRC national and local tax laws, our subsidiaries located in the PRC were subject to the PRC corporate income tax, or CIT at the statutory rate of 33.0% during the two years ended December 31, 2006 and 2007. Since January 1, 2008, under the new *Corporate Income Tax Law* promulgated on March 16, 2007, the CIT was reduced from 33.0% to 25.0%. *The EIT Law* imposes a uniform tax rate of 25.0% on all PRC enterprises, including foreign-invested enterprises, unless they qualify under certain limited exceptions. The effect of this change has been reflected in the calculation of deferred taxes as of December 31, 2007.

We derive substantially all of our revenue through our wholly-owned subsidiaries in China, including Biostime Health. Biostime Health is a foreign-invested enterprise, or FIE, which engages in manufacturing and has been exempted from CIT since 2008, and is entitled to a 50.0% tax reduction for the subsequent three years, or the FIE Tax Holiday. Accordingly, it was exempted from CIT in the two years ended December 31, 2008 and 2009, and is subject to CIT at a reduced rate of 11.0%, 12.0% and 12.5% in the years ending December 31, 2010, 2011 and 2012, respectively.

Our income tax expenses in 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB9.9 million, RMB9.4 million, RMB9.8 million and RMB19.0 million, respectively; the effective tax rate for the same periods was 36.2%, 21.2%, 8.3% and 14.0%, respectively. Our effective tax rate was higher than the prevailing statutory tax rate in the year ended December 31, 2007, primarily because our actual income taxes paid, after making adjustments pursuant to relevant laws and regulations, exceeded our consolidated profit before income tax multiplied by the statutory tax rate of 33.0%. Such adjustments primarily reflected (i) our incur of certain expenses exceeding the statutory deduction limits for tax purposes, and (ii) the effect of lower statutory tax rate, namely 25.0%, used for the recognition of deferred tax, which contributed a decreased deferred tax asset and an increase of 1.6% in our effective tax rate.

Results of Our Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our combined statements of comprehensive income and that information as a percentage of our total revenue:

	Year ended December 31,			Six months ended June, 30	
	2007	2008	2009	2009	2010
	RMB million	RMB million	RMB million	RMB million (unaudited)	RMB million
Combined statement of comprehensive income					
Revenue	188,297	325,540	558,969	225,643	496,140
Costs of sales	(50,425)	(88,666)	(163,016)	(67,365)	(143,700)
Gross profit	137,872	236,874	395,953	158,278	352,440
Other income and gains	554	922	3,061	1,162	4,549
Selling and distribution costs	(95,026)	(168,844)	(248,299)	(103,425)	(190,319)
Administrative expenses	(9,992)	(20,321)	(26,462)	(10,165)	(28,361)
Other expenses	(6,006)	(4,025)	(6,100)	(1,471)	(2,514)
Profit before tax	27,402	44,606	118,153	44,379	135,795
Income tax expense	(9,916)	(9,444)	(9,836)	(8,911)	(19,042)
Profit for the year/period	17,486	35,162	108,317	35,468	116,753

Six months ended June 30, 2010 compared with six moths ended June 30, 2009

Revenue

Our revenue increased by 119.9% from RMB225.6 million in the six months ended June 30, 2009 to RMB496.1 million in the six months ended June 30, 2010. The increase was primarily due to an expansion of our business and an increase in the sales volume of our products, in particular the substantial growth of our infant formula operations. To a lesser extent, the increase in the revenue generated from the sales of our dried baby food products also contributed to the increase in our revenue in the six months ended June 30, 2010.

Sales of our probiotic supplements increased by 13.1% from RMB122.5 million in the six months ended June 30, 2009 to RMB138.5 million during the same period in 2010. While the average selling price of our probiotic supplement products remained stable in the six months ended June 30, 2009 and 2010, the sales volume of our probiotic supplements increased from approximately 42,697 kg in the six months ended June 30, 2009 to 48,307 kg during the same period in 2010. This increase in the sales volume of our probiotic supplements was caused by the steady growth of our probiotic supplements operation and the continuous penetration of such products in the pediatric nutrition market.

Sales of our infant formula products increased significantly from RMB81.8 million in the six months ended June 30, 2009 to RMB287.8 million during the same period in 2010. While the weighted average selling price of our infant formula products remained stable in the six months ended June 30, 2009 and

2010, the sales volume increased from 422,660 cans in the six months ended June 30, 2009 to 1,454,687 cans during the same period in 2010, primarily due to the expansion of our sales network and greater market recognition and an expanded customer base for our infant formula products. To a lesser extent, such increase was also due to the newly introduced Biostime Golden Care Infant Formulas launched in May 2010 and the Stage 2 and Stage 3 products of our Supreme Care series of products launched in September 2009. Although the selling price of our Golden Care series of products is generally lower than our other infant formula products, our weighted average selling price of overall infant formula products remained stable because of the higher selling price of our Supreme Care series of products.

As we launched baby cereal products in April 2009 and also on account of our successful repositioning of our dried baby food products from "supplemental dried baby food" to "multi-nutritional food for children" in March 2009, the sales volume of our dried baby food products increased from approximately 40,580 kg in the six months ended June 30, 2009 to 132,714 kg during the comparable period in 2010, generating revenue of RMB21.3 million and RMB42.7 million, respectively. The increase in sales volume in the six months ended June 30, 2010 was partly offset by the decrease in average selling price for our dried baby food products during the same period, primarily due to the significant increase in sales of baby cereal products, which have lower selling prices.

We started offering baby diapers, the first and one of the key products of our baby care products category, in May 2010 and generated revenue of RMB27.1 million in the six months period ended June 30, 2010.

Cost of sales

Our cost of sales increased by 113.5% from RMB67.3 million in the six months ended June 30, 2009 to RMB143.7 million during the same period in 2010. Among a number of cost items, our material costs increased from RMB63.1 million in the six months ended June 30, 2009 to RMB134.8 million during the same period in 2010. The increase was primarily due to increased production volumes following increased sales volumes of our products, which further resulted in an increase in raw material, finished products and packaging material purchases. As a result, our production overhead also increased from RMB2.6 million in the six months ended June 30, 2009 to RMB5.5 million during the comparable period in 2010. Our labor costs increased from RMB1.6 million in the six months ended June 30, 2009 to RMB3.4 million during the comparable period in 2010 on account of wage raises and increased total headcounts for direct labor.

Notwithstanding the increased sales volume of our probiotic supplement products, the cost of sales of our probiotic supplement products decreased slightly from RMB31.7 million in the six months ended June 30, 2009 to RMB28.2 million during the comparable period in 2010, primarily due to our commencement of importing probiotic powder for the final production of our probiotic supplement products at our Guangzhou facility in December 2009. The PRC customs duty for probiotic finished products we imported was 20%, while there is no PRC custom duty for imported raw materials for probiotic supplement products. As a result, raw material costs, the largest portion of our total cost of sales for probiotic supplements, decreased despite an increased volume of purchases from our overseas supplier.

The cost of sales of our infant formula products increased significantly from RMB27.5 million in the six months ended June 30, 2009 to RMB90.9 million during the same period in 2010, primarily due to the increase in sales volume.

The cost of sales of our dried baby food products increased by 61.7 % from RMB8.1 million in the six months ended June 30, 2009 to RMB13.1 million during the same period in 2010, primarily due to increased production volumes and procurement, which resulted in increased purchases of raw materials and finished products. To a lesser extent, we incurred additional repackaging costs in the first half of 2009 due to the repositioning of our baby food products under our newly defined product name, which did not reoccur in 2010.

We had costs of sales of RMB11.5 million with respect to our baby diapers, the first and one of the key products of our baby care products category launched in May 2010, in the six months ended June 30, 2010.

Gross profit

As a result of the foregoing, our gross profit increased by 122.6% from RMB158.3 million in the six months ended June 30, 2009 to RMB352.4 million during the same period in 2010. Our gross profit margin increased from 70.2% in the six months ended June 30, 2009 to 71.0% during the same period in 2010.

Gross profit for our probiotic supplement products increased from RMB90.8 million in the six months ended June 30, 2009 to RMB110.3 million during the comparable period in 2010, and the gross profit margin increased from 74.1% to 79.6% in the same period. The increase in gross profit was primarily caused by increased sales volume of our probiotic supplement products. The increase in gross profit margin was caused by the substantially decreased costs of sales we enjoyed on account of moving the final production of our probiotic supplement products in-house, which led to the reclassification of custom duty from 20.0% for imported finished probiotic supplement products to 0% for imported probiotic powder as raw materials since September 2009.

Gross profit for our infant formula products increased from RMB54.3 million in the six months ended June 30, 2009 to RMB196.9 million during the same period in 2010, and the gross profit margin increased from 66.4% to 68.4% in the same period. The increase of the gross profit was primarily caused by increased sales volume of our products. The increase of gross profit margin was caused by the appreciation of the Renminbi against the Euro. Furthermore, the addition of Stage 2 and Stage 3 products of our Supreme Care series launched in September 2009, which enjoy higher profit margins than other series of infant formula products, also contributed to the increase of our gross profit margin.

Gross profit for our dried baby food products increased from RMB13.2 million to RMB29.6 million, and the gross profit margin increased from 62.0% to 69.3%. The increase of gross profit was primarily caused by increased sales volume of our products. The increase of gross profit margin was caused by the repackaging costs for repositioning and rebranding certain of our dried baby food products, which was on an one-off basis in 2009.

Gross profit for our baby care products was RMB15.6 million in the six months ended June 30, 2010. Gross profit margin for the same period was 57.6%.

Other income and gains

Other income and gains increased from RMB1.2 million in the six months ended June 30, 2009 to RMB4.6 million during the same period ended June 30, 2010, primarily as a result of the increase in our foreign exchange gain relating to the appreciation of Renminbi against Euro/US dollar relating to our overseas purchases.

Selling and distribution costs

Our selling and distribution costs increased by 84.0% from RMB103.4 million in the six months ended June 30, 2009 to RMB190.3 million during the same period in 2010. Although the selling and distribution costs increased substantially from the six months ended June 30, 2009 to the comparable period of 2010, our selling and distribution costs as a percentage of our total revenue decreased from 45.8% in the six months ended June 30, 2009 to 38.4% for the same period in 2010. The increase in our selling and distribution costs was primarily due to increase in staff costs and office expenses, promotional expenses and advertising expenses, which were in line with our business growth and increase in sales of our products. The increase in our staff costs and office expenses in the six months ended June 30, 2010 was primarily due to an increase in average remuneration level and the number of our sales and marketing personnel as well an increase in travel and other office costs corresponding to our scale of operations. The increase in promotional expenses was primarily due to increased promotional materials, such as free gifts and promotional brochures , and the increase in number of sales specialists who promote our brand in specialty stores and retail sales organization and pharmacies. The increase in advertising expenses was primarily used in purchasing advertisement on television to promote our brand. The decrease in our selling and distribution costs as a percentage of our total revenue in the six months ended June 30, 2010 was primarily due to the increased cost efficiency for our promotional and marketing activities and enhanced economies of scale.

Administrative expenses

Our administrative expenses increased by 178.4% from RMB10.2 million in the six months ended June 30, 2009 to RMB28.4 million during the comparable period in 2010. The increase was primarily due to (i) the increase in relevant expenses in preparation of the [●] and (ii) the increase in salaries and wages of our administrative staff, as a result of addition of managerial employees to support our business, which corresponded to our business growth as well as increase in average remuneration level.

Other expenses

Our other expenses increased by 66.7% from RMB1.5 million in the six months ended June 30, 2009 to RMB2.5 million during the same period in 2010. The increase in other expenses was primarily due to an increase in expenses related to the addition of research and development personnel.

Income tax expenses

Our income tax expenses increased by 113.5% from RMB8.9 million in the six months ended June 30, 2009 to RMB19.0 million during the comparable period in 2010, due to the increase in our profit before

tax. Our effective income tax rate decreased from 20.1% in the six months ended June 30, 2009 to 14.0% in the six months ended June 30, 2010, as a result of the increase in profit before tax contributed by Biostime Health, which enjoyed a preferential income tax rate at 11.0% for the six months ended June 30, 2010.

Profit for the period

As a result of the foregoing factors, our profit increased by 229.0%, or RMB81.3 million, from RMB35.5 million in the six months ended June 30, 2009 to RMB116.8 million in the six months ended June 30, 2010.

Year ended December 31, 2009 compared with year ended December 31, 2008

Revenue

Our revenue increased by 71.7% from RMB325.5 million in the year ended December 31, 2008 to RMB559.0 million in the year ended December 31, 2009. The increase was primarily due to the expansion of our business and an increase in the sales volume of our products. Although the average selling price per product in each of our segments, except for dried baby food products, generally remained unchanged in 2008 and 2009, the sales volume of all product segments increased substantially over the same period and contributed to the increase in our total revenue.

Sales of our probiotic supplements increased by 4.8% from RMB253.8 million in the year ended December 31, 2008 to RMB265.9 million in the year ended December 31, 2009. While the average selling price of our probiotic supplement products remained unchanged in 2008 and 2009, the sales volume of our probiotic supplements increased from approximately 97,600 kg in 2008 to 102,100 kg in 2009. This increase in the sales volume of our probiotic supplements was due to an expansion of our sales network and greater market recognition of our products.

Sales of our infant formula products increased significantly from RMB40.8 million in the year ended December 31, 2008 to RMB238.1 million in the year ended December 31, 2009. While the average selling price of our infant formula products remained unchanged in 2008 and 2009, the sales volume increased substantially from 209,634 cans in 2008 to 1,197,769 cans in 2009 because we launched this new product segment in July 2008, which resulted in 2009 being the first full year in which we sold our infant formula products.

To a lesser extent, the increase in sales of our dried baby food products also contributed to the increase of our total revenue. The sales volume of our dried baby food products increased from approximately 32,700 kg in 2008 to 127,700 kg in 2009, generating revenue of RMB30.9 million and RMB55.0 million, respectively. The increase was due to our launching baby cereal products in April 2009, our expanded sales network and greater market recognition of our dried baby food products. In addition, we successfully repositioned our dried baby food products from "supplement dried baby food" to "multi-nutritional food for children" in March 2009, which also enhanced our sales.

Cost of sales

Our cost of sales increased by 84.0% from RMB88.6 million in the year ended December 31, 2008 to RMB163.0 million in the year ended December 31, 2009. Among a number of cost items, our material costs increased from RMB82.0 million in 2008 to RMB152.1 million in 2009. The increase was primarily due to increased production volumes following increased sales volumes of our products, which further resulted in an increase in raw material, finished products and packaging material purchases. In addition to increased production volumes, commercial production at our new GMP-certified plant in January 2008 also contributed to the increased production overhead. As a result, our production overhead increased from RMB3.6 million in 2008 to RMB7.2 million in 2009. Our labor costs increased slightly from RMB3.0 million in 2008 to RMB3.7 million in 2009 on account of wage raises and increased total headcounts for direct labor.

Notwithstanding the increased sales volume of our probiotic supplement products, the cost of sales of our probiotic supplement products decreased slightly from RMB63.8 million in 2008 to RMB62.6 million in 2009 as a result of substantially reduced custom duty and the appreciation of the Renminbi against the US dollar in relation to our payment to the overseas supplier. As a result, raw material costs for our probiotic supplement products, decreased despite an increased sales volume for such products.

The cost of sales of our infant formula products increased significantly from RMB14.7 million in 2008 to RMB77.8 million in 2009, primarily due to increased sales volume.

The cost of sales of our dried baby food products increased by 123.8% from RMB10.1 million in 2008 to RMB22.6 million in 2009 primarily due to increased production volumes and procurement, which resulted in increased purchases of raw materials and finished products. To a lesser extent, we incurred additional repackaging costs in 2009 than in 2008 due to the repositioning of our baby food products under our newly defined product category. We consider this product repositioning to be a one-time matter and the corresponding expenses to be non-recurring. Further details are set out in the paragraph headed "Factors affecting our results of operations and financial condition — Cost of raw materials, packaging materials and finished products" in this section.

Gross profit

As a result of the foregoing, our gross profit increased by 67.2% from RMB236.9 million in the year ended December 31, 2008 to RMB396.0 million in the year ended December 31, 2009. Our gross profit margin decreased slightly from 72.8% in the year ended December 31, 2008 to 70.8% in the year ended December 31, 2009.

Gross profit for our probiotic supplement products increased from RMB190.0 million in 2008 to RMB203.3 million in 2009, and the gross profit margin increased from 74.9% to 76.5% in the same period. The increase in gross profit was primarily caused by increased sales volume of our probiotic supplement products. The increase in gross profit margin was caused by the substantially decreased costs of sales we enjoyed on account of moving the final production of our probiotic supplement products in-house in 2009, which led to the reclassification of custom duty from 20.0% for imported finished probiotic supplement products to 0% for imported probiotic powders as raw materials.

Gross profit for our infant formula products increased from RMB26.1 million to RMB160.3 million, and the gross profit margin increased from 64.0% to 67.3% in the same period. The increase of the gross profit was primarily caused by increased sales volume of our products. The increase of gross profit margin was caused by the lowered procurement cost and freight costs. Although we did not enjoy any volume discounts from our product suppliers despite our increased procurement of infant formula products, unit costs for labor and overhead decreased due to increased sales volumes. Furthermore, the addition of Stage 2 and Stage 3 products of our Supreme Care series, which enjoy higher profit margins than other series of infant formula products, also contributed to the increase of our gross profit margin.

Gross profit for our dried baby food products increased from RMB20.8 million to RMB32.4 million, but the gross profit margin decreased from 67.3% to 58.9%. The increase of gross profit was primarily caused by increased sales volume of our products. The decrease of gross profit margin was caused by the increased unit costs of packaging materials, which was caused by the repositioning and rebranding of certain of our dried baby food products.

Other income and gains

Other income and gains increased from RMB0.9 million in the year ended December 31, 2008 to RMB3.1 million in the year ended December 31, 2009, primarily as a result of increased income from trial sales of certain goods that were not within any of our previous product categories. We generated substantially more income from trial sales in 2009 than in 2008 because, in 2009 and before the establishment of Biostime Nutrition, we sold a substantial amount of Leseil Probiotic Capsule products on a trial basis. After the establishment of Biostime Nutrition, Leseil Probiotic Capsule products were no longer sold through us and relevant income recorded in the year ended December 31, 2009 was treated as other income based on its one-off, non-recurring nature.

Selling and distribution costs

Our selling and distribution costs increased by 47.1% from RMB168.8 million in the year ended December 31, 2008 to RMB248.3 million in the year ended December 31, 2009. The increase was primarily due to an increase in staff costs for our sales and marketing staff and office expenses as well as promotional expenses. The increase in our staff costs and office expenses in 2009 was primarily due to an increase of salaries and benefits for our sales and marketing personnel, as a result of the increase in the number of our sales and marketing personnel from 470 in 2008 to 633 in 2009 as well as the average remuneration of such staff. In 2009, we spent RMB72.6 million for promotional activities, representing a 94.6% increase from RMB37.3 million in 2008. The substantial increase was primarily attributable to an increase in promotional materials, such as free gifts and promotional brochures and increased service fees paid to sales specialists working in specialty stores and *Mama100 Members' Zones* that are maintained in retail sales organizations and pharmacies.

In 2008 and 2009, our advertising spending in terms of scale, coverage and media remained stable.

Administrative expenses

Our administrative expenses increased by 30.5% from RMB20.3 million in the year ended December 31, 2008 to RMB26.5 million in the year ended December 31, 2009. The increase was primarily due to the addition of managerial-level employees in various departments of our operating subsidiaries to support our business growth.

Other expenses

Our other expenses increased by 52.5% from RMB4.0 million in the year ended December 31, 2008 to RMB6.1 million in the year ended December 31, 2009. The increase in other expenses was primarily due to an increase in expenses related to the addition of research and development personnel and increased expenditure relating to additional research and development activities. As of December 31, 2009, we had 8 full-time research and development personnel as compared to 6 as of December 31, 2008. In addition, we commenced certain joint research and development programs in 2009, which resulted in increased research and development expenses.

Income tax expenses

Despite a significant increase in our profit before tax, our income tax expenses increased by only 4.3% from RMB9.4 million in the year ended December 31, 2008 to RMB9.8 million in the year ended December 31, 2009, due to the effect of an income tax exemption applicable to our subsidiary, Biostime Health, in the year ended December 31, 2009. Further details are set out in the paragraph headed "Description of components of results of operations — Income tax expenses" in this section. As a result of such preferential tax treatment, our effective income tax rate decreased significantly from 21.2% in the year ended December 31, 2008 to 8.3% in the year ended December 31, 2009.

Profit for the year

As a result of the foregoing factors, our profit increased by 207.7%, or RMB73.1 million, from RMB35.2 million in the year ended December 31, 2008 to RMB108.3 million in the year ended December 31, 2009.

Year ended December 31, 2008 compared with year ended December 31, 2007

Revenue

Our revenue increased by 72.9% from RMB188.3 million in the year ended December 31, 2007 to RMB325.5 million in the year ended December 31, 2008. The increase was primarily due to the expansion of our business and an increase in the sales volume of our products.

The sales of probiotic supplement products increased by 47.4% from RMB172.2 million in the year ended December 31, 2007 to RMB253.8 million in the year ended December 31, 2008. While the average selling price of our probiotic supplement products remained stable in 2007 and 2008, the sales volume of our probiotic supplements increased from approximately 67,600 kg in 2007 to 97,600 kg in 2008. This increase was due to the expansion of our sales network and greater market recognition of our products.

We started offering infant formula products in July 2008. Sales of infant formulas in 2008 was RMB40.8 million.

To a lesser extent, the increase in sales of our dried baby food products also contributed to the increase of our total revenue. While the average selling price of our dried baby food products remained at the same level in 2007 and 2008, the sales volume increased from approximately 19,600 kg in 2007 to 32,700 kg in 2008, generating revenue of RMB16.1 million and RMB30.9 million, respectively, on account of an expansion of our sales channel and enhanced market recognition of our products.

Cost of sales

Our cost of sales increased by 75.8% from RMB50.4 million in the year ended December 31, 2007 to RMB88.6 million in the year ended December 31, 2008. Among a number of cost items, our material costs increased from RMB46.9 million in 2007 to RMB82.0 million in 2008. The increase was primarily due to increased production and procurement volumes following the increased sales volume of our products, which further resulted in larger purchases of raw materials, finished products and packaging materials. In addition to the increased production volumes, we also began commercial operation of our new GMP-certified plant in January 2008. As a result, our production overhead increased from RMB1.8 million in 2007, which was mainly related to packaging and labeling, to RMB3.6 million in 2008, which involved the production of certain of our dried baby food products at our new GMP-certified plant. Due to the newly set up commercial operation of our GMP-certified plant in 2008 as well as our business expansion, our labor costs also increased by 76.5% from RMB1.7 million to RMB3.0 million. The increases in cost of sales were partly offset by the lower average purchase prices of our imported raw materials and finished products, attributable to the appreciation of the Renminbi against the Euro and the US dollar in 2008.

Due to the increased sales volume of our probiotic supplement products, we incurred RMB63.8 million of costs of sales in 2008, representing a 40.0% increase from RMB45.6 million in 2007. The increase in our cost of sales was partly offset by volume discounts given by our overseas supplier.

We began incurring costs of sales with respect to our infant formula products in July 2008, in the amount of RMB14.7 million in 2008.

The cost of sales of our dried baby food products increased by 110.4% from RMB4.8 million in 2007 to RMB10.1 million in 2008 due to increased production and procurement volumes, which resulted in increased purchases of raw materials. Prices for raw materials and packaging materials for our dried baby food products were stable during the Track Record Period.

Gross profit

As a result of the foregoing, our gross profit increased by 71.8% from RMB137.9 million in the year ended December 31, 2007 to RMB236.9 million in the year ended December 31, 2008. Our gross profit margin decreased slightly from 73.2% in the year ended December 31, 2007 to 72.8% in the year ended December 31, 2008.

Gross profit of our probiotic supplement products increased from RMB126.6 million in 2007 to RMB190.0 million in 2008, and the gross profit margin increased from 73.5% to 74.9% in the same period. The increase in gross profit was primarily caused by increased sales volume of our products. The increase in gross profit margin was caused by a substantial appreciation of the RMB against the US dollar.

Gross profit for our infant formula products was RMB26.1 million in 2008, the first year we offered our infant formula products. Gross profit margin in 2008 for the infant formula products was 64.0%.

Gross profit for our dried baby food products increased from RMB11.3 million in 2007 to RMB20.8 million in 2008, but the gross profit margin decreased from 70.2% to 67.3% for the same period. The increase in gross profit was primarily due to the increased sales volume of our dried baby food products. The decrease in gross profit margin was due to the increase in production overhead in 2008 as compared to 2007 as a result of the newly set up GMP-certified plant in 2008.

Other income and gains

Other income and gains increased from RMB0.6 million in the year ended December 31, 2007 to RMB0.9 million in the year ended December 31, 2008. The increase in our interest income in 2008 as compared to 2007 was primarily due to the increase of our interest-bearing bank deposits during the same period. In addition, income generated from trial sales increased from RMB0.1 million in the year ended December 31, 2007 to RMB0.2 million in the year ended December 31, 2008.

Selling and distribution costs

Our selling and distribution costs increased by 77.7% from RMB95.0 million in the year ended December 31, 2007 to RMB168.8 million in the year ended December 31, 2008. The increase was primarily due to an increase in advertising expenses, staff costs and office expenses and promotional expenses.

The increase in staff costs and office expenses was mainly attributable to the increased salary and benefits of our sales and marketing personnel, as a result of the increase in the number of our sales and marketing personnel from 380 in 2007 to 470 in 2008 as well as the average remuneration of such staff. In 2008, we spent RMB57.3 million for advertisement of our brand and products, representing an increase of 62.8% as compared to RMB35.2 million spent on advertising in 2007. A substantial portion of the increased advertising expense was used in the promotion of our probiotic supplement products. The increase in our promotional expenses primarily consisted of the increase in promotional materials and service fees paid to sales specialists for promoting our products, in connection with our launching of new infant formula products and the enhanced promotional activities for our probiotic supplement products.

Administrative expenses

Our administrative expenses increased by 103.0% from RMB10.0 million in the year ended December 31, 2007 to RMB20.3 million in the year ended December 31, 2008. The increase was mainly due to an increase in remuneration and other employee benefits for our administrative personnel.

Other expenses

Our other expenses decreased by 33.3% from RMB6.0 million in the year ended December 31, 2007 to RMB4.0 million in the year ended December 31, 2008. The decrease in other expenses was primarily due to the decreased research and development expenses.

Income tax expense

Notwithstanding an increase in our profit before tax, our income tax expense slightly decreased by 5.1% from RMB9.9 million in the year ended December 31, 2007 to RMB9.4 million in the year ended December 31, 2008, primarily due to a decrease in the statutory corporate income tax rate from 33.0% to 25.0%. The income tax exemption for Biostime Health also contributed to the decrease in our income tax expenses in 2008. Our effective income tax rate decreased significantly from 36.2% in the year ended December 31, 2007 to 21.2% in the year ended December 31, 2008.

Profit for the year

As a result of the foregoing factors, our profit increased by 101.1%, or RMB17.7 million, from RMB17.5 million in the year ended December 31, 2007 to RMB35.2 million in the year ended December 31, 2008.

Financial Position, Liquidity and Capital Resources

Our primary liquidity requirements relate to investment in additional manufacturing facilities and equipment as well as funding our working capital and normal recurring expenses. To date, we have financed our cash requirements through a combination of cash generated from operating activities and the [●] of capital contributions from our shareholders. In the future, we expect to continue relying principally on cash flows from operations to fund our working capital needs and will use the [●] from the [●] to finance part of our business expansion.

Cash flow

Cash flows from operating activities represent the inflows of cash from the sale of our products and the outflows of cash for inventory purchases, selling and distribution costs and other operating expenses and taxes. Cash flows used in investing activities primarily represent capital expenditure for property, plant and equipment. Cash flows used in financing activities primarily represent dividends paid to our owners while cash inflows from financing activities represent contributions from the owners and bank loan.

As of June 30, 2010, we had cash and cash equivalents of RMB245.3 million for the purpose of the combined statements of cash flow. The following table sets out the selected cash flow information in each of the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash and cash equivalents at beginning of year/period	31,104	47,935	59,765	59,765	133,795
Net cash flows from operating activities	24,314	23,183	109,798	13,545	143,030
Net cash used in investing activities	(9,926)	(11,605)	(9,835)	(14,037)	(6,798)
Net cash flows from/(used in) financing activities	2,443	263	(25,930)	—	(24,703)
Effect of foreign exchange rate changes, net	—	(11)	(3)	(2)	5
Cash and cash equivalents at end of year/period	47,935	59,765	133,795	59,271	245,329

Cash flows from operating activities

In the six months ended June 30, 2010, we had net cash generated from operating activities of RMB143.0 million, consisting of cash generated from operations of RMB158.6 million, partly offset by income tax paid of RMB15.5 million. Our cash generated from operations consisted of cash flow from operating activities of RMB138.3 million before working capital adjustments and net positive changes in working capital of RMB20.2 million. Net positive working capital adjustments primarily consisted of: (i) an increase in other payable and accruals of RMB38.3 million, which primarily consisted of increase in accruals of professional service fees relating to the [●] and transportation costs as well as advances from customers; (ii) an increase in amount due to related companies of RMB8.8 million, primarily consisting of payables due to Biostime Pharmaceuticals, which represented the amount paid by Biostime Pharmaceuticals to one of our key suppliers on our behalf. Such positive changes were partly offset by (i) an increase in inventories of RMB16.6 million, which related primarily to the growth of our scale of operation and increased sales and (ii) an increase in amount due from related parties of RMB4.7 million, which primarily consisted of other receivables due from Biostime Nutritions relating to the loan and services provided to Biostime Nutritions as well as the payment we made on behalf of Biostime Nutritions.

In the year ended December 31, 2009, we had net cash generated from operating activities of RMB109.8 million, consisting of cash generated from operations of RMB119.1 million, partially offset by income tax paid of RMB9.3 million. Our cash generated from operations consisted of cash flows from operating activities of RMB122.9 million before working capital adjustments and net negative changes in working capital of RMB3.8 million. Net negative working capital adjustments primarily consisted of (i) an increase in inventories of RMB37.4 million, which related primarily to increased purchases of infant formulas in-line with the significant growth of our infant formula business; (ii) an increase in prepayments, deposits and other receivables amounting to RMB6.5 million, which primarily consisted of advance payments for the acquisition of new equipment and service fees paid in advance to our service providers; and (iii) a decrease in amounts due to related companies of RMB17.3 million, primarily consisting of repayments to Biostime Pharmaceuticals who paid our suppliers on our behalf. Such negative adjustments were partly offset by (i) a decrease in amounts due from related companies amounting to RMB13.8 million as a result of repayment of a loan granted to Guangzhou Biohope; (ii) an increase in other payables and accruals amounting to RMB20.1 million, mainly consisting of salary payables and deferred income; and (iii) an increase in trade payables amounting to RMB21.4 million, which primarily consisted of the increase in trade payables to our product suppliers for our infant formula product supplier and corresponded to our increased purchases of infant formula products and significant growth of infant formula business in 2009.

In the year ended December 31, 2008, we had net cash generated from operating activities of RMB23.2 million, consisting of cash generated from operations of RMB38.4 million, partially offset by income tax paid of RMB15.2 million. Our cash generated from operations consisted of cash flows from operating activities of RMB46.5 million before working capital adjustments and net negative changes in working capital of RMB8.0 million. Net negative working capital adjustments primarily consisted of (i) an increase in inventories amounting to RMB31.4 million, which related primarily to increased purchases of raw materials, in-line with our business expansion and the increased stocks of infant formula products as such products were first launched in July 2008; (ii) an increase in amount due from related companies amounting to RMB13.6 million as a result of additional loans to Guangzhou Biohope and (iii) an increase in prepayments, deposits and other receivables of RMB3.5 million, primarily due to the increase in

prepayments for advertisement and promotional activities. Such negative adjustments were partially offset by (i) an increase in trade payables amounting to RMB14.4 million, which primarily consisted of the increase in trade payables to our infant formula suppliers; (ii) an increase in other payables and accruals amounting to RMB9.9 million, which primarily related to increased VAT tax payable, deposits received from regional distributors, accrued service fees and deferred income; and (iii) an increase in amounts due to related companies of RMB13.8 million, which represented the amount paid by Biostime Pharmaceuticals to one of our key suppliers on our behalf.

In the year ended December 31, 2007, we had net cash generated from operating activities of RMB24.3 million, consisting of cash generated from operations of RMB30.4 million, partially offset by income tax paid of RMB6.1 million. Our cash generated from operations consisted of cash flows from operating activities of RMB28.2 million before working capital adjustments and net positive changes in working capital of RMB2.2 million. Net positive working capital adjustments primarily consisted of (i) a decrease in prepayments, deposits and other receivables of RMB2.1 million, primarily due to an increase of prepayments to service providers for advertisement; (ii) an increase in other payables and accruals amounting to RMB11.7 million, which related primarily to security deposits paid by our regional distributors and our deferred income; and (iii) an increase in amounts due to related companies of RMB3.5 million which primarily related to a loan from Biostime Pharmaceuticals as a result of our historical overseas raw material procurement through Biostime Pharmaceuticals in consideration of its efficient payment offshore. We will not procure overseas raw materials through Biostime Pharmaceuticals in the future. Such positive adjustments were partially offset by (i) an increase in amounts due from related companies amounting to RMB6.6 million; and (ii) an increase in trade and bills receivables amounting to RMB4.7 million, as a result of our sales of our products, other than infant formulas, to consumers in remote areas with no regional distributorship coverage; and (iii) an increase in inventories amounting to RMB2.0 million.

Cash flows used in investing activities

In the six months ended June 30, 2010, our net cash used in investing activities was RMB6.8 million. Our net cash outflows for investing activities mainly consisted of: (i) purchase of property, plant and equipment of RMB5.1 million, which primarily related to acquisition of computers and POS machines as well as equipment for our information system and (ii) increase in restricted cash of RMB2.4 million, primarily relating guarantee deposits for letters of credits.

In the year ended December 31, 2009, our net cash used in investing activities was RMB9.8 million. Our net cash outflows for investing activities mainly consisted of (i) increased purchases of property, plant and equipment of RMB5.5 million, which primarily related to acquisitions of computers, coding machines and vehicles for business use and (ii) increase of restricted cash of RMB4.9 million, primarily relating to guarantee deposits for issuance of letters of credit.

In the year ended December 31, 2008, our net cash used in investing activities was RMB11.6 million. Our net cash outflows for investing activities mainly consisted of: (i) RMB10.8 million for the establishment of our GMP-certified plant, which commenced commercial production in January 2008, and the acquisitions of machineries, vehicles and office equipment and (ii) an increase in restricted cash of RMB1.2 million, primarily relating to guarantee deposits for issuance of letters of credit.

In the year ended December 31, 2007, our net cash used in investing activities was RMB9.9 million. Our net cash outflows for investing activities mainly consisted of increased purchases of property, plant and equipment of RMB10.1 million, primarily relating to the establishment of our GMP-certified plant that commenced commercial production in January 2008.

Cash flows from/(used in) financing activities

In the six months ended June 30, 2010, our net cash flows used in financing activities was RMB24.7 million. Our net cash flows used in financing activities mainly consisted of : (i) dividends paid to our owners of RMB30.0 million and (ii) the repayment of foreign exchange bridge bank loan of RMB0.5 million. Such cash outflows were partly offset by the contributions from the Controlling Shareholders of RMB5.8 million.

In the year ended December 31, 2009, our net cash flows used in financing activities was RMB25.9 million. Our net cash flows used in financing activities mainly consisted of RMB27.5 million of dividends paid to our owners, partially offset by a RMB1.0 million capital contribution from our owners and the [●] from a foreign exchange bridge bank loan of RMB0.5 million we received in December 2009.

In the year ended December 31, 2008, our net cash flows from financing activities was RMB0.3 million. Our net cash flows from financing activities mainly consisted of RMB13.1 million of capital contribution from our owners, partially offset by a RMB13.0 million of dividends paid to our owners.

In the year ended December 31, 2007, our net cash flows from financing activities was RMB2.4 million, which mainly consisted of the capital contribution made from the owners.

Working capital

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations.

Our current assets primarily consist of cash and cash equivalents, inventories, prepayment, deposits and other receivables and receivables due from our customers and related parties. Our current liabilities primarily consist of trade payables, other payables and accruals and tax payable. We manage our working capital by closely monitoring the level of our trade payables and other payables and accruals as well as inventory levels. Our cash position consists primarily of bank balances, less restricted cash as guarantee deposits for issuance of letters of credits.

As of June 30, 2010, we had cash and cash equivalents (excluding restricted cash) of RMB245.3 million. As of June 30, 2010, we had revolving credit facilities in the aggregate amount of approximately RMB95.0 million made available to us by commercial banks, of which RMB33.7 million was utilized for issuing letters of credit. Taking into account our cash and cash equivalents on hand, our available credit facilities, cash generated from our future operations and the estimated net [●] from the [●], our Directors are of the opinion that we have sufficient working capital to meet our present and future financial requirements, for at least 12 months from the date of this document.

FINANCIAL INFORMATION

We had a net current asset position of approximately RMB24.8 million, RMB60.8 million, RMB140.8 million and RMB214.7 million as of December 31, 2007, 2008 and 2009 as of June 30, 2010, respectively. As of October 31, 2010, we had net current assets of approximately RMB196.8 million. The table below sets forth our current assets, current liabilities and net current assets for the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	12,832	44,273	80,953	97,286	115,535
Trade and bills receivables	7,862	5,588	3,653	4,584	7,178
Prepayments, deposits and other receivables	10,927	14,395	20,915	26,493	32,865
Due from directors	508	384	300	—	—
Due from related companies	8,201	21,792	7,958	12,675	15,443
Restricted cash	—	1,232	6,090	8,447	—
Cash and cash equivalents	47,935	59,765	133,795	245,329	303,696
Total current assets	88,265	147,429	253,664	394,814	474,717
Current liabilities					
Trade payables	3,851	18,229	39,657	40,292	46,586
Other payables and accruals	33,218	43,663	63,550	101,279	114,840
Dividend payable	13,001	—	—	11,142	104,361
Interest-bearing bank loan	—	—	500	—	—
Due to related companies	3,465	17,313	48	8,884	59
Tax payable	9,959	7,420	9,107	18,554	12,100
Total current liabilities	63,494	86,625	112,862	180,151	277,946
Net current assets	24,771	60,804	140,802	214,663	196,771

The changes in the balance of our net current assets as of the respective dates were consistent with the expansion of our business operations during the Track Record Period.

Trade and bills receivables, inventories and trade payables turnover

The following table sets forth the turnover days of our trade and bills receivables, inventories and trade payables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	days	days	days	days
Turnover days of trade and bills receivables[1]	11	8	3	2
Turnover days of inventories[2]	86	118	140	112
Turnover days of trade payables[3]	32	45	65	50

(1) Turnover days of trade and bills receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables for the relevant period by turnover and multiplying by 365 days for a year or multiplied by 180 days with respect to turnover days of trade and bill receivables for a six-month period.

(2) Turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventory for the relevant period by cost of sales multiplying by 365 days for a year or multiplied by 180 days with respect to turnover days of inventory for a six-month period.

(3) Turnover days of trade payables is derived by dividing the arithmetic mean of opening and closing balances of trade payables, for the relevant period by cost of sales and multiplying by 365 days for a year or multiplied by 180 days with respect to turnover days of trade payables for a six-month period.

Trade and bills receivables

Trade and bills receivables primarily represent our trade receivables and bank accepted bills receivables from a limited number of credit sales of our products, less impairment provision. The following table sets forth a breakdown of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,508	2,478	1,095	827
Bills receivables	3,387	3,172	2,620	3,776
Less: Provision for impairment	(33)	(62)	(62)	(19)
	7,862	5,588	3,653	4,584

Trade and bills receivables are initially recognized at fair value and subsequently measured at amortized costs less allowance for impairment of doubtful debts. For the determination of allowance for impairment provision, we consider factors such as the significant financial difficulties of the debtors, the probability that the debtor will file for bankruptcy or be subject to a financial reorganization, and the possibility of default or delinquent payments. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had provided for impairment for trade and bills receivables of approximately RMB33,000, RMB62,000, RMB62,000 and RMB19,000, respectively. Such provisions were for individually impaired receivables relating to customers that were in default or delinquent in making payments. We do not hold any collateral or other security over such impaired amount.

Regional distributors as our direct customers are required to pay in advance for the supply of our products. In principal, we do not allow credit purchases for orders made by regional distributors. Requiring full payment in advance assists us in balancing our cash flows, minimizes efforts in collecting receivables and reduces our exposure to bad debts. In instances of very limited sales made to customers in remote areas without distribution coverage and to certain long-established distributors with proven track records, we may, upon approval of our senior management, incur trade receivables. The total amount of such trade and bills receivables as of December 31, 2007, 2008 and 2009 and June 30, 2010 were RMB7.9 million, RMB5.6 million, RMB3.7 million and RMB4.6 million, representing approximately 8.9%, 3.8%, 1.5% and 1.2% of our total current assets as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively.

As of October 31, 2010, approximately RMB4.5 million, or 97.8%, of our trade and bills receivables as of June 30, 2010, were subsequently settled.

The following table sets forth an ageing analysis of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	3,878	2,036	2,077	1,011
One to three months	2,943	1,964	1,382	2,472
Over three months	1,041	1,588	194	1,101
	7,862	5,588	3,653	4,584

The average turnover days of trade and bills receivables were 11, 8, 3 and 2 days in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The average turnover days of our trade and bills receivables decreased primarily due to more stringent enforcement of our credit policy.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. The following table sets forth the components of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials[1]	7,792	35,413	64,837	75,976
Work in progress	—	68	4,025	1,952
Finished goods	5,040	8,792	12,091	19,358
	12,832	44,273	80,953	97,286

(1) Includes raw materials, such as probiotic powder, dried baby food ingredients and other materials purchased from our material suppliers, finished infant formula products, certain dried baby food products and baby care products purchased from our product suppliers, as well as packaging materials.

Our inventory of raw materials increased significantly from RMB7.8 million as of December 31, 2007 to RMB35.4 million as of December 31, 2008 and to RMB64.8 million as of December 31, 2009 and to RMB76.0 million as of June 30, 2010, primarily due to the expansion of our business and product portfolio and an increase in our sales volumes. In addition, we import infant formula produced by a product supplier with original packaging from France by sea and therefore a larger inventory is required to ensure the uninterrupted supply of our products. According to our inventory policy, we try to maintain approximately four months of inventory for infant formula products, which is substantially larger than any of our other product segments. Work in progress increased from RMB68,000 as of December 31, 2008 to RMB4.0 million as of December 31, 2009 and decreased to RMB2.0 million as of June 30, 2010, primarily due to the increased scale of production. Finished goods are those products we hold in our warehouse for delivery which are sold to our customers. Finished goods increased from RMB5.0 million as of December 31, 2007 to RMB8.8 million as of December 31, 2008 and to RMB12.1 million as of December 31, 2009 and to RMB19.4 million as of June 30, 2010, primarily due to the expansion of our business scale.

As of October 31, 2010, approximately RMB85.0 million, or 87.4%, of our inventories as of June 30, 2010, were subsequently consumed or sold.

Inventories are stated at cost, which is calculated using the weighted average method, or net realizable value, whichever is lower. The cost of finished goods and work-in-progress comprises raw materials, direct labor and related production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less any estimated costs to be incurred to completion and disposal. We make provisions for impairment of inventories when the carrying value of our inventories declines below the net realizable value. We review the carrying value of our inventories from time to time and make adjustments based on conditions of goods, including age and expiry date of the products. As of December 31, 2007, 2008 and 2009 and June 30, 2010, our provisions for impairment of inventories were nil, nil, RMB0.7 million and RMB0.9 million, respectively.

We actively monitor and review our inventory levels on a regular basis and seek to maintain a reasonable level of inventory of raw materials, work in progress and finished products throughout our other product categories. We closely monitor and assess the sales performance of our products so that we can adjust our production plans. We increase the purchase of raw materials when we believe that the raw materials price and our estimates of production and sales make it prudent to do so.

Our average inventory turnover days increased from 86 days in 2007, to 118 days in 2008, and then to 140 days in 2009, primarily because we started marketing infant formula products in July 2008, which required that we hold more products in inventory. In particular, after achieving significant growth for our infant formula business in 2009, we imported a substantial amount of infant formula products at the end of 2009 to accommodate our anticipated sales growth of infant formula products in 2010. Our average inventory turnover days decreased to 112 days in the six months ended June 30, 2010, as a result of our continuous effort to enforce our effective inventory policy. In response to the changes in our average inventory turnover days during the Track Record Period, we have also held monthly meetings among relevant operating departments, with a focus on controlling our inventory holding costs, maintaining efficient raw materials and products for our operation and ensuring sufficient supply of our products to our customers, to manage our inventories.

Trade payables

Our trade payables primarily comprise amounts outstanding for trade purchases from our suppliers of raw materials, infant formulas, certain dried baby food products, baby care products and packaging materials. Our trade payables increased significantly from RMB3.9 million as of December 31, 2007, to RMB18.2 million as of December 31, 2008, to RMB39.7 million as of December 31, 2009 and to RMB40.3 million as of June 30, 2010, primarily due to the expansion of our business and the growth of our sales volumes which resulted in corresponding increases in purchases from our suppliers.

As of October 31, 2010, approximately RMB40.0 million, or 99.3%, of our trade payables as of June 30, 2010 were settled.

The following table sets forth an ageing analysis of our trade payables as of December 31, 2007, 2008, 2009 and June 30, 2010:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	3,721	16,047	25,968	16,850
Two to three months	71	1,818	13,122	22,692
Over three months	59	364	567	750
	3,851	18,229	39,657	40,292

Our suppliers generally grant us a credit period of 30 to 90 days. Our trade payables turnover days were 32, 45, 65 and 51 days in the years ended December 31, 2007, 2008 and 2009 and in the six months ended June 30, 2010, respectively. The average turnover days of our trade payables increased during 2007

and 2009 primarily due to the larger purchases following the expansion of our product lines and business scale and the extended credit period granted by certain suppliers for our large volume purchases. The decrease in the half year ended June 30, 2010 is mainly due to the shorter credit period for baby care products, which we launched in May 2010.

Prepayments, deposits and other receivables

Prepayment primarily represent prepayments in connection with advertisement or other professional services in connection with the preparation of the [●]. Deposits primarily represent rental deposits for our leases. Other receivables primarily represent advances to our employees. As of December 31, 2007, 2008 and 2009 and June 30, 2010, our prepayments, deposits and other receivables were RMB10.9 million, RMB14.4 million, RMB20.9 million and RMB26.5 million, respectively.

Other payables and accruals

Other payables and accruals comprise advances from customers, deferred income, salaries and welfare payables to our employees, accruals, tax payables other than income tax and other payables. Advances from customers represented the payments provided by our customers when they placed their purchase, for which we processed but had not completed the delivery of products ordered. Our deferred income primarily represent the points earned by our consumers under our customer loyalty program, which will be recognized until the points are redeemed or expired. The balance of our deferred income as of December 2007, 2008 and 2009 and June 30, 2010, was RMB2.2 million, RMB4.2 million and RMB12.9 million and RMB19.6 million, respectively. Accruals primarily represented the payables relating to advertisement, professional services in connection with the preparation of the [●] and other services fees, which incurred but have yet settled.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, our other payables and accruals were RMB33.2 million, RMB43.7 million, RMB63.6 million and RMB101.3 million, respectively.

Key financial ratios

The table below sets out our current ratios, quick ratios and liabilities to asset ratios as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
Current ratio	1.4	1.7	2.2	2.2
Quick ratio	1.2	1.2	1.5	1.7
Liability to asset ratio	61.2%	49.4%	39.8%	41.7%

Our current assets divided by current liabilities, or current ratio, was 1.4, 1.7, 2.2 and 2.2 as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. Our current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 1.2, 1.2, 1.5 and 1.7 as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. Our relatively higher current ratio and quick ratio demonstrates our strong liquidity position and ability to comfortably pay off short-term liabilities, which were driven by our strong sales growth and our conservative cash management policy.

A liability to asset ratio is calculated by dividing total liabilities by total assets as of each balance sheet date. Our liability to asset ratios as of December 31, 2007, 2008 and 2009 and June 30, 2010 were 61.2%, 49.4%, 39.8% and 41.7%, respectively.

The table below sets out our return on equity ratios for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Return on equity	43.4%	39.7%	63.5%	46.3%

Return on equity, ROE, is calculated by dividing net profit for the period by total equity amounts as of the end of such period. Our return on equity for the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 was 43.4%, 39.7%, 63.5% and 46.3%, respectively. As we had only very limited non-operating income and gains, which consisted of interests from bank balances, our relatively higher ROE is based on our high gross profit margins and asset turnover rates and indicates our strong financial position, operating efficiency and profitability.

Capital expenditures

Our principal capital expenditures are related to the expansion of our production facilities, major maintenance, modernization of our existing plant and machinery. Our capital expenditures with respect to the purchase of property, plant and equipment were RMB10.1 million, RMB10.8 million, RMB5.5 million and RMB5.1 million for the years ended December 31, 2007, 2008 and 2009 and in the six months ended June 30, 2010, respectively.

As part of our future growth strategy, we estimate that our capital expenditures will be approximately RMB9.5 million in the year ending December 31, 2010. Our planned capital expenditures for our business operations will primarily consist of purchase of property, plant and equipment. We anticipate that the capital expenditures will be financed by cash generated from our operations and the net [●] from the [●]. The estimated amount of expenditures may vary from the actual amount for a variety of reasons, including changes in market conditions, competition and other factors.

Our current plan with respect to future capital expenditures is subject to change and based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, prevailing market conditions and our future outlook. There is no guarantee that any of the planned capital

expenditures outlined above will proceed as planned. As we continue to expand, we may incur additional capital expenditures. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. Further details are set out in the section headed "Forward-looking Statements" in this document.

Related Parties Transaction

Our management was of the view that our related parties include Biostime Pharmaceuticals, Guangzhou Biohope, Biostime Nutrition and Yuan Weitai during the Track Record Period. Further details of our related parties are set out in Note 26 of Appendix I to this document.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we made purchases for raw materials from Guangzhou Biohope, in the amount of RMB2.2 million, RMB0.4 million, RMB0.5 million and RMB23,000, respectively.

We provided loans to Guangzhou Biohope of RMB5.0 million and RMB11.4 million in the years ended December 31, 2007 and 2008, respectively. As of December 31, 2007 and 2008, the amount due from Guangzhou Biohope was approximately RMB4.9 million and RMB16.3 million, respectively. Such loans were unsecured, interest-free and had no fix terms of repayment and had been repaid in full in 2009. We provided loans to Biostime Nutrition of RMB4.5 million in the six months ended June 30, 2010 and as of June 30, 2010, the outstanding amount due from Biostime Nutrition was RMB4.5 million, respectively. Such loans were unsecured and interest-free. RMB3.0 million of the loans is due on November 30, 2010 and RMB1.5 million is due on December 31, 2010.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we sold our products to Yuan Weitai, our regional distributor in Xiang'gan region, in the amount of RMB1.5 million, RMB2.9 million, RMB4.6 million and RMB2.5 million, respectively.

For the six months ended June 30, 2010, we sold raw materials at cost in the amount of RMB1.0 million and finished goods based on mutually agreed terms to Biostime Nutrition in the amount of RMB631,000. In the six months ended June 30, 2010, we also generated but have not received rental income of RMB118,000, RMB15,000 relating to production services and RMB63,000 relating to sales agency service from Biostime Nutrition on mutually agreed terms, respectively. Further details of these transactions are set out in the section headed "Connected Transactions" in this document.

Our Directors have confirmed that the foregoing related parties transaction were conducted on normal commercial terms and/or that relevant terms of such transactions were no less favorable to us than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole. Our Directors are in the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective during the Track Record Period. All the related parties transactions set out in Note 26 to section II of the Accountants' Report set out in Appendix I to this document will be discontinued upon the [●], save for as disclosed in the sections headed "Relationship with Our Controlling Shareholders" and "Connected Transactions" in this document, and the amount due from related parties from such transactions will be fully settled before the [●].

The advances to our directors during the Track Record Period were unsecured, non-interest-bearing and had no fix terms of repayments. As of December 31, 2007, 2008 and 2009 and June 30, 2010, the balance of the amount due from our directors was RMB508,000, RMB384,000, RMB300,000 and nil, respectively. Such amount had been fully settled by June 30, 2010.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had amount due to related parties of approximately RMB3.5 million, RMB17.3 million, RMB48,000 and RMB8.9 million, respectively. Such amount was non-interest bearing and primarily relating to the amount paid by Biostime Pharmaceuticals to one of our key suppliers on behalf of us as well as the advances from Yuan Weitai to us. Such amount is expected to be fully settled before the [●].

Indebtedness

Borrowings

We entered into a one-year credit facility agreement with China Merchants Bank in November 2009 under which we were granted a revolving credit amount of up to RMB20 million for our short-term funding and trade financing needs, such as import bill advances and issuance of letters of credit. The bank facility was unsecured and bore an interest rate of 5.1% per annum. We drew down a loan amount of RMB0.5 million on December 29, 2009 for the import bill advances China Merchants Bank made on our behalf in US dollar to our supplier, Lallemand. Such loan amount was repaid in full on January 4, 2010.

Biostime Guangzhou, Biostime Health, BMCare Guangzhou and Biostime Nutrition, as borrowers, entered into a credit facility agreement with HSBC Bank (China) Company Limited Guangzhou Development District Branch, as lender, on May 24, 2010. We received revolving facilities of up to RMB40,000,000 (or such equivalent US dollar or Euro denominated amount) to provide us with letter of credit facilities and to meet our respective cash flow needs. The facilities comprise of import facilities in relation to the borrowers' suppliers of up to RMB40,000,000, which include import loan facilities of up to RMB25,000,000. The applicable interest rate of the facilities are determined as follows (i) interest rate for RMB unsecured import loans and import letters of credit to be based on the RMB prime rate as applicable from time to time; and (ii) interest rate for unsecured import loans and import loans denominated in USD and Euro respectively to be based on the three-month (or such other interest period as designated by the Lender) USD Singapore Interbank Offered Rate ("SIBOR") or Euro SIBOR (as applicable), plus such interest difference as determined by the lender and the borrowers in writing two business days prior to drawdown. Such credit facilities are secured by (i) joint and several guarantees for an amount of RMB44,000,000 from our beneficial shareholders (namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan), which will be released upon the [●]; and (ii) cross guarantees for an amount of RMB44,000,000 given by each of the borrowers. Each of the borrowers covenants that (i) the joint and several guarantees given by our beneficial shareholders shall remain valid and subsisting in the event that our Group does not [●] on the [●]; (ii) it shall, during such period as the facilities remain valid or where any amount under the facilities remain outstanding, keep the lender promptly informed of any changes to the amount representing the difference between its total authorized investment amount and its registered capital; (iii) it shall take all necessary measures to ensure it has the requisite resources to settle, in the relevant currency, all amounts due to the Lender under the facilities; (iv) it shall promptly inform the lender, and provide the lender with such details as requested by the lender, of any connected transaction to which it is a party and the value of which exceed 10.0% of its net asset value; (v) it shall

promptly inform the lender of any circumstances which may adversely affect the ability of any obligor relating to the facilities (including the Borrowers, guarantors and any other party providing security (if any)) to repay any outstanding obligations under the said facilities upon becoming aware of such circumstances; and (vi) it shall not undertake any merger, sub-division, share transfer, third party investment, substantially increase its debt financing or other material activities without obtaining the lender's prior consent. An amendment to the credit facility agreement has been entered into between the lender and our Group on October 19, 2010 to exclude Biostime Nutrition as a party to the Facility Agreement. Under the terms of such amendment, the credit facility will not be made available to Biostime Nutrition, and Biostime Nutrition will not provide any cross guarantee in relation to such credit facility.

As of October 31, 2010, we had no outstanding bank borrowings and our Directors confirm that there has been no material change in our indebtedness since October 31, 2010.

Contingent liabilities

During the Track Record Period and as of the Latest Practicable Date, we did not maintain any outstanding loan capital or bank overdraft, or carry any liabilities under acceptance or other similar indebtedness, debenture, mortgage, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

Our Directors confirm that there had not been any material change in the contingent liabilities of our Company since June 30, 2010.

Commitments

Contractual obligations

We lease certain production plants, warehouses and vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of these leases generally require us to pay security deposits. Our future aggregate minimum operating lease payments under non-cancelable operating leases as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	3,837	4,434	5,523	6,664
In the second to fifth year, inclusive	9,387	9,418	9,195	9,500
After five years	11,668	9,460	7,130	5,198
Total	**24,892**	**23,312**	**21,848**	**21,362**

Capital commitments

In addition to our operating lease commitments, we had the following commitments in connection with the equipment of our GMP-certified plant and software for our information technology system as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	1,772	70	—	—
Intangible assets	—	390	520	520
	1,772	460	520	520

Off-balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (i) made guarantees, or (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to our Company, or that engages in leasing, hedging, or research and development arrangements with our Company.

As of June 30, 2010, we did not have any off-balance sheet arrangements with unconsolidated entities.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates and changes in the selling prices for our main products and costs of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Foreign exchange risk

We are subject to foreign exchange risk that arises from trade purchases in currencies other than our functional currency, the Renminbi. Although our business is entirely located in the PRC, approximately 9.5%, 29.4%, 52.7% and 46.0% of our purchases over the Track Record Period were denominated in Euros and approximately 67.2%, 52.3%, 27.6% and 32.4% in US dollars. Consequently, foreign currency fluctuations, particularly fluctuations in the US dollar and the Euro against the Renminbi, have affected, and will continue to affect, our results of operations.

We have prepared a sensitivity analysis to assess the impact of exchange rate fluctuations on our results of operations. Based on such analysis, we estimate that a 5.0% increase in the exchange rate for the US dollar to RMB would have decreased our profit before tax in the years ended December 31, 2007,

2008 and 2009 and in the six months ended June 30, 2010 by approximately RMB0.2 million, RMB0.7 million, RMB0.8 million and RMB0.7 million. In addition, we estimate that a 5.0% increase in the exchange rate for the Euro to RMB would have decreased our profit before tax in the years ended December 31, 2007, 2008 and 2009 and in the six months ended June 30, 2010 by approximately RMB0.1 million, RMB0.3 million, RMB0.6 million and RMB1.0 million, respectively.

We had not entered into any transaction to hedge our foreign exchange risk during the Track Record Period.

Credit risk

We trade primarily with recognized and creditworthy third parties. It is our policy that all trade debtors who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. Our trade receivables relate to a variety of customers and there is no significant concentration of credit risk with a maximum exposure equal to the carrying amount of the trade receivables.

With respect to credit risk arising from other major financial assets of our Company, which comprise cash and cash equivalents, restricted cash, amounts due from related companies and directors and other receivables, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. In addition, substantially all of our cash and cash equivalents are held in major financial institutions located in China, which our management believes are of high credit quality. As of the date of this document, we had not experienced any material adverse change to our business due to any bankruptcy filings or defaults on the part of our major customers, suppliers or counterparties.

Liquidity risk

We are exposed to the risk of a liquidity shortage where we may not be able to meet our financial obligations when they fall due. The individual subsidiaries and associates of our Company are responsible for their own cash management, including raising loans to cover their expected cash demands, subject to approval by the board of directors of the respective companies. Our objective is to maintain a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available funding through an adequate amount of committed credit facilities from bank borrowings and other available sources of financing. Our cash and bank equivalents are placed with reputable financial institutions. Taking into account these factors and our expected cash generated from operating activities as well as our planned business expansion, our Directors are of the view that we will not have any difficulty meeting our liquidity needs within 12 months from the date of this document.

Commodity price risk

We are also exposed to commodity price risk from changes in the prices of our products and the cost of our raw materials and packaging materials. Fluctuation on commodity price of raw materials and packaging materials due to various factors beyond our control, including increasing market demand, inflation, severe climatic and environmental conditions, currency fluctuations, changes in governmental

and agricultural regulations and programs and other factors, will have significant impact on our earnings, cash flows as well as the value of our inventories. We have not historically entered into any commodity derivative instruments to hedge our potential commodity price changes. We also expect that our raw material prices will continue to fluctuate in the future.

PROPERTY VALUE RECONCILIATION

Particulars of our property interests are set out in Appendix IV to this document. Jones Land LaSalle Sallmanns Limited has valued our property interests as of October 31, 2010. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV to this document.

As our Group has no owned properties, the net book value of our Company's property interests was nil as of October 31, 2010.

PROFIT FORECAST

We believe that on the bases and assumptions as set out in [●] to this document, and in the absence of unforeseen circumstances, our combined profit attributable to equity holders of our Company for the year ending December 31, 2010 is expected to be not less than RMB230 million. The profit forecast has been prepared by our Directors based on our audited combined result in the six months ended June 30, 2010 as well as unaudited management accounts in the three months ended September 30, 2010 and the forecast results of the consolidated results for the remaining three months ending December 31, 2010.

The forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants' Report dated the date of the document (the text of which is set out in Appendix I — Accountants' Report).

Our Directors have prepared a profit forecast only in the year ended December 31, 2010, as the factors described under the section headed "Risk Factors" and the paragraph headed "Factors affecting our results of operations and financial condition" under the section headed "Financial Information" in this document make any forecast for a longer period subject to too many uncertainties.

On a weighted average basis based on the above profit forecast and assuming that: (i) we had been established and [450,000,000] Shares were issued and outstanding as of January 1, 2010; (ii) the 150,000,000 Shares to be issued pursuant to the [●] will be issued on December 17, 2010 ; and (iii) the [●] will not be exercised, the estimated earnings per Share is RMB0.50, representing weighted average price to earnings multiples of [●] and [●] times based on the [●] of HK$[●] and HK$[●], respectively. On a pro forma fully-diluted basis, and on the assumption that the [●] had been completed on January 1, 2010 and a total of 600,000,000 Shares were issued and outstanding during the entire year (and not taking into account any Shares that may be issued pursuant to the exercise of the [●] and Shares issued pursuant to the [●] Share Option Scheme or any Shares that may be granted under the Share Option Scheme), the estimated earnings per Share on a pro forma fully-diluted price would be RMB[0.38], representing fully-diluted price to earnings multiples of approximately [●] times and [●] times based on the [●] of HK$[●] and HK$[●], respectively.

FINANCIAL INFORMATION

DIVIDEND POLICY

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

- our financial results;
- shareholders' interests;
- general business conditions, strategies and future expansion needs;
- our Company's capital requirements;
- the payment by its subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors the Board of Directors may deem relevant.

Biostime Guangzhou declared dividends of RMB13.0 million in 2007 and paid the same in 2008. Biostime Guangzhou declared and paid dividends of RMB27.5 million in the year ended December 31, 2009. In addition, on January 5, 2010, Biostime Guangzhou declared a dividend of RMB33.4 million and Biostime Health declared a dividend of RMB7.7 million. On September 20, 2010, Biostime Guangzhou and Biostime Health declared dividends, amounting to RMB33.6 million and RMB71.2 million, respectively, to their then sole equity owner, Biostime Pharmaceuticals. After the [●], the declaration of dividends will be subject to the approval by our Board of Directors after considering the above factors and by our then Shareholders.

DISTRIBUTABLE RESERVES

As our Company was only incorporated on April 30, 2010, there were no reserves available for distribution to shareholders as of June 30, 2010.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraphs headed "Management's discussion and analysis of financial condition and results of operations — Indebtedness" and "Dividend policy" in this section, we have confirmed that there has been no material adverse change in our financial or [●] position since June 30, 2010 (being the date to which our Company's latest combined financial results were prepared, as set out in the Accountants' Report in Appendix I to this document).

FUTURE PLANS

FUTURE PLANS

Further details of our future plans are set out in the paragraph headed "Our business strategies" under the section headed "Business" in this document.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

[●] 2010

The Directors
Biostime International Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information of Biostime International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Periods"), the combined statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010, and the statement of financial position of the Company as at 30 June 2010 together with a summary of significant accounting policies and other explanatory notes (the "Financial Information"), and the financial information for the six months ended 30 June 2009 (the "30 June 2009 Financial Information"), for inclusion in the document of the Company dated [●] (the "Document") in connection with the proposed [●] of the shares of the Company on the [●] of [●] (the "[●]").

The Company was incorporated in the Cayman Islands on 30 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the document (the "Reorganisation"), which was completed on 16 November 2010, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is mainly engaged in the manufacture and sale of pediatric nutritional and baby care products. The Group has adopted 31 December as its financial year end date. Particulars of the subsidiaries comprising the Group are set out in note 1 of Section II.

No audited financial statements have been prepared for the Company which was incorporated in Cayman Islands since the date of its incorporation as it was newly incorporated and has not been involved in any business transactions other than the Reorganisation. The statutory audited financial statements or management accounts of the Group's subsidiaries established in Mainland China and incorporated in France were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions. The names of the statutory auditors of these companies are set out in note 1 of Section II.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined statements of financial position as at 31 December 2007, 2008 and 2009 and 30 June 2010, and the combined statements of comprehensive income, the combined statements of changes in equity, and the combined statements of cash flows of the Group for the Relevant Periods and the statement of financial position of the Company as at 30 June 2010 (collectively, the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs").

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustments made thereon.

The Directors are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements, the Financial Information and the 30 June 2009 Financial Information in accordance with IFRSs, and for the contents of the document in which this report is included. The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies.

In preparing the Financial Information and the 30 June 2009 Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are reasonable. It is our responsibility to form an independent opinion and a review conclusion, based on our audit and review, on the Financial Information and the 30 June 2009 Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "documentes and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the 30 June 2009 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2009 Financial Information, for which the Directors are responsible, 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 consists principally of making enquiries of 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 is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of any significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2009 Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2 of Section II, the Financial Information gives a true and fair view of the state of affairs of the Company as at 30 June 2010 and of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 and of the combined results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the 30 June 2009 Financial Information

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information, for the purpose of this report, does not give a true and fair view of the combined results and cash flows of the Group for the six months ended 30 June 2009.

I. FINANCIAL INFORMATION

Combined statements of comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE	6	188,297	325,540	558,969	225,643	496,140
Cost of sales		(50,425)	(88,666)	(163,016)	(67,365)	(143,700)
Gross profit		137,872	236,874	395,953	158,278	352,440
Other income and gains	6	554	922	3,061	1,162	4,549
Selling and distribution costs		(95,026)	(168,844)	(248,299)	(103,425)	(190,319)
Administrative expenses		(9,992)	(20,321)	(26,462)	(10,165)	(28,361)
Other expenses		(6,006)	(4,025)	(6,100)	(1,471)	(2,514)
PROFIT BEFORE TAX	7	27,402	44,606	118,153	44,379	135,795
Income tax expense	9	(9,916)	(9,444)	(9,836)	(8,911)	(19,042)
PROFIT FOR THE YEAR/PERIOD		17,486	35,162	108,317	35,468	116,753
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		—	(11)	(3)	(2)	5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		17,486	35,151	108,314	35,466	116,758
Profit for the year/period attributable to:						
Owners of the Company		17,487	35,066	108,317	35,468	116,753
Non-controlling interests		(1)	96	—	—	—
		17,486	35,162	108,317	35,468	116,753
Total comprehensive income attributable to:						
Owners of the Company		17,487	35,055	108,314	35,466	116,758
Non-controlling interests		(1)	96	—	—	—
		17,486	35,151	108,314	35,466	116,758

Details of the dividends payable and proposed for the year are disclosed in note 10 to the financial statements.

Combined statements of financial position

	Notes	As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	8,877	22,113	21,782	24,276
Intangible assets	13	631	926	1,099	1,167
Deposits paid for the purchase of property, plant and equipment		4,800	394	1,278	320
Deferred tax assets	21	1,179	4,436	5,596	11,544
Total non-current assets		15,487	27,869	29,755	37,307
CURRENT ASSETS					
Inventories	14	12,832	44,273	80,953	97,286
Trade and bills receivables	15	7,862	5,588	3,653	4,584
Prepayments, deposits and other receivables	16	10,927	14,395	20,915	26,493
Due from directors	26 (b)	508	384	300	—
Due from related companies	26 (c)	8,201	21,792	7,958	12,675
Restricted cash	17	—	1,232	6,090	8,447
Cash and cash equivalents	17	47,935	59,765	133,795	245,329
Total current assets		88,265	147,429	253,664	394,814
CURRENT LIABILITIES					
Trade payables	18	3,851	18,229	39,657	40,292
Other payables and accruals	19	33,218	43,663	63,550	101,279
Dividend payable	10	13,001	—	—	11,142
Interest-bearing bank loan	20	—	—	500	—
Due to related companies	26 (d)	3,465	17,313	48	8,884
Tax payable		9,959	7,420	9,107	18,554
Total current liabilities		63,494	86,625	112,862	180,151
NET CURRENT ASSETS		24,771	60,804	140,802	214,663
Net assets		40,258	88,673	170,557	251,970
EQUITY					
Equity attributable to owners of the Company					
Share capital		10,819	23,951	24,982	30,779
Reserves		29,416	64,471	104,433	221,191
Proposed final dividend	10	—	—	41,142	—
		40,235	88,422	170,557	251,970
Non-controlling interests		23	251	—	—
Total equity		40,258	88,673	170,557	251,970

Combined statements of change in equity

	Attributable to owners of the Company								
	Issued capital	Capital reserves	Statutory reserve (i)	Exchange fluctuation reserves	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	8,400	–	4,188	–	20,742	–	33,330	–	33,330
Total comprehensive income for the year	–	–	–	–	17,487	–	17,487	(1)	17,486
Transfer to statutory reserve funds	–	–	2,952	–	(2,952)	–	–	–	–
Contribution from the owners	2,419	–	–	–	–	–	2,419	24	2,443
Dividend appropriation	–	–	–	–	(13,001)	–	(13,001)	–	(13,001)
At 31 December 2007 and 1 January 2008	10,819	–	7,140*	–	22,276*	–	40,235	23	40,258
Total comprehensive income for the year	–	–	–	(11)	35,066	–	35,055	96	35,151
Transfer to statutory reserve funds	–	–	991	–	(991)	–	–	–	–
Contribution from the owners	13,132	–	–	–	–	–	13,132	132	13,264
At 31 December 2008 and 1 January 2009	23,951	–	8,131*	(11)*	56,351*	–	88,422	251	88,673
Total comprehensive income for the year	–	–	–	(3)	108,317	–	108,314	–	108,314
Transfer to statutory reserve funds	–	–	6,809	–	(6,809)	–	–	–	–
Contribution from the owners	1,031	–	–	–	–	–	1,031	–	1,031
Acquisition of non-controlling interests (ii)	–	251	–	–	–	–	251	(251)	–
Proposed final dividend	–	–	–	–	(41,142)	41,142	–	–	–
Dividend appropriation	–	–	–	–	(27,461)	–	(27,461)	–	(27,461)
At 31 December 2009 and 1 January 2010	24,982	251*	14,940*	(14)*	89,256*	41,142	170,557	–	170,557
Total comprehensive income for the period	–	–	–	5	116,753	–	116,758	–	116,758
Contribution from the owners	5,797	–	–	–	–	–	5,797	–	5,797
Dividend appropriation	–	–	–	–	–	(41,142)	(41,142)	–	(41,142)
At 30 June 2010	30,779	251*	14,940*	(9)*	206,009*	–	251,970	–	251,970

	Attributable to owners of the Company								
	Issued capital	Capital reserves	Statutory reserve (i)	Exchange fluctuation reserves	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
At 1 January 2009	23,951	—	8,131	(11)	56,351	—	88,422	251	88,673
Total comprehensive income for the period	—	—	—	(2)	35,468	—	35,466	—	35,466
Acquisition of non-controlling interests (ii)	—	251	—	—	—	—	251	(251)	—
At 30 June 2009	23,951	251	8,131	(13)	91,819	—	124,139	—	124,139

* These reserve accounts comprise the combined reserves of RMB29,416,000, RMB64,471,000, RMB104,433,000 and RMB221,191,000 as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively, in the combined statements of financial position.

Notes:

(i) In accordance with the Company Law of the People's Republic of China (the ''PRC"), 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 (''PRC GAAP''), to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of registered capital.

(ii) On 6 January 2009, Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals"), the ultimate holding company of the Group, acquired an additional 1% equity interest in Biostime (Guangzhou) Health Products Limited ("Biostime Health") from Biostime SAS at a consideration of US$21,000 (equivalent to approximately RMB144,000). Following the completion of the acquisition of the additional equity interest in Biostime Health, Biostime Health became a wholly-owned subsidiary of the Group.

Combined statements of cash flows

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		27,402	44,606	118,153	44,379	135,795
Adjustments for:						
Bank interest income	6	(450)	(748)	(765)	(298)	(853)
Loss on disposal of items of property, plant and equipment.	7	7	7	—	—	6
Depreciation	12	1,193	2,497	4,703	1,903	3,012
(Write-back of)/impairment of trade receivables	7	6	29	—	—	(43)
Write-down of inventories to net realisable value	7	—	—	743	378	286
Amortisation of intangible assets.	13	46	74	92	45	132
		28,204	46,465	122,926	46,407	138,335
Increase in inventories		(1,961)	(31,441)	(37,423)	(10,204)	(16,619)
(Increase)/decrease in trade and bills receivables		(4,721)	2,245	1,935	587	(888)
(Increase)/decrease in prepayments, deposits and other receivables		2,058	(3,468)	(6,520)	(13,849)	(5,578)
(Increase)/decrease in amounts due from directors		(508)	124	84	(207)	300
(Increase)/decrease in amounts due from related companies		(6,647)	(13,591)	13,834	14,961	(4,717)
Increase/(decrease) in trade payables		(1,205)	14,378	21,428	1,937	635
Increase/(decrease) in other payables and accruals		11,706	9,863	20,108	(1,116)	38,269
Increase/(decrease) in amounts due to related companies		3,465	13,848	(17,265)	(17,313)	8,836
Cash generated from operations		30,391	38,423	119,107	21,203	158,573
Corporate income tax paid		(6,077)	(15,240)	(9,309)	(7,658)	(15,543)
Net cash flows from operating activities		24,314	23,183	109,798	13,545	143,030

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash flows from operating activities		24,314	23,183	109,798	13,545	143,030
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(10,101)	(10,766)	(5,504)	(2,315)	(5,101)
Additions of intangible assets	13	(276)	(369)	(265)	(156)	(200)
Interest received	6	450	748	765	298	853
Proceeds from disposal of items of property, plant and equipment		1	14	27	14	7
Increase in restricted cash		—	(1,232)	(4,858)	(11,878)	(2,357)
Net cash used in investing activities		(9,926)	(11,605)	(9,835)	(14,037)	(6,798)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loan	20	—	—	500	—	—
Repayment of bank loan	20	—	—	—	—	(500)
Contributions from the owners		2,419	13,132	1,031	—	5,797
Contributions from the non-controlling interests		24	132	—	—	—
Dividends paid to the owner	10	—	(13,001)	(27,461)	—	(30,000)
Net cash flows from/(used in) financing activities		2,443	263	(25,930)	—	(24,703)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		16,831	11,841	74,033	(492)	111,529
Cash and cash equivalents at beginning of year/period		31,104	47,935	59,765	59,765	133,795
Effect of foreign exchange rate changes, net		—	(11)	(3)	(2)	5
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		47,935	59,765	133,795	59,271	245,329
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents	17	47,935	59,765	133,795	59,271	245,329

Statement of financial position of the Company

	As at 30 June 2010 RMB'000
CURRENT ASSET	
Due from a related company	—
Net assets	—
EQUITY	
Share capital	—
Reserves	—
Total equity	—

Note:

The Company was incorporated on 30 April 2010 with authorised share capital of HKD380,000 divided into 38,000,000 shares of HKD0.01 each. On the same date, one nil paid share of HKD0.01 was allotted and issued to Codan Trust Company (Cayman) Limited ("Codan Trust") as the subscriber share. Codan Trust transferred its share to Biostime Pharmaceuticals on the same day.

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 30 April 2010. The authorised share capital of the Company was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is principally engaged in the manufacture and sale of pediatric nutritional and baby care products.

During the Relevant Periods and on 16 November 2010, the Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the document.

In the opinion of the directors of the Company, the ultimate holding company of the Company is Biostime Pharmaceuticals, a limited liability company incorporated in the British Virgin Islands (the "BVI") on 8 February 2001.

Particulars of the subsidiaries comprising the Group at the end of each Relevant Periods are set out below:

Company name	Place and date of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital as at 30 June 2010	Percentage of equity directly attributable to the Company					Principal activities
			31 December			30 June		
			2007	2008	2009	2009	2010	
BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou") (廣州市合生元生物製品有限公司) (i)	Guangzhou 3 August 1999	US$1,010,000	100%	100%	100%	100%	100%	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food and milk formula
Biostime (Guangzhou) Health Products Limited ("Biostime Health") (合生元(廣州)健康產品有限公司) (ii)	Guangzhou 25 December 2006	US$2,100,000	99%	99%	100%	100%	100%	Research, development, manufacture and sale of health products

Company name	Place and date of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital as at 30 June 2010	Percentage of equity directly attributable to the Company					Principal activities
			31 December			30 June		
			2007	2008	2009	2009	2010	
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou") (廣州葆艾嬰幼兒護理用品有限公司) (iii)	Guangzhou 17 September 2009	US$1,000,000	—	—	100%	—	100%	Wholesale, retail and import and export of personal care products for infants
Biostime Pharma (iv)	France 24 July 2008	EUR10,000	—	100%	100%	100%	100%	Trade of infant food and nutritional products

Except for Biostime Pharma which was incorporated under the laws of France and uses 30 September as its financial year end date, all the above PRC companies are wholly-foreign-owned enterprises under the PRC law and have adopted 31 December as their financial year end date. The management has adjusted the financial statements of Biostime Pharma to apply a financial year ended 31 December for consolidation purposes.

(i) The statutory financial statements for the years ended 31 December 2007 and 2009 were audited by 廣州正德會計師事務所 (Guangzhou Zhengde Certified Public Accountants Co., Ltd.) registered in the PRC. The statutory financial statements for the year ended 31 December 2008 were audited by 廣州健明會計師事務所有限公司 (Guangzhou Jianming Certified Public Accountants Co., Ltd.) registered in the PRC.

(ii) The statutory financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 廣州正德會計師事務所 (Guangzhou Zhengde Certified Public Accountants Co., Ltd.) registered in the PRC.

(iii) The statutory financial statements for the year ended 31 December 2009 were audited by 廣州正德會計師事務所 (Guangzhou Zhengde Certified Public Accountants Co., Ltd.) registered in the PRC.

(iv) The statutory financial statements for the period from 24 July 2008 (date of incorporation) to 30 September 2009 were audited by Klynveld Peat Marwick Goerdeler ("KPMG").

2. BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the document, the Company became the immediate holding company of the companies now comprising the Group on 16 November 2010. As the Reorganisation only involved inserting a new company immediate below an existing company and has not resulted in any changes of economic substance, the Financial Information of the Relevant Periods has been presented as a continuation of the existing companies using the pooling of interest method.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

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. For the purpose of the Financial Information, the Group has adopted, at the beginning of the Relevant Periods, all the new and revised IFRSs applicable to the Relevant Periods. The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information:

IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation -Classification of Rights Issues*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparatives IFRS 7 Disclosures for First-Time Adopters*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures - Transfer of Financial Assets*[4]
IFRS 9	*Financial Instruments*[5]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

[1] Effective for annual periods beginning on or after 1 February 2010

[2] Effective for annual periods beginning on or after 1 July 2010

[3] Effective for annual periods beginning on or after 1 January 2011

[4] Effective for annual periods beginning on or after 1 July 2011

[5] Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued *improvements to IFRSs 2010* in May 2010 which sets out a collection of amendments to IFRSs, primary with a view to removing inconsistencies and to clarify wording. Except for amendments to IFRS3 and IAS27 which are effective for annual periods beginning on or after 1 July 2010, the amendments to IFRS1, IFRS7, IAS1, IAS34 and IFRIC-13 are effective for annual periods on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, are set out below:

Basis of combination

The Financial Information incorporates the financial statements of the companies now comprising the Group.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All income, expenses, and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

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 the end of each reporting periods 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 statements 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 a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) 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 (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 statements of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 principal annual rates used for this purpose are as follows:

Plant and machinery	9% - 18%
Furniture, fixtures and office equipment	18%
Motor vehicles	18%
Leasehold improvements	Over the shorter of the lease terms and 20%

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 least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 statements of comprehensive income in the year the asset is derecognised is the difference between the net sales 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 assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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 lessee, rentals payable under operating leases are charged to the statements of comprehensive income on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

The Group's financial assets within the scope of IAS 39 are classified as loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value.

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.

The Group's financial assets include trade and other receivables, amounts due from directors, amounts due from related companies, restricted cash and cash and cash equivalents.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost

is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in other expenses in the combined statements of comprehensive income.

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 has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;

- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the combined statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities including trade and other payables, an interest-bearing bank loan and amounts due to related companies.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

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 statements of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products from the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points are expired.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

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; and

(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.

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as 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 the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of 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.

Foreign currencies

These financial statements are 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 dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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 currency of the overseas subsidiary is a currency other than the RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period and its statements of comprehensive income is translated into RMB at the weighted average exchange rate for the year. The resulting exchange difference is recognised in other comprehensive income and accumulated in the exchange fluctuation reserve a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rate for the year or for the period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements 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 end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in this report:

Income tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow moving inventory items identified that no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group had inventories that were measured at net realisable values of nil, nil, RMB743,000 and RMB933,000, respectively.

Deferred income

The amount of revenue attributable to the points earned by the members of the Group's customer loyalty program is estimated based on the fair value of the points awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the points that will be available for redemption in the future after allowing for points which are not expected to be redeemed.

5. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Probiotic supplements segment comprises the production of probiotic supplements in the form of sachet powder for infant, children and expectant mothers;

(b) Infant formula segment comprises the production of infant formulas for children under three years old and milk formulas for expectant and nursing mothers;

(c) Dried baby food products segment comprises the production of food supplements made from natural foods, such as meat, seafood, fruits and vegetables, for infant and young children; and

(d) Baby care products segment comprises the production of baby care products, such as toiletry kits for infants and children.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains as well as head office and corporate expenses are excluded from such measurement.

The Group's revenue from external customers is all derived from its operations in the PRC and the majority of its non-current assets are located in the PRC.

During the Relevant Periods, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Year ended 31 December 2007	Probiotic supplements	Infant formula	Dried baby food products	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	172,163	—	16,134	—	188,297
Segment results	126,523	—	11,349	—	137,872
Reconciliations:					
Interest income					450
Other income and unallocated gains					104
Corporate and other unallocated expenses					(111,024)
Profit before tax					27,402
Other segment information:					
Depreciation and amortisation	189	—	38	1,012	1,239
Impairment of trade receivables	6	—	—	—	6
Write-down of inventories to net realisable value	—	—	—	—	—
Capital expenditure*	1,149	—	252	4,415	5,816

Year ended 31 December 2008	Probiotic supplements	Infant formula	Dried baby food products	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	253,859	40,812	30,869	—	325,540
Segment results	190,014	26,120	20,740	—	236,874
Reconciliations:					
Interest income					748
Other income and unallocated gains					174
Corporate and other unallocated expenses					(193,190)
Profit before tax					44,606
Other segment information:					
Depreciation and amortisation	361	62	627	1,521	2,571
Impairment of trade receivables	22	4	3	—	29
Capital expenditure*	5,024	21	7,626	3,452	16,123
Year ended 31 December 2009					
Segment revenue:					
Sales to external customers	265,886	238,108	54,975	—	558,969
Segment results	203,311	160,272	32,370	—	395,953
Reconciliations:					
Interest income					765
Other income and unallocated gains					2,296
Corporate and other unallocated expenses					(280,861)
Profit before tax					118,153
Other segment information:					
Depreciation and amortisation	1,754	89	1,289	1,663	4,795
Write-down of inventories to net realisable value	34	—	709	—	743
Capital expenditure*	420	194	66	3,984	4,664

Period ended 30 June 2009	Probiotic supplements	Infant formula	Dried baby food products	Unallocated	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Segment revenue:					
Sales to external customers	122,522	81,807	21,314	—	225,643
Segment results	90,796	54,329	13,153	—	158,278
Reconciliations:					
Interest income					298
Other income and unallocated gains					864
Corporate and other unallocated expenses					(115,061)
Profit before tax					44,379
Other segment information:					
Depreciation and amortisation	282	31	905	730	1,948
Write-down of inventories to net realisable value	—	—	378	—	378
Capital expenditure*	278	105	51	1,340	1,774

Period ended 30 June 2010	Probiotic supplements	Infant formula	Dried baby food products	Baby care products	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:						
Sales to external customers	138,492	287,864	42,686	27,098	—	496,140
Segment results	110,336	196,867	29,616	15,621	—	352,440
Reconciliations:						
Interest income						853
Other income and unallocated gains						3,696
Corporate and other unallocated expenses						(221,194)
Profit before tax						135,795
Other segment information:						
Depreciation and amortisation	1,251	62	327	5	1,499	3,144
Write-back of impairment of trade receivables	(43)	—	—	—	—	(43)
Write-down of inventories to net realisable value	—	—	286	—	—	286
Capital expenditure*	57	85	17	16	5,544	5,719

* Capital expenditure consists of additions to plant and equipment and computer software.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the Relevant Periods.

An analysis of the Group's revenue, other income and gains for each of the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue					
Sale of goods	188,297	325,540	558,969	225,643	496,140
Other income and gains					
Bank interest income	450	748	765	298	853
Others	104	174	2,296	864	3,696
	554	922	3,061	1,162	4,549

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of inventories sold		50,425	88,666	162,273	66,987	143,414
Loss on disposal of items of property, plant and equipment		7	7	—	—	6
Depreciation	12	1,193	2,497	4,703	1,903	3,012
(Write-back of)/impairment of trade receivables*	15	6	29	—	—	(43)
Write-down of inventories to net realisable value#		—	—	743	378	286
Amortisation of intangible assets	13	46	74	92	45	132
Research and development costs*		3,712	2,172	4,285	999	1,619
Auditors' remuneration		26	46	40	40	1,491
Employee benefit expenses (including directors' remuneration (note 8(a)):						
Wages and salaries		25,902	39,931	66,683	22,285	41,849
Pension scheme contributions (defined contribution scheme)		1,970	5,519	8,288	3,465	5,511
Staff welfare and other expenses		1,330	4,980	2,715	1,253	2,644
		29,202	50,430	77,686	27,003	50,004
Minimum lease payments under operating leases in respect of buildings		2,845	6,150	7,348	2,935	3,657

* Included in "Other expenses" in the combined statements of comprehensive income.

\# Included in "Cost of sales" in the combined statements of comprehensive income.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration for the Relevant Periods, disclosed pursuant to the relevant rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fee	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	820	846	816	505	616
Performance related bonuses	317	1,599	3,112	346	1,888
Pension scheme contributions	70	87	95	46	42
	1,207	2,532	4,023	897	2,546

The remuneration of each of the directors for the year ended 31 December 2007 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Luo Fei	—	293	128	33	454
Dr. Zhang Wenhui	—	147	82	—	229
Ms. Kong Qingjuan	—	219	32	27	278
	—	659	242	60	961
Non-executive directors:					
Mr. Luo Yun	—	161	75	10	246
Mr. Wu Xiong	—	—	—	—	—
Mr. Chen Fufang	—	—	—	—	—
	—	161	75	10	246
Independent non-executive directors:					
Mr. Ngai Wai Fung	—	—	—	—	—
Mr. Tan Wee Seng	—	—	—	—	—
Professor Xiao Baichun	—	—	—	—	—
	—	—	—	—	—
	—	820	317	70	1,207

The remuneration of each of the directors for the year ended 31 December 2008 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Luo Fei	—	336	724	36	1,096
Dr. Zhang Wenhui	—	169	256	—	425
Ms. Kong Qingjuan	—	170	355	36	561
	—	675	1,335	72	2,082
Non-executive directors:					
Mr. Luo Yun	—	171	264	15	450
Mr. Wu Xiong	—	—	—	—	—
Mr. Chen Fufang	—	—	—	—	—
	—	171	264	15	450
Independent non-executive directors:					
Mr. Ngai Wai Fung	—	—	—	—	—
Mr. Tan Wee Seng	—	—	—	—	—
Professor Xiao Baichun	—	—	—	—	—
	—	—	—	—	—
	—	846	1,599	87	2,532

The remuneration of each of the directors for the year ended 31 December 2009 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Luo Fei	—	336	1,153	39	1,528
Dr. Zhang Wenhui	—	169	811	—	980
Mr. Kong Qingjuan	—	169	774	40	983
	—	674	2,738	79	3,491
Non-executive directors:					
Mr. Luo Yun	—	142	374	16	532
Mr. Wu Xiong	—	—	—	—	—
Mr. Chen Fufang	—	—	—	—	—
	—	142	374	16	532
Independent non-executive directors:					
Mr. Ngai Wai Fung	—	—	—	—	—
Mr. Tan Wee Seng	—	—	—	—	—
Professor Xiao Baichun	—	—	—	—	—
	—	—	—	—	—
	—	816	3,112	95	4,023

The remuneration of each of the directors for the six months ended 30 June 2009 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Executive directors:					
Mr. Luo Fei	—	223	30	19	272
Dr. Zhang Wenhui	—	89	239	—	328
Mr. Kong Qingjuan	—	88	15	19	122
	—	400	284	38	722
Non-executive directors:					
Mr. Luo Yun	—	105	62	8	175
Mr. Wu Xiong	—	—	—	—	—
Mr. Chen Fufang	—	—	—	—	—
	—	105	62	8	175
Independent non-executive directors:					
Mr. Ngai Wai Fung	—	—	—	—	—
Mr. Tan Wee Seng	—	—	—	—	—
Professor Xiao Baichun	—	—	—	—	—
	—	—	—	—	—
	—	505	346	46	897

The remuneration of each of the directors for the six months ended 30 June 2010 is setout below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Luo Fei	—	325	940	21	1,286
Dr. Zhang Wenhui	—	153	613	—	766
Mr. Kong Qingjuan	—	138	335	21	494
	—	616	1,888	42	2,546
Non-executive directors:					
Mr. Luo Yun	—	—	—	—	—
Mr. Wu Xiong	—	—	—	—	—
Mr. Chen Fufang	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Mr. Ngai Wai Fung	—	—	—	—	—
Mr. Tan Wee Seng	—	—	—	—	—
Professor Xiao Baichun	—	—	—	—	—
	—	—	—	—	—
	—	616	1,888	42	2,546

During the Relevant Periods, no director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no other emoluments paid or payable to the independent non-executive directors during the Relevant Periods.

(b) **Five highest paid employees**

The five highest paid employees of the Group during the Relevant Periods are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Directors	1	4	2	2	3
Non-director, highest paid employees	4	1	3	3	2
	5	5	5	5	5

Details of the remuneration of the non-director, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	337	169	421	247	263
Performance related bonuses	877	703	2,076	473	916
Pension scheme contributions	48	29	106	41	42
	1,262	901	2,603	761	1,221

Remuneration to each of the non-director, highest paid employees, for each of the Relevant Periods, was less than RMB1,000,000.

9. INCOME TAX

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current - PRC					
Charge for the year/period	10,207	12,701	10,996	8,359	24,990
Deferred (note 21)	(291)	(3,257)	(1,160)	552	(5,948)
Total tax charge for the year/period	9,916	9,444	9,836	8,911	19,042

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the then applicable PRC national and local tax laws, Biostime Guangzhou was subject to EIT at the statutory rate of 33% before 2008. As a manufacturing FIE located in Guangdong Economic and Technology Development District, Biostime Health was entitled to the preferential EIT rate of 15% before 2008.

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the EIT Law was approved and became effective on 1 January 2008. The New EIT Law introduced a wide range of changes which included, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises, which resulted in a reduction of EIT rate from 33% to

25%. The effect of this change has been reflected in the calculation of deferred tax assets as at 31 December 2007. In this connection, Biostime Guangzhou and BMcare Guangzhou have been subject to EIT at the rate of 25% since 2008.

As a manufacturing FIE located in Guangdong Economic and Technology Development District, Biostime Health was exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). Biostime Health's first profit-making year was the year ended 31 December 2008 which was also the first year of its FIE Tax Holiday. Further, according to circular Guofa [2007] No.39, the applicable EIT rate of a company which was entitled to a preferential EIT rate should be transited from 15% to 25% in 5 years commencing 2008. During the transitional period, the applicable EIT rate will be 18%, 20%, 22%, 24% and 25% for years 2008, 2009, 2010, 2011 and 2012 respectively. Accordingly, Biostime Health was exempted from EIT for years 2008 and 2009 and is subject to EIT at a reduced rate of 11%, 12% and 12.5% for the years ending 31 December 2010, 2011 and 2012, respectively.

France corporate income tax

Biostime Pharma was registered in France on 24 July 2008 and was subject to corporate income tax at a reduced rate of 15% during the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	27,402	44,606	118,153	44,379	135,795
Tax at the statutory income tax rate of 33% for year 2007; 25% for year 2008 and 2009 and the six months ended 30 June 2009 and 2010	9,042	11,152	29,538	11,095	33,949
Effect of tax concession for Biostime Health	—	(2,399)	(23,291)	(3,726)	(15,809)
Expenses not deductible for tax	382	626	3,463	1,483	931
Effect of lower enacted tax rate used for the recognition of deferred tax	448	56	92	50	(29)
Tax losses not recognised	44	9	34	9	—
Tax charge at the Group's effective rate	9,916	9,444	9,836	8,911	19,042

10. DIVIDENDS

The dividends declared by the Company's subsidiaries to its shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends declared by Biostime Guangzhou and Biostime Health	13,001	—	27,461	—	41,142
Proposed final dividend by Biostime Guangzhou and Biostime Health	—	—	41,142	—	—

[As at the date of this report, the dividend payable had been fully settled.]

Subsequently, on 20 September 2010, Biostime Guangzhou and Biostime Health declared dividends, amounting to RMB33,585,000 and RMB71,229,000 respectively, to their sole equity owner.

11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the fact that the preparation of the results of the Group for the Relevant Periods was made on a combined basis as disclosed in note 2.

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2007	461	2,112	3,060	184	—	5,817
Additions.....	2,171	1,124	448	—	1,797	5,540
Disposals	(1)	(16)	—	—	—	(17)
At 31 December 2007.....	2,631	3,220	3,508	184	1,797	11,340
Accumulated depreciation:						
At 1 January 2007 ...	42	566	660	11	—	1,279
Charge for the year..	218	375	568	32	—	1,193
Disposals	—	(9)	—	—	—	(9)
At 31 December 2007.....	260	932	1,228	43	—	2,463
Net book value: At 31 December 2007.....	2,371	2,288	2,280	141	1,797	8,877
Cost:						
At 1 January 2008	2,631	3,220	3,508	184	1,797	11,340
Additions.....	6,642	2,236	1,039	4,462	1,375	15,754
Transfers	—	—	—	3,172	(3,172)	—
Disposals	—	(34)	—	—	—	(34)
At 31 December 2008.....	9,273	5,422	4,547	7,818	—	27,060
Accumulated depreciation:						
At 1 January 2008 ...	260	932	1,228	43	—	2,463
Charge for the year..	732	750	642	373	—	2,497
Disposals	—	(13)	—	—	—	(13)

	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008	992	1,669	1,870	416	—	4,947
Net book value: At 31 December 2008	8,281	3,753	2,677	7,402	—	22,113
Cost:						
At 1 January 2009	9,273	5,422	4,547	7,818	—	27,060
Additions	503	1,775	2,121	—	—	4,399
Disposals	—	(55)	(3)	—	—	(58)
At 31 December 2009	9,776	7,142	6,665	7,818	—	31,401
Accumulated depreciation:						
At 1 January 2009	992	1,669	1,870	416	—	4,947
Charge for the year	1,201	1,097	845	1,560	—	4,703
Disposals	—	(30)	(1)	—	—	(31)
At 31 December 2009	2,193	2,736	2,714	1,976	—	9,619
Net book value: At 31 December 2009	7,583	4,406	3,951	5,842	—	21,782
Cost:						
At 1 January 2010	9,776	7,142	6,665	7,818	—	31,401
Additions	142	4,521	856	—	—	5,519
Disposals	(9)	(29)	—	—	—	(38)
At 30 June 2010	9,909	11,634	7,521	7,818	—	36,882
Accumulated depreciation:						
At 1 January 2010	2,193	2,736	2,714	1,976	—	9,619
Charge for the period	671	971	591	779	—	3,012

	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disposals	(3)	(22)	—	—	—	(25)
At 30 June 2010	2,861	3,685	3,305	2,755	—	12,606
Net book value:						
At 30 June 2010	7,048	7,949	4,216	5,063	—	24,276

13. INTANGIBLE ASSETS

Intangible assets represent software acquired with useful life of 5 years. The movements of intangible assets are analysed as follows:

	Year ended 31 December			Six months ended 30 June
Computer software	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January	455	731	1,100	1,365
Additions	276	369	265	200
At the end of year/period	731	1,100	1,365	1,565
Accumulated amortisation:				
At 1 January	54	100	174	266
Amortisation for the year/period	46	74	92	132
At the end of year/period	100	174	266	398
Net carrying amount:				
At the end of year/period	631	926	1,099	1,167

14. INVENTORIES

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	7,792	35,413	64,837	75,976
Work in process	—	68	4,025	1,952
Finished goods	5,040	8,792	12,091	19,358
	12,832	44,273	80,953	97,286

15. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,508	2,478	1,095	827
Bills receivable	3,387	3,172	2,620	3,776
Less: Impairment provision	(33)	(62)	(62)	(19)
	7,862	5,588	3,653	4,584

Advance payment is normally required from customers of the Group, except in very limited situations in respect of credit sales. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

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 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	3,878	2,036	2,077	1,011
2 to 3 months	2,943	1,964	1,382	2,472
Over 3 months	1,041	1,588	194	1,101
	7,862	5,588	3,653	4,584

Movements in the provision for impairment of trade receivables of the Group are as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	27	33	62	62
Impairment losses recognised/ (written-back) (note 7)	6	29	—	(43)
At end of year/period	33	62	62	19

The above provisions of RMB33,000, RMB62,000, RMB62,000 and RMB19,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 were all for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of trade and bills receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	6,813	5,110	3,638	3,750
Past due but not impaired				
Less than 3 months past due	1,049	443	14	831
Over 3 months past due	—	35	1	3
	7,862	5,588	3,653	4,584

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default. These customers who trade on credit terms are subject to credit verification procedures.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	5,740	8,211	12,922	18,322
Deposits	957	1,073	1,687	1,304
Other receivables	4,230	5,111	6,306	6,867
	10,927	14,395	20,915	26,493

The above balances are unsecured, interest-free and have no fixed terms of repayment.

17. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	47,935	60,997	139,885	253,776
Less: Restricted cash:				
Guarantee deposits for issuance of letters of credit	—	(1,232)	(6,090)	(8,447)
Cash and cash equivalents	47,935	59,765	133,795	245,329
Denominated in RMB (note)	47,923	60,785	138,669	247,084
Denominated in other currencies	12	212	1,216	6,692
	47,935	60,997	139,885	253,776

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

18. TRADE PAYABLES

The trade payables are non-interest-bearing. The average credit period for trade purchases is 30 to 90 days.

An aged analysis of the trade and bills payables of the Group as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	3,721	16,047	25,968	16,850
2 to 3 months	71	1,818	13,122	22,692
Over 3 months	59	364	567	750
	3,851	18,229	39,657	40,292

19. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	16,280	16,305	16,114	25,417
Salaries and welfare payables	7,458	5,327	12,129	14,246
Accruals	3,454	6,331	10,090	26,320
Other tax payables	1,266	5,838	7,155	9,294
Deferred income (note 22)	2,165	4,198	12,915	19,564
Other payables	2,595	5,664	5,147	6,438
	33,218	43,663	63,550	101,279

The above balances are non-interest-bearing and have no fixed terms of repayment.

20. INTEREST-BEARING BANK LOAN

The bank loan was unsecured and bore interest at the rate of 5.1% per annum and was subsequently repaid in January 2010.

21. DEFERRED TAX

The following is the major deferred tax assets recognised and their movements during the Relevant Periods:

	Future deductible expenses	Unrealised profit arising from intra-group transactions	Accrued liabilities and deferred income	Provision for impairment of assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	—	888	—	888
Credited to the combined statement of comprehensive income for the year (note 9)	39	—	252	—	291
At 31 December 2007 and 1 January 2008	39	—	1,140	—	1,179
Credited to the combined statement of comprehensive income for the year (note 9)	2,623	208	426	—	3,257
At 31 December 2008 and 1 January 2009	2,662	208	1,566	—	4,436
Credited/(charged) to the combined statement of comprehensive income for the year (note 9)	(2,202)	978	2,290	94	1,160
At 31 December 2009 and 1 January 2010	460	1,186	3,856	94	5,596
Credited/(charged) to the combined statement of comprehensive income for the period (note 9)	(165)	3,913	2,181	19	5,948
At 30 June 2010	295	5,099	6,037	113	11,544

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2009 and applies to earnings after 31 December 2008. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors.

At 31 December 2008 and 2009 and 30 June 2010, no deferred tax liability has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. Prior to the completion of the reorganisation, Biostime Pharmaceuticals is the holding company of the Group's subsidiaries established in Mainland China and is therefore liable to withholding tax on dividends distributed by the Group's subsidiaries established in Mainland China. In respect of the earnings not distributed to Biostime Pharmaceuticals, due to the future expansion of the Group requiring internal funds for capital projects, in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future, therefore, no deferred tax liability associate with unremitted earnings has be recognised.

22. DEFERRED INCOME

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Customer loyalty program:				
At beginning of year/period	1,723	2,165	4,198	12,915
Arising during the year/period	1,830	3,869	12,255	15,404
Recognised as sales revenue during the year/period	(1,388)	(1,836)	(3,538)	(8,755)
At the end of year/period	2,165	4,198	12,915	19,564

23. CONTINGENT LIABILITIES

At each of the reporting dates during the Relevant Periods, neither the Group nor the Company had any significant contingent liabilities.

24. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its production plants, warehouses and vehicles under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 10 years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	3,837	4,434	5,523	6,664
In the second to fifth years, inclusive	9,387	9,418	9,195	9,500
After five years	11,668	9,460	7,130	5,198
	24,892	23,312	21,848	21,362

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	1,772	70	—	—
Intangible assets	—	390	520	520
	1,772	460	520	520

26. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group's management was of the view that the following companies are related companies of the Group, which had transactions with the Group:

Name of the company	Relationship
Biostime Pharmaceuticals	The ultimate holding company
Guangzhou Biohope Co., Ltd. ("Biohope")	Under common control of directors(1)
Biostime Health and Nutrition (Guangzhou) Limited ("Biostime Nutrition") (廣州市合生元營養保健品有限公司)	Indirect jointly-controlled entity of the holding company(2)
南昌市原維態貿易有限公司	A distributor controlled by a brother of a director

(1) Mr. Luo Fei, Mr Luo Yun and Mr. Chen Fufang together held a total 100% equity interest in this company.

(2) Biostime Nutrition is a wholly-owned subsidiary of Biostime France, which is a jointly-controlled entity of Biostime Pharmaceuticals, and accordingly, Biostime Nutrition is considered as a related party to the Group.

(a) Related party transactions

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchases from a related company:						
- Biohope#	(i)	2,223	415	469	287	23
Loans to related companies:						
- Biohope#	(ii)	5,000	11,400	—	—	—
- Biostime Nutrition #	(iii)	—	—	—	—	4,450
Sales of finished goods to related companies:						
- 南昌市原維態貿易有限公司#	(iv)	1,501	2,926	4,637	1,931	2,459
- Biostime Nutrition#	(v)	—	—	—	—	631
Sales of raw materials to a related company						
- Biostime Nutrition#	(vi)	—	—	—	—	1,022

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Rental income from a related company:						
- Biostime Nutrition*.....	(vii)	—	—	—	—	118
Production services provided to a related company:						
- Biostime Nutrition*.....	(viii)	—	—	—	—	15
Sales agency services provided to a related company:						
- Biostime Nutrition#.....	(ix)	—	—	—	—	63

In the opinion of the Directors, these related party transactions will be discontinued prior to the [●] of shares of the Company on the [●].

* These related party transactions constitute continuing connected transactions as defined in [●] of the relevant rules.

Notes:

(i) The purchases were conducted in accordance with mutually agreed terms.

(ii) Loans to Biohope were unsecured, interest-free and had no fixed terms of payment.

(iii) Loans to Biostime Nutrition were unsecured and interest-free.

(iv) The sales were conducted in accordance with terms agreed between the Group and its related company, with reference to similar transactions with third party customers.

(v) Finished goods were sold based on mutually agreed terms.

(vi) Raw materials were sold at cost.

(vii) Rental income was based on mutually agreed terms.

(viii) Production services were conducted based on mutually agreed terms.

(ix) Sale agency services were provided to related company based on mutually agreed terms.

The Group had the following material balances with related parties during the Relevant Periods:

(b) **Due from directors**

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to directors	208	84	—	—
A loan to a director				
- Mr. Luo Yun	300	300	300	—
	508	384	300	—

The Group's advances are unsecured, non-interest-bearing and have no fixed terms of repayment.

The loan granted to the director is unsecured, non-interest-bearing and has no fixed terms of repayment. The carrying amount of the loan approximates to its fair value. The maximum amount outstanding during the Relevant Periods was RMB300,000.

(c) **Due from related companies**

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from a related company:				
- 南昌市原維態貿易有限公司	—	—	31	—
Other receivables from related companies:				
- Biostime Pharmaceuticals[1]	3,297	5,467	7,877	7,834
- Biostime Nutrition[2]	—	—	50	391
	3,297	5,467	7,927	8,225
Loans due from a related company:				
- Biostime Nutrition[3]	—	—	—	4,450
Loans due from directors:				
- Biohope (controlled by Mr. Luo Fei, Mr. Luo Yun and Mr. Chen Fufang)[4]	4,904	16,325	—	—
	8,201	21,792	7,958	12,675

(1) The Group's non-trade receivables from Biostime Pharmaceuticals related to purchase rebates from one of the main suppliers retained by Biostime Pharmaceuticals. They are unsecured, non-interest-bearing and have no fixed terms of repayment.

(2) The Group's other receivables from Biostime Nutrition were unsecured, non-interest-bearing and repayable within one month.

(3) The Loans to Biostime Nutrition were unsecured and non-interest-bearing. As at 30 June 2010, RMB3,000,000 of the loans is due on 30 November 2010 and RMB1,450,000 is due on 31 December 2010. The carrying amount of these loans approximated to their fair values. The maximum amount outstanding during the six months ended 30 June 2010 was RMB4,450,000.

(4) The loans to Biohope were unsecured, non-interest-bearing and had no fixed terms of repayment. The carrying amounts of these loans approximated to their fair values. The maximum amounts outstanding during 2007 and 2008 were RMB5,000,000 and RMB16,400,000, respectively.

As at the date of this report, the Group's amounts due form related companies had been fully settled.

(d) **Due to related companies**

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables to related companies:				
- Biostime Pharmaceuticals	3,138	17,206	—	8,648
Trade payables to a related company:				
- Biohope	—	—	48	—
Advance from a related company:				
- 南昌市原維態貿易有限公司	327	107	—	236
	3,465	17,313	48	8,884

The Group's other payables to related companies represented the amount paid by Biostime Pharmaceuticals to one of the key suppliers on behalf of the Group.

The Group's trade payables to and advance from related companies were non-interest-bearing.

As at the date of this report, the Group's amounts due to related companies had been fully settled.

(e) **Compensation of key management personnel of the Group**

In addition to the amounts paid to the Company's directors as disclosed in note 8, compensation of other key management personnel of the Group is set out as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employees benefits ...	1,604	3,348	6,493	1,693	4,089
Pension scheme contribution	27	81	125	57	67
Total compensation paid to other key management personnel	1,631	3,429	6,618	1,750	4,156

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets - loans and receivables

	Notes	As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	15	7,862	5,588	3,653	4,584
Other receivables and deposits	16	5,187	6,184	7,993	8,171
Due from directors.....	26(b)	508	384	300	—
Due from related companies.....	26(c)	8,201	21,792	7,958	12,675
Restricted cash	17	—	1,232	6,090	8,447
Cash and cash equivalents.....	17	47,935	59,765	133,795	245,329
		69,693	94,945	159,789	279,206

Financial liabilities at amortised cost

	Notes	As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	18	3,851	18,229	39,657	40,292
Financial liabilities included in other payables and accruals	19	10,053	10,991	17,276	20,684
Dividend payable	10	13,001	—	—	11,142
Interest-bearing bank loan	20	—	—	500	—
Due to related companies	26(d)	3,465	17,313	48	8,884
		30,370	46,533	57,481	81,002

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise amounts due from directors and related companies, restricted cash, cash and cash equivalents, dividend payable, interest-bearing bank loan and amounts due to related companies. 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 other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each of the Relevant Periods. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of the directors of the Company reviews and agrees 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 an interest-bearing bank loan. The Group's policy is to obtain the most favourable interest rate available. The effective interest rate and terms of repayment of the interest-bearing bank loan of the Group are set out in note 20 to this report. Management does not anticipate any significant impact resulting from the changes in interest rates because the Group's loan as at 31 December 2009 was at a fixed interest rate which has no significant impact on cash flow interest rate risk.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the unit's functional currencies. For the years ended 31 December 2007, 2008 , 2009 and 30 June 2010 approximately 76.7%, 81.7%, 80.3% and 78.4% of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchase.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States ("US") dollar and Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Effect on profit before tax

		Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Increase in the US dollar rate.....	+5%	(157)	(686)	(767)	(492)	(664)
Decrease in the US dollar rate.....	-5%	157	686	767	492	664
Increase in the Euro rate...	+5%	(72)	(292)	(635)	(620)	(1,002)
Decrease in the Euro rate..	-5%	72	292	635	620	1,002

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise other receivables and deposits, amounts due from directors and related companies, restricted cash and cash and cash equivalents arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objectives are to maintain sufficient cash and cash equivalents and to have available funding through an adequate amount of committed credit facilities to meet its commitments.

The Group's cash and bank balances are placed with reputable financial institutions.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group's financial liabilities were all due within 12 months from each of the reporting dates of the Relevant Periods. Their contractual amounts to be paid approximate to their carrying amounts as shown in the combined statements of financial position.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at each of the reporting dates of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total liabilities	63,494	86,625	112,862	180,151
Total assets	103,752	175,298	283,419	432,121
Liabilities to assets ratio	61%	49%	40%	42%

29. SUBSEQUENT EVENTS

(1) Pursuant to the written resolution of the sole shareholder of the Company date 12 July 2010, the Company adopted a [●] Share Option Scheme.

(2) On 20 September 2010, Biostime Guangzhou and Biostime Health declared dividends amounting to RMB33,585,000 and RMB71,229,000, respectively, to their sole equity owner.

(3) On 16 November 2010, the companies now comprising the Group underwent the Reorganisation in the preparation for the [●] of the Company's shares on the [●]. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in "Appendix VI — Statutory and general information" to the document.

30. 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 2010.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 October 2010 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

[●]

The Board of Directors
Biostime International Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Biostime International Holdings Limited (the "Company") and its subsidiaries (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 October 2010 (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".

We have attributed no commercial value to the property interests in Groups I and II which are leased 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 outgoings 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 [●] of Securities issued by [●]; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

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 provided with tenancy agreement relating to the property interest in Group II and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of Tenancy Agreements, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title 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 advisors, Jingtian & Gongcheng, 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 tenancy agreements or title documents 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 summarized 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 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom, as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 October 2010 *RMB*
1.	An industrial building and an office building No. 187 Lianguang Road Guangzhou Economic and Technological Development Zone Guangzhou City Guangdong Province The PRC	No commercial value
2.	Units 1102, 1103, 1105, 1109, 1110 and 1115 on Level 11, Units 1402, 1403 and 1407 on Level 14 and Unit 1510 on Level 15 of CITIC Plaza Office Tower No. 233 Tianhe North Road Tianhe District Guangzhou City Guangdong Province The PRC	No commercial value
3.	Units 06 and 07 on Level 5 of Tower A of COFCO Plaza No. 8 Jianguomen Nei Avenue Dongcheng District Beijing The PRC	No commercial value
4.	Unit 10E on Level 10 of Hua Min Han Zun No. 728 Yan'an West Road Changning District Shanghai The PRC	No commercial value
5.	Unit 2801 on Level 28 of Yunfeng Mansion No. 8 Zhongshan North Road Gulou District Nanjing City Jiangsu Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 October 2010 *RMB*
6.	Unit 509 on Level 5 of Block 1 of EAC of Shi Mao Li Jin Town No. 18 Jiaogong Road West Lake District Hangzhou City Zhejiang Province The PRC	No commercial value
7.	Unit 701 on Level 7 of Block A of He Tai Yun Heng International Mansion No. 109 Nanjing North Street Heping District Shenyang City Liaoning Province The PRC	No commercial value
8.	Unit A2 and B on Level 29 of Qijian Mansion No. 40 Xianggang Zhong Road Shinan District Qingdao City Shandong Province The PRC	No commercial value
9.	Unit A-1 on Level 15 of Chuanxin Mansion No. 18 Section 2 of Renmin South Road Jinjiang District Chengdu City Sichuan Province The PRC	No commercial value
10.	Units 01 and 03 on Level 11 of Yada Times Mansion No. 456 Wuyi Avenue Furong District Changsha City Hunan Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 October 2010 *RMB*
11.	Unit 07 on Level 33 of New World International Trade Mansion No. 568 Jianshe Avenue Hankou District Wuhan City Hubei Province The PRC	No commercial value
12.	Units 1909 and 1910 on Level 19 of The People's Insurance Mansion No. 68 Hubin North Road Siming District Xiamen City Fujian Province The PRC	No commercial value
	Sub-total:	**Nil**

Group II — Property interests leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 October 2010 *RMB*
13.	Unit No. 2208 on 22nd Floor West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Sheung Wan Hong Kong	No commercial value
	Sub-total:	**Nil**
	Grand total:	**Nil**

VALUATION CERTIFICATE

Group I — Property interests leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
1.	An industrial building and an office building No. 187 Lianguang Road Guangzhou Economic and Technological Development Zone Guangzhou City Guangdong Province The PRC	The property comprises a 4-storey industrial building and a 6-storey office building completed in 2007. The property has a total lettable area of approximately 9,084.2 sq.m. The property is leased to Biostime, Inc. (Guangzhou), ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 10 years commencing from 1 October 2007 and expiring on 30 September 2017, at a monthly rent of RMB168,835.73 exclusive of other outgoings. The rent will be increased by 5.5% every 3 years commencing from 1 October 2010.	The property is currently occupied by the Group for production, warehouse and office purposes except level 4 of the industrial building which is sublet to a connected party.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 28 February 2008, the property was leased to Biostime Guangzhou from Guangzhou Economic and Technological Development Zone Bigang Economic Development Company (廣州經濟技術開發區筆崗經濟發展總公司) (the "Lessor"), an independent third party, for a term of 10 years commencing from 1 October 2007 and expiring on 30 September 2017, at a monthly rent of RMB168,835.73 exclusive of other outgoings. The rent will be increased by 5.5% every 3 years commencing from 1 October 2010.
2. Pursuant to a House Lease Agreement dated 24 November 2010, level 4 of the industrial building of the property with a floor area of approximately 1,500 sq.m. was leased to Biostime Health and Nutrition (Guangzhou) Limited, a connected party of the Company, from Biostime Guangzhou for a term commencing from 24 November 2010 and expiring on 31 December 2011, at a monthly rent of RMB29,654 inclusive of other outgoings.
3. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has the legal rights to lease the property to the Group and the Tenancy Agreement has been registered;
   b. The Tenany Agreement and the House Lease Agreement are legal, valid and enforceable on the contractual parties;
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws; and
   d. Biostime Guangzhou has obtained the authorization from the Lessor to sublet the property during the term of the Tenancy Agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
2.	Units 1102, 1103, 1105, 1109, 1110, 1115 on Level 11, Units 1402, 1403 and 1407 on Level 14 and Unit 1510 on Level 15 of CITIC Plaza Office Tower No. 233 Tianhe North Road Tianhe District Guangzhou City Guangdong Province The PRC	The property comprises 10 office units on Levels 11, 14 and 15 of an 80-storey office building known as CITIC Plaza completed in 1997. The property has a total lettable area of approximately 1,560.07 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from 11 independent third parties for various terms with the expiry dates between 25 August 2011 and 31 August 2012, at a total monthly rent of RMB222,868.22 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to 9 Tenancy Agreements dated between 23 August 2008 and 27 July 2010, the property was leased to Biostime Guangzhou from 11 independent third parties (the "Lessors") for various terms with the expiry dates between 25 August 2011 and 31 August 2012, at a total monthly rent of RMB222,868.22 exclusive of management fees, water, electricity charges and other outgoings.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
   a. The Lessors have obtained the relevant title certificates of the property and the Tenancy Agreements have been registered;
   b. The Tenancy Agreements are legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreements and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
3.	Units 06 and 07 on Level 5 of Tower A of COFCO Plaza No. 8 Jianguomen Nei Avenue Dongcheng District Beijing The PRC	The property comprises 2 office units on Level 5 of a 14-storey office building known as Tower A of COFCO Plaza completed in 1996. The property has a total lettable area of approximately 186 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 2 years commencing from 1 May 2010 and expiring on 30 April 2012, at a monthly rent of RMB31,620 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 4 May 2010, the property was leased to Biostime Guangzhou from Beijing COFCO Plaza Development Company Limited (北京中糧廣場發展有限公司) (the "Lessor"), an independent third party, for a term of 2 years commencing from 1 May 2010 and expiring on 30 April 2012, at a monthly rent of RMB31,620 exclusive of management fees, water, electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificates of the property and the Tenancy Agreement has not been registered;
   b. The Tenancy Agreement should be registered, however, the Group as the lessee has no responsibility for the failure of registration and the Group's rights under the Tenancy Agreement will not be affected due to the absence of registration; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
4.	Unit 10E on Level 10 of Hua Min Han Zun No. 728 Yan'an West Road Changning District Shanghai The PRC	The property comprises an office unit on Level 10 of a 28-storey composite building known as Hua Min Han Zun completed in 2004. The property has a lettable area of approximately 250.4 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 3 years commencing from 9 November 2010 and expiring on 8 November 2013, at a monthly rent of RMB33,000 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 8 October 2010, the property was leased to Biostime Guangzhou from Wang Yingting (王英亭) (the "Lessor"), an independent third party, for a term of 3 years commencing from 9 November 2010 and expiring on 8 November 2013, at a monthly rent of RMB33,000 exclusive of management fees, water, electricity charges and other outgoings.

   As stipulated in the Tenancy Agreement, the occupancy rights of the property should be handed over to Biostime Guangzhou before 11 October 2010, and Biostime Guangzhou was moved into the property on 11 October 2010 as advised by the Company.

2. 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 advisors, which contains, *inter alia*, the following:

   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has not been registered;

   b. The Tenancy Agreement should be registered, however, the Group as the lessee has no responsibility for the failure of registration and the Group's rights under the Tenancy Agreement will not be affected due to the absence of registration; and

   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
5.	Unit 2801 on Level 28 of Yunfeng Mansion No. 8 Zhongshan North Road Gulou District Nanjing City Jiangsu Province The PRC	The property comprises an office unit on Level 28 of a 28-storey office building known as Yunfeng Mansion completed in 2006. The property has a lettable area of approximately 237 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 2 years commencing from 8 April 2010 and expiring on 8 April 2012, at an annual rent of RMB346,020 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 8 April 2010, the property was leased to Biostime Guangzhou from Yao Xu (姚旭) (the "Lessor"), an independent third party, for a term of 2 years commencing from 8 April 2010 and expiring on 8 April 2012, at an annual rent of RMB346,020 exclusive of management fees, water, electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
6.	Unit 509 on Level 5 of Block 1 of EAC of Shi Mao Li Jin Town No. 18 Jiaogong Road West Lake District Hangzhou City Zhejiang Province The PRC	The property comprises an office unit on Level 5 of a 23-storey composite building known as EAC of Shi Mao Li Jin Town (世貿麗晶城歐美中心) completed in 2008. The property has a lettable area of approximately 137.43 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 2 years commencing from 1 March 2009 and expiring on 28 February 2011, at a monthly rent of RMB20,065 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 March 2009, the property was leased to Biostime Guangzhou from Yin Kai (殷凱) (the "Lessor"), an independent third party, for a term of 2 years commencing from 1 March 2009 and expiring on 28 February 2011, at a monthly rent of RMB20,065 exclusive of management fees, water, electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
7.	Unit 701 on Level 7 of Block A of He Tai Yun Heng International Mansion No. 109 Nanjing North Street Heping District Shenyang City Liaoning Province The PRC	The property comprises an office unit on Level 7 of a 24-storey composite building known as Block A of He Tai Yun Heng International Mansion completed in 2006. The property has a lettable area of approximately 193.81 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 1 year commencing from 11 December 2009 and expiring on 11 December 2010, at a monthly rent of RMB7,335 exclusive of electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 8 December 2009, the property was leased to Biostime Guangzhou from Tao Xin (陶昕) (the "Lessor"), an independent third party, for a term of 1 year commencing from 11 December 2009 and expiring on 11 December 2010, at a monthly rent of RMB7,335 exclusive of electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
8.	Unit A2 and B on Level 29 of Qijian Mansion No. 40 Xianggang Zhong Road Shinan District Qingdao City Shandong Province The PRC	The property comprises 2 office units on Level 29 of a 35-storey composite building known as Qijian Mansion completed in 2000. The property has a total lettable area of approximately 236.77 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 1 year commencing from 15 June 2010 and expiring on 14 June 2011, at a monthly rent of RMB21,605 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Biostime Guangzhou from New World (Qingdao) Real Estate Company Limited (新世界(青島)置業有限公司) (the "Lessor"), an independent third party, for a term of 1 year commencing from 15 June 2010 and expiring on 14 June 2011, at a monthly rent of RMB21,605 exclusive of management fees, water, electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificates of the property and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
9.	Unit A-1 on Level 15 of Chuanxin Mansion No. 18 Section 2 of Renmin South Road Jinjiang District Chengdu City Sichuan Province The PRC	The property comprises an office unit on Level 15 of a 38-storey office building known as Chuanxin Mansion completed in 1998. The property has a lettable area of approximately 245.63 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 1 year commencing from 1 November 2010 and expiring on 31 October 2011, at a monthly rent of RMB19,650.4 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 November 2010, the property is leased to Biostime Guangzhou from Sichuan Trust Company Limited (四川信托有限公司) (the "Lessor"), an independent third party, for a term of 1 year commencing from 1 November 2010 and expiring on 31 October 2011, at a monthly rent of RMB19,650.4 exclusive of management fees, water, electricity charges and other outgoings.
2. Pursuant to 2 tenancy agreements which were expired on 31 October 2010, the property has been leased to the Group since 1 November 2009 at an annual rent of RMB235,804.8 exclusive of management fees, water, electricity charges and other outgoings.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
10.	Units 01 and 03 on Level 11 of Yada Times Mansion No. 456 Wuyi Avenue Furong District Changsha City Hunan Province The PRC	The property comprises 2 office units on Level 11 of a 28-storey office building known as Yada Times Mansion completed in 2002. The property has a total lettable area of approximately 245.23 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 1 year commencing from 20 July 2010 and expiring on 19 July 2011, at a monthly rent of RMB14,714 exclusive of management fees and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 10 June 2010, the property was leased to Biostime Guangzhou from Hunan Yada Technology Industry Company Limited (湖南亞大科技實業有限公司) (the "Lessor"), an independent third party, for a term of 1 year commencing from 20 July 2010 and expiring on 19 July 2011, at a monthly rent of RMB14,714 exclusive of management fees and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has not been registered;
   b. The Tenancy Agreement should be registered, however, the Group as the lessee has no responsibility for the failure of registration and the Group's rights under the Tenancy Agreement will not be affected due to the absence of registration; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
11.	Unit 07 on Level 33 of New World International Trade Mansion No. 568 Jianshe Avenue Hankou District Wuhan City Hubei Province The PRC	The property comprises an office unit on Level 33 of a 55-storey composite building known as New World International Trade Mansion completed in 2004. The property has a lettable area of approximately 227.34 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 2 years commencing from 27 May 2010 and expiring on 26 May 2012, at a monthly rent of RMB15,495.12 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 20 April 2010, the property was leased to Biostime Guangzhou from New World Development (Wuhan) Company Limited (新世界發展(武漢)有限公司) (the "Lessor"), an independent third party, for a term of 2 years commencing from 27 May 2010 and expiring on 26 May 2012, at a monthly rent of RMB15,495.12 exclusive of management fees, water, electricity charges and other outgoings.

2. 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 advisors, which contains, *inter alia*, the following:

   a. The Lessor has obtained the relevant title certificate of the property and the Tenancy Agreement has been registered;

   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and

   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
12.	Units 1909 and 1910 on Level 19 of The People's Insurance Mansion No. 68 Hubin North Road Siming District Xiamen City Fujian Province The PRC	The property comprises 2 office units on Level 19 of a 28-storey office building known as The People's Insurance Mansion completed in 2001. The property has a total lettable area of approximately 138.91 sq.m. The property is leased to Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 1 year commencing from 1 April 2010 and expiring on 31 March 2011, at a monthly rent of RMB8,473.51 exclusive of management fees, water, electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 23 March 2010, the property was leased to Biostime Guangzhou from Xiamen Xingbao Staff Training Service Center (廈門興保職工培訓服務中心) (the "Lessor"), an independent third party, for a term of 1 year commencing from 1 April 2010 and expiring on 31 March 2011, at a monthly rent of RMB8,473.51 exclusive of management fees, water, electricity charges and other outgoings.
2. 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 advisors, which contains, *inter alia*, the following:
   a. The Lessor has the legal rights to lease the property to the Group and the Tenancy Agreement has been registered;
   b. The Tenancy Agreement is legal, valid and enforceable on the contractual parties; and
   c. The Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the PRC laws.

VALUATION CERTIFICATE

Group II — Property interest leased and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2010 *RMB*
13.	Unit No. 2208 on 22nd Floor West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Sheung Wan Hong Kong	The property comprises an office unit on the 22nd floor of a 30-storey office/commercial building completed in 1985. The property has a gross floor area of approximately 1,402 sq.ft. (130.25 sq.m.) Pursuant to a Tenancy Agreement entered into between Biostime International Holdings Limited, as Tenant and NetDragon Websoft (Hong Kong) Limited as Landlord, an independent third party, the property is leased by the Group for a term of 2 years commencing from 20 August 2010 and expiring on 19 August 2012, at a monthly rent of HK$30,432 exclusive of rates, air-conditioning charges, management fees and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is NetDragon Websoft (Hong Kong) Limited.

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on April 30, 2010 under 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, 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 November 25, 2010. 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 [●] (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 [●] (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 favor 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 realized 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 associates 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 associates or obligations incurred or undertaken by him or any of his associates 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 [●] or [●] of the [●];

(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 associates are not in aggregate beneficially interested in 5 percent. 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 associates 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 associates and 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;

(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 authorized 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 [●] (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 authorized 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 authorized 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 recognized clearing house (or its nominee(s)) is a member of the Company it may authorize 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 authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized 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 [●] (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 [●] (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 authorized 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 [●] (as defined in the Articles), the Company may send to such persons summarized 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 summarized 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 [●], 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 [●] (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 recognize any instrument of transfer unless a fee of such maximum sum as any Designated [●] (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 a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated [●] (as defined in the Articles), 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 [●] (as defined in the Articles).

(l) Power for any Subsidiary of the Company to Own Shares in the Company and Financial Assistance to Purchase Shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated [●] (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(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, realized or unrealized, 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 authorized 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 check 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 check 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 check 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 authorized 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 authorized 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 authorized 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 summarized 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 checks 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 [●] (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 [●] (as defined in the Articles), has elapsed since the date of such advertisement and the Designated [●] (as defined in the Articles) has been notified of such intention. The net [●] of any such sale shall belong to the Company and upon receipt by the Company of such net [●], it shall become indebted to the former member of the Company for an amount equal to such net [●].

(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 authorized 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 authorized 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 authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized 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 authorizing 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 May 11, 2010.

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 or articles expires, or the event occurs on the occurrence of which the memorandum or articles 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 authorized 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 authorized 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 summarizing certain aspects of Cayman Islands company law. 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.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on April 30, 2010. Our Company was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on September 7, 2010 and our Company's principal place of business in Hong Kong is at Unit No. 2208 on 22/F of West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong. Ms. Wong Tak Yee of Flat C1 8/F, Palace Garden, 163 Argyle Street, Kowloon, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong. Our Company changed its name from Biostime International Holdings Ltd. to Biostime International Holdings Limited 合生元國際控股有限公司 on July 28, 2010.

As our Company is incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and its constitution which comprises a Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of our Articles of Association is set out in Appendix V to this document.

2. Changes in Share Capital of Our Company

As of the date of incorporation of our Company, its authorized share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

(a) On April 30, 2010, one nil paid Share of HK$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber, which was transferred to Biostime Pharmaceuticals on the same day.

(b) On July 12, 2010, the authorized share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 Shares of HK$0.01 each by the creation of 9,962,000,000 Shares of HK$0.01 each, which rank *pari passu* in all respects with the Share then in issue.

(c) On November 16, 2010, as consideration for the acquisition from Biostime Pharmaceuticals the entire equity interest in each of Biostime Guangzhou, Biostime Health and BMcare Guangzhou, 449,999,999 Shares of HK$0.01 were allotted and issued to Biostime Pharmaceuticals, credited as fully paid and the Shares rank *pari passu* in all respects with the Share in issue as of the date of such allotment and issue. After such allotment and issue, Biostime Pharmaceuticals held 450,000,000 Shares (which constituted the then entire issued share capital of our Company) in our Company.

Immediately following completion of the [●] and assuming that the [●] is not exercised, the authorized share capital of our Company will be HK$100,000,000 divided into 10,000,000,000 Shares, of which 600,000,000 Shares will be issued fully paid or credited as fully paid, and 9,400,000,000 Shares will remain unissued. Other than the general mandate to issue Shares set out in the paragraph headed

"Written resolutions of our sole Shareholder passed on November 25, 2010" in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in Share Capital of Our Subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this document:

(a) Biostime Guangzhou

On October 13, 2010, our Company entered into a share purchase agreement with Biostime Pharmaceuticals to acquire the entire equity interest in Biostime Guangzhou. Upon completion of the share transfer, Biostime Guangzhou has become a wholly-owned subsidiary of our Company.

(b) Biostime Health

On December 26, 2008, Biostime Pharmaceuticals entered into an equity transfer agreement with Biostime France to acquire its 1% equity interest in Biostime Health at the consideration of US$21,000. Upon completion of the equity transfer, Biostime Health has become a wholly-owned subsidiary of Biostime Pharmaceuticals.

On October 13, 2010, our Company entered into a share purchase agreement with Biostime Pharmaceuticals to acquire the entire equity interest in Biostime Health. Upon completion of the share transfer, Biostime Health has become a wholly-owned subsidiary of our Company.

(c) BMcare Guangzhou

On October 13, 2010, our Company entered into a share purchase agreement with Biostime Pharmaceuticals to acquire the entire equity interest in BMcare Guangzhou. Upon completion of the share transfer, BMcare Guangzhou has become a wholly-owned subsidiary of our Company.

(d) SARL Biostime

On June 22, 2010, our Company entered into a share purchase and sale agreement with Biostime Pharmaceuticals to acquire the entire issued share capital of SARL Biostime for a consideration of EUR10,000. Upon completion of the share transfer, SARL Biostime has become a wholly-owned subsidiary of our Company.

Save as set out above and in the paragraph headed "Corporate Reorganization" under this section in this appendix, there has been no alteration in the share capital of any of our subsidiaries of our Company within the two years immediately preceding the date of this document.

Each of the general mandates referred to in paragraphs (b), (c) and (d) above will remain in effect until whichever is the earliest of:

(i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which our Company is required by any applicable law or our Articles of Association to hold our next annual general meeting; or

(iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

4. [●]

5. Repurchase of Our Shares

This section includes information relating to the repurchases of securities, including information required by the [●] to be included in this document concerning such repurchase.

(a) Provisions of the [●]

The [●] permit companies whose primary [●] is on the [●] to repurchase their securities on the [●] subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transactions.

Pursuant to the written resolutions passed on November 25, 2010 by our sole Shareholder, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be [●] on the [●]) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following completion of the [●], further details of which have been described above in the paragraph headed "Written resolutions of our sole Shareholder passed on November 25, 2010" in this Appendix.

(ii) Source of funds

Any repurchases of Shares by us must be funded out of funds legally available for the purpose in accordance with our Articles of Association, the [●] and the applicable laws and regulations of the Cayman Islands. We are not permitted to repurchase our Shares on the [●] for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the [●] from time to time.

(iii) Shares to be repurchased

The [●] provide that our Shares which are proposed to be repurchased by us 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 for our Directors to have general authority from our Shareholders to enable them 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 per Share of our Company and/or its earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with our Articles of Association, the [●] and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this document and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this document. 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 the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the [●]) has any present intention to sell any Shares to us.

Our Directors have undertaken to the [●] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [●] and the applicable laws and regulations of the Cayman Islands. If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the [●] (the "[●]"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with [●] of the [●]. Save as aforesaid, our Directors are not aware of any consequences which would arise under the [●] as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell any Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

The Corporate Reorganization which was effected in preparation for the [●], whereby our Company became the holding company of our Group, included the following major steps:

1. On April 30, 2010, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company and the authorized share capital of our Company was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. One nil paid Share of HK$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited and the Share was transferred to Biostime Pharmaceuticals on the same date.

2. On June 22, 2010, our Company and Biostime Pharmaceuticals entered into a share purchase and sale agreement, pursuant to which Biostime Pharmaceuticals transferred the entire issued share capital of SARL Biostime to our Company for a consideration of EUR10,000.

3. On July 12, 2010, the authorized share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 Shares of HK$0.01 each by the creation of 9,962,000,000 Shares of HK$0.01 each, which rank *pari passu* in all respects with the Share in issue as of the date of passing of the written resolutions of the sole Shareholder.

4. On October 13, 2010, our Company and Biostime Pharmaceuticals entered into certain share purchase agreements, pursuant to which the entire equity interest in each of Biostime Guangzhou, Biostime Health and BMcare Guangzhou were acquired by our Company, in consideration of which our Company allotted and issued an aggregate of 449,999,999 Shares to Biostime Pharmaceuticals on November 16, 2010.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are or may be material:

(a) an equity transfer agreement dated December 26, 2008 entered into between Biostime Pharmaceuticals and Biostime France, pursuant to which Biostime France transferred its 1% equity interest in Biostime Health to Biostime Pharmaceuticals for a consideration of US$21,000;

(b) a share purchase and sale agreement dated June 22, 2010 entered into between Biostime Pharmaceuticals and our Company, pursuant to which Biostime Pharmaceuticals transferred the entire issued share capital of SARL Biostime to our Company for a consideration of EUR10,000;

(c) a copyright transfer agreement (in Chinese) dated July 27, 2010 entered into between Mr. Luo Fei and Biostime Guangzhou, pursuant to which Mr. Luo Fei has agreed to transfer his copyrights related to our business operation in the PRC to Biostime Guangzhou at a consideration of RMB1.0;

(d) a patent transfer agreement (in Chinese) dated July 27, 2010 entered into between Mr. Luo Fei and Biostime Guangzhou, pursuant to which Mr. Luo Fei has agreed to transfer his patents related to our business operation in the PRC to Biostime Guangzhou at a consideration of RMB1.0;

(e) a copyright license certificate (in Chinese) dated July 27, 2010 and issued by Mr. Luo Fei, pursuant to which Mr. Luo Fei has granted an irrevocable and exclusive license to Biostime Guangzhou to use the copyrights to be transferred under the copyright transfer agreement referred to in (c) above, pending completion of transfer of such copyrights to us, at nil consideration;

(f) a patent license certificate (in Chinese) dated July 27, 2010 and issued by Mr. Luo Fei, pursuant to which Mr. Luo Fei has granted an irrevocable and exclusive license to Biostime Guangzhou to use the patents pending to be transferred under the patent transfer agreement referred to in (d) above, completion of transfer of such patents to us, at nil consideration;

(g) a share purchase agreement (in Chinese) dated October 13, 2010 entered into between our Company and Biostime Pharmaceuticals, pursuant to which our Company acquired the entire equity interest in Biostime Guangzhou, in consideration of which our Company allotted and issued 110,583,942 Shares to Biostime Pharmaceuticals;

(h) a share purchase agreement (in Chinese) dated October 13, 2010 entered into between our Company and Biostime Pharmaceuticals, pursuant to which our Company acquired the entire equity interest in Biostime Health, in consideration of which our Company allotted and issued 229,927,006 Shares to Biostime Pharmaceuticals;

(i) a share purchase agreement (in Chinese) dated October 13, 2010 entered into between our Company and Biostime Pharmaceuticals, pursuant to which our Company acquired the entire equity interest in BMcare Guangzhou, in consideration of which our Company allotted and issued 109,489,051 Shares to Biostime Pharmaceuticals;

(j) the Deed of Non-competition;

(k) [●]; and

(l) the Deed of Indemnity.

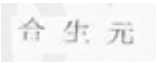
2. Intellectual Property Rights of our Group

Trademarks

As of the Latest Practicable Date, we had the right to use the following trademarks:

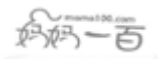
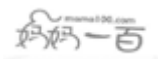
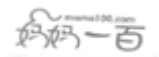
Trademark	Registered Owner	Place of registration	Class[(Note)]	Registration number	Expiry date
	Biostime Guangzhou	PRC	25	3797386	October 27, 2016
	Biostime Guangzhou	PRC	16	3797389	March 13, 2016
	Biostime Guangzhou	PRC	29	3797402	December 20, 2015
	Biostime Guangzhou	PRC	28	3798404	November 06, 2016
	Biostime Guangzhou	PRC	34	4407151	June 13, 2017
	Biostime Guangzhou	PRC	33	4407152	June 13, 2017
	Biostime Guangzhou	PRC	31	4407153	June 13, 2017
	Biostime Guangzhou	PRC	27	4407156	September 6, 2018
	Biostime Guangzhou	PRC	26	4407157	September 6, 2018
	Biostime Guangzhou	PRC	24	4407158	September 6, 2018
	Biostime Guangzhou	PRC	23	4407159	September 6, 2018
	Biostime Guangzhou	PRC	22	4407160	September 6, 2018
	Biostime Guangzhou	PRC	9	4407161	July 20, 2017
	Biostime Guangzhou	PRC	8	4407162	July 20, 2017
	Biostime Guangzhou	PRC	7	4407163	July 20, 2017
	Biostime Guangzhou	PRC	6	4407164	July 20, 2017
	Biostime Guangzhou	PRC	4	4407168	February 27, 2018

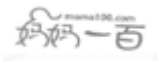
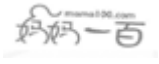
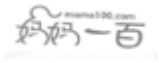
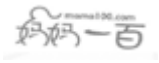
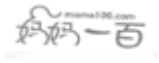
Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	2	4407169	February 27, 2018
	Biostime Guangzhou	PRC	1	4407170	February 27, 2018
	Biostime Guangzhou	PRC	45	4407341	June 27, 2018
	Biostime Guangzhou	PRC	44	4407342	June 27, 2018
	Biostime Guangzhou	PRC	43	4407343	June 27, 2018
	Biostime Guangzhou	PRC	42	4407344	June 27, 2018
	Biostime Guangzhou	PRC	41	4407345	June 27, 2018
	Biostime Guangzhou	PRC	40	4407346	June 27, 2018
	Biostime Guangzhou	PRC	39	4407347	June 27, 2018
	Biostime Guangzhou	PRC	38	4407348	June 27, 2018
	Biostime Guangzhou	PRC	37	4407349	June 27, 2018
	Biostime Guangzhou	PRC	36	4407350	June 27, 2018
	Biostime Guangzhou	PRC	21	4407351	February 20, 2018
	Biostime Guangzhou	PRC	20	4407352	February 20, 2018
	Biostime Guangzhou	PRC	19	4407353	February 20, 2018
	Biostime Guangzhou	PRC	18	4407354	September 13, 2018
	Biostime Guangzhou	PRC	17	4407355	February 20, 2018
	Biostime Guangzhou	PRC	16	4407356	February 20, 2018
	Biostime Guangzhou	PRC	15	4407357	February 20, 2018

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	14	4407358	February 20, 2018
	Biostime Guangzhou	PRC	12	4407359	July 20, 2017
	Biostime Guangzhou	PRC	11	4407360	July 20, 2017
	Biostime Guangzhou	PRC	30	1647169	October 6, 2011
	Biostime Guangzhou	PRC	30	3044870	March 20, 2013
	Biostime Guangzhou	PRC	5	3314576	February 27, 2014
	Biostime Guangzhou	PRC	10	3797390	March 13, 2015
	Biostime Guangzhou	PRC	32	3797401	July 27, 2015
	Biostime Guangzhou	PRC	35	3797405	December 20, 2015
	Biostime Guangzhou	PRC	29	5735629	June 20, 2019
	Biostime Guangzhou	PRC	29	6143145	August 27, 2019
	Biostime Guangzhou	PRC	5	6894058	September 27, 2020
	Biostime Guangzhou	PRC	30	1663123	November 6, 2011
	Biostime Guangzhou	PRC	5	3787885	October 27, 2018
	Biostime Guangzhou	PRC	10	3797391	May 27, 2015
	Biostime Guangzhou	PRC	3	3797393	March 13, 2016
	Biostime Guangzhou	PRC	32	3797403	August 6, 2015
	Biostime Guangzhou	PRC	35	3797476	December 20, 2015
	Biostime Guangzhou	PRC	30	5312269	June 20, 2019

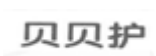
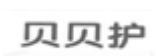
Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
BIOSTIME	Biostime Guangzhou	PRC	29	5735630	June 20, 2019
BIOSTIME	Biostime Guangzhou	PRC	29	6143146	August 27, 2019
BodyKiss	Biostime Guangzhou	PRC	5	1624550	August 27, 2011
BodyKiss	Biostime Guangzhou	PRC	3	1628319	September 6, 2011
BodyKiss	Biostime Guangzhou	PRC	3	5351414	August 20, 2019
BodyKiss	Biostime Guangzhou	PRC	5	5351415	August 20, 2019
BodyKiss	Biostime Guangzhou	PRC	10	5351416	May 6, 2019
BodyKiss	Biostime Guangzhou	PRC	35	5351468	July 27, 2019
BodyKiss	Biostime Guangzhou	PRC	30	5351470	April 27, 2019
BodyKiss	Biostime Guangzhou	PRC	25	5351472	August 20, 2019
BodyKiss	Biostime Guangzhou	PRC	44	5351486	January 13, 2020
	Biostime Guangzhou	PRC	5	5351028	August 20, 2019
	Biostime Guangzhou	PRC	30	5351467	December 20, 2019
	Biostime Guangzhou	PRC	3	5793257	November 20, 2019
	Biostime Guangzhou	PRC	10	5793258	September 13, 2019
	Biostime Guangzhou	PRC	16	5793259	October 20, 2019
	Biostime Guangzhou	PRC	25	5793260	January 6, 2020
	Biostime Guangzhou	PRC	28	5793261	December 20, 2019
	Biostime Guangzhou	PRC	29	5793262	July 6, 2019

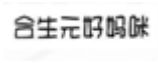
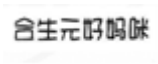
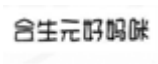
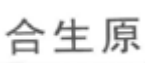
Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	3	5793240	November 20, 2019
	Biostime Guangzhou	PRC	5	5793242	December 13, 2019
	Biostime Guangzhou	PRC	10	5793244	September 13, 2019
	Biostime Guangzhou	PRC	28	5793245	December 20, 2019
	Biostime Guangzhou	PRC	29	5793246	July 20, 2019
	Biostime Guangzhou	PRC	16	5793247	October 20, 2019
	Biostime Guangzhou	PRC	25	5793248	January 6, 2020
	Biostime Guangzhou	PRC	30	5793249	October 27, 2019
	Biostime Guangzhou	PRC	35	5793250	February 6, 2020
	Biostime Guangzhou	PRC	29	6482071	November 27, 2019
	Biostime Guangzhou	PRC	10	6482074	March 13, 2020
	Biostime Guangzhou	PRC	30	6482070	March 27, 2020
	Biostime Guangzhou	PRC	28	6482072	May 27, 2020
	Biostime Guangzhou	PRC	25	6482073	June 13, 2020
	Biostime Guangzhou	PRC	5	6482075	March 27, 2020
	Biostime Guangzhou	PRC	44	6481993	April 13, 2020
	Biostime Guangzhou	PRC	41	6481994	July 13, 2020
	Biostime Guangzhou	PRC	35	6481995	July 6, 2020
	Biostime Guangzhou	PRC	30	1663132	November 6, 2011

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	3	1664281	November 13, 2011
	Biostime Guangzhou	PRC	25	3797387	October 27, 2016
	Biostime Guangzhou	PRC	5	3797392	March 6, 2016
	Biostime Guangzhou	PRC	28	3798405	October 13, 2016
	Biostime Guangzhou	PRC	29	3954948	March 6, 2016
	Biostime Guangzhou	PRC	5	3954950	October 13, 2016
	Biostime Guangzhou	PRC	32	3954962	January 27, 2016
	Biostime Guangzhou	PRC	25	3954963	June 20, 2017
	Biostime Guangzhou	PRC	16	3954964	October 13, 2016
	Biostime Guangzhou	PRC	28	3954965	July 27, 2017
	Biostime Guangzhou	PRC	3	3954966	October 13, 2016
	Biostime Guangzhou	PRC	30	3954975	January 27, 2016
	Biostime Guangzhou	PRC	35	4963134	April 13, 2019
	Biostime Guangzhou	PRC	5	5793251	December 13, 2019
	Biostime Guangzhou	PRC	29	5793252	July 20, 2019
	Biostime Guangzhou	PRC	30	5793253	October 27, 2019
	Biostime Guangzhou	PRC	10	5312249	April 27, 2019
	Biostime Guangzhou	PRC	5	5312250	November 27, 2019
	Biostime Guangzhou	PRC	3	5312251	October 20, 2019

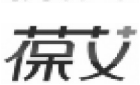
Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	41	5312272	June 20, 2020
	Biostime Guangzhou	PRC	30	5312274	November 20, 2019
	Biostime Guangzhou	PRC	29	5312275	June 13, 2019
	Biostime Guangzhou	PRC	25	5312276	January 20, 2020
	Biostime Guangzhou	PRC	16	5312299	July 13, 2019
	Biostime Guangzhou	PRC	42	5312252	August 13, 2020
	Biostime Guangzhou	PRC	29	5312256	June 13, 2019
	Biostime Guangzhou	PRC	41	5312258	August 13, 2020
	Biostime Guangzhou	PRC	30	5312260	November 20, 2019
	Biostime Guangzhou	PRC	3	5312261	December 20, 2019
	Biostime Guangzhou	PRC	5	5312302	March 6, 2020
	Biostime Guangzhou	PRC	16	5312303	July 13, 2019
	Biostime Guangzhou	PRC	10	5312304	April 27, 2019
	Biostime Guangzhou	PRC	29	3954949	August 6, 2018
	Biostime Guangzhou	PRC	5	3954974	October 20, 2016
	Biostime Guangzhou	PRC	30	3954976	March 6, 2016
	Biostime Guangzhou	PRC	5	5312277	January 13, 2020
	Biostime Guangzhou	PRC	30	6603327	March 27, 2020
	Biostime Guangzhou	PRC	29	6882230	November 6, 2020

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
PROBIOTICS	Biostime Guangzhou	PRC	29	4963133	September 6, 2018
PROBIOTICS	Biostime Guangzhou	PRC	30	5312262	June 20, 2019
葆艾	Biostime Guangzhou	PRC	3	7691605	November 13, 2020
葆艾	Biostime Guangzhou	PRC	24	7691633	November 27, 2020
葆艾	Biostime Guangzhou	PRC	3	5462520	September 13, 2019
葆艾	Biostime Guangzhou	PRC	44	5462530	November 13, 2019
葆艾	Biostime Guangzhou	PRC	35	5462531	September 20, 2019
葆艾	Biostime Guangzhou	PRC	30	5462532	August 20, 2019
葆艾	Biostime Guangzhou	PRC	25	5462535	August 20, 2019
葆艾	Biostime Guangzhou	PRC	10	5462536	May 27, 2019
葆艾	Biostime Guangzhou	PRC	5	5462542	October 27, 2019
BMcare	Biostime Guangzhou	PRC	30	5462533	June 6, 2019
BMcare	Biostime Guangzhou	PRC	25	5462534	June 27, 2020
BMcare	Biostime Guangzhou	PRC	10	5462537	May 27, 2019
BMcare	Biostime Guangzhou	PRC	5	5462538	February 6, 2020
BMcare	Biostime Guangzhou	PRC	3	5462539	January 6, 2020
BMcare	Biostime Guangzhou	PRC	29	5462545	May 13, 2019
BMcare	Biostime Guangzhou	PRC	28	5462546	June 13, 2020
BMcare	Biostime Guangzhou	PRC	16	5462548	March 6, 2020

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	3	7695990	November 13, 2020
	Biostime Guangzhou	PRC	28	5498784	September 20, 2019
	Biostime Guangzhou	PRC	25	5498785	September 6, 2019
	Biostime Guangzhou	PRC	16	5498788	August 27, 2019
	Biostime Guangzhou	PRC	10	5498790	June 6, 2019
	Biostime Guangzhou	PRC	5	5498791	November 6, 2019
	Biostime Guangzhou	PRC	3	5498797	July 6, 2020
	Biostime Guangzhou	PRC	30	5498799	June 13, 2019
	Biostime Guangzhou	PRC	29	5498801	May 13, 2019
	Biostime Guangzhou	PRC	5	7113643	September 27, 2020
	Biostime Guangzhou	PRC	29	6143148	August 27, 2019
	Biostime Guangzhou	PRC	5	6143149	February 20, 2020
	Biostime Guangzhou	PRC	30	6143150	January 13, 2020
	Biostime Guangzhou	PRC	32	6143151	January 6, 2020
	Biostime Guangzhou	PRC	32	6258937	January 27, 2020
	Biostime Guangzhou	PRC	30	6258938	February 6, 2020
	Biostime Guangzhou	PRC	29	6258939	June 6, 2020
	Biostime Guangzhou	PRC	5	6258940	March 20, 2020
	Biostime Guangzhou	PRC	30	1671320	November 20, 2011

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	PRC	30	1743364	April 6, 2012
	Biostime Guangzhou	PRC	30	1698467	January 13, 2012
	Biostime Guangzhou	PRC	16	3797388	March 13, 2016
	Biostime Guangzhou	PRC	35	3797404	December 20, 2015
	Biostime Guangzhou	PRC	41	3797479	March 6, 2016
	Biostime Guangzhou	PRC	3	3954947	October 13, 2016
	Biostime Guangzhou	PRC	5	3954951	October 13, 2016
	Biostime Guangzhou	PRC	30	4407154	June 27, 2017
	Biostime Guangzhou	PRC	5	4407167	February 27, 2018
	Biostime Guangzhou	PRC	30	4407155	June 27, 2017
	Biostime Guangzhou	PRC	5	4407165	April 27, 2018
	Biostime Guangzhou	PRC	5	4407166	April 27, 2018
	Biostime Guangzhou	PRC	30	4414118	February 6, 2018
	Biostime Guangzhou	PRC	30	4414119	August 20, 2017
	Biostime Guangzhou	PRC	5	4600013	September 20, 2019
	Biostime Guangzhou	PRC	30	4947897	October 13, 2018
	Biostime Guangzhou	PRC	30	5312253	April 20, 2019
	Biostime Guangzhou	PRC	5	5312267	July 27, 2019
	Biostime Guangzhou	PRC	30	5312254	April 20, 2019

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
双生元 SHUANGSHENGYUAN	Biostime Guangzhou	PRC	5	5312255	July 27, 2019
合圣元	Biostime Guangzhou	PRC	30	5312263	June 20, 2019
合圣元	Biostime Guangzhou	PRC	5	5312264	July 27, 2019
生元 SHENGYUAN	Biostime Guangzhou	PRC	30	5312265	November 27, 2019
生元 SHENGYUAN	Biostime Guangzhou	PRC	5	5312266	January 27, 2020
合生元	Biostime Guangzhou	PRC	42	6692013	September 13, 2020
合生元	Biostime Guangzhou	PRC	41	6692014	September 13, 2020
合生元	Biostime Guangzhou	PRC	35	6692015	September 13, 2020
合生元	Biostime Guangzhou	PRC	30	6692016	October 13, 2020
合生元	Biostime Guangzhou	PRC	29	6692017	March 20, 2020
合生元	Biostime Guangzhou	PRC	16	6692019	March 27, 2020
合生元	Biostime Guangzhou	PRC	10	6692020	March 27, 2020
合生元	Biostime Guangzhou	PRC	5	6692101	June 20, 2020
	Biostime Guangzhou	PRC	30	6916980	May 20, 2020
	Biostime Guangzhou	PRC	29	6916981	March 27, 2020
	Biostime Guangzhou	PRC	5	6916982	July 20, 2020
	Biostime Guangzhou	PRC	30	6916983	May 20, 2020
	Biostime Guangzhou	PRC	29	6916984	March 27, 2020
	Biostime Guangzhou	PRC	5	6916985	July 20, 2020

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	France	3	3266845	January 9, 2014
	Biostime Guangzhou	France	5	3266843	January 9, 2014
	Biostime Guangzhou	France	30	3266843	January 9, 2014
	Biostime Guangzhou	France	5	3332626	December 31, 2014
	Biostime Guangzhou	France	30	3265475	December 30, 2013
	Biostime Guangzhou	France	3	3738180	May 14, 2020
	Biostime Guangzhou	France	10	3738180	May 14, 2020
	Biostime Guangzhou	France	16	3738180	May 14, 2020
	Biostime Guangzhou	France	21	3738180	May 14, 2020
	Biostime Guangzhou	France	29	3738180	May 14, 2020
	Biostime Guangzhou	France	35	3738180	May 14, 2020
	Biostime Guangzhou	France	41	3738180	May 14, 2020
	Biostime Guangzhou	France	42	3738180	May 14, 2020
	Biostime Guangzhou	Hong Kong	29	300162521	February 20, 2014
	Biostime Guangzhou	Hong Kong	3	300130283	December 18, 2013
	Biostime Guangzhou	Hong Kong	5	300130283	December 18, 2013
	Biostime Guangzhou	Hong Kong	30	300130283	December 18, 2013
	Biostime Guangzhou	Hong Kong	3	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	5	301606419	May 5, 2020

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	Hong Kong	10	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	16	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	21	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	29	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	30	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	35	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	41	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	42	301606419	May 5, 2020
	Biostime Guangzhou	Hong Kong	3	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	5	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	10	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	16	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	21	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	29	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	30	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	35	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	41	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	42	301606536	May 5, 2020
	Biostime Guangzhou	Hong Kong	3	301606572	May 5, 2020

Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	Hong Kong	5	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	10	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	16	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	21	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	29	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	30	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	35	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	41	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	42	301606572	May 5, 2020
	Biostime Guangzhou	Hong Kong	3	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	5	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	10	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	16	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	21	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	29	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	30	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	35	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	41	301606383	May 5, 2020
	Biostime Guangzhou	Hong Kong	42	301606383	May 5, 2020

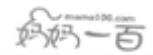
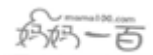
Trademark	Registered Owner	Place of registration	Class(Note)	Registration number	Expiry date
	Biostime Guangzhou	Singapore	3	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	5	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	10	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	16	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	21	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	29	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	30	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	35	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	41	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	42	T1005968A	May 12, 2020
	Biostime Guangzhou	Singapore	3	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	10	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	21	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	29	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	35	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	41	T1005970C	May 12, 2020
	Biostime Guangzhou	Singapore	42	T1005970C	May 12, 2020

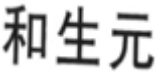
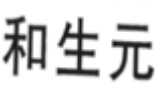
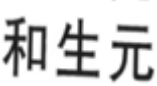
As of the Latest Practicable Date, applications had been made for the registration of the following trademarks:

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	PRC	3	5197319	March 7, 2006
	Biostime Guangzhou	PRC	30	5312270	April 24, 2006
	Biostime Guangzhou	PRC	3	3850607	December 18, 2003
	Biostime Guangzhou	PRC	5	7582697	July 30, 2009
	Biostime Guangzhou	PRC	25	6692018	April 29, 2008
	Biostime Guangzhou	PRC	5	7696000	September 14, 2009
	Biostime Guangzhou	PRC	8	7696010	September 14, 2009
	Biostime Guangzhou	PRC	10	7696022	September 14, 2009
	Biostime Guangzhou	PRC	11	7696030	September 14, 2009
	Biostime Guangzhou	PRC	12	7696039	September 14, 2009
	Biostime Guangzhou	PRC	20	7696054	September 14, 2009
	Biostime Guangzhou	PRC	21	7696061	September 14, 2009
	Biostime Guangzhou	PRC	24	7696072	September 14, 2009
	Biostime Guangzhou	PRC	8	7691607	September 11, 2009
	Biostime Guangzhou	PRC	11	7691612	September 11, 2009
	Biostime Guangzhou	PRC	12	7691616	September 11, 2009
	Biostime Guangzhou	PRC	16	7691619	September 11, 2009
	Biostime Guangzhou	PRC	20	7691624	September 11, 2009

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	PRC	21	7691627	September 11, 2009
	Biostime Guangzhou	PRC	5	7780182	October 23, 2009
	Biostime Guangzhou	PRC	10	7780197	October 23, 2009
	Biostime Guangzhou	PRC	30	7780213	October 23, 2009
	BMcare Guangzhou	PRC	28	7794455	October 29, 2010
	BMcare Guangzhou	PRC	29	7794469	October 29, 2010
	Biostime Guangzhou	PRC	1	7784509	October 26, 2009
	Biostime Guangzhou	PRC	2	7784523	October 26, 2009
	Biostime Guangzhou	PRC	4	7784538	October 26, 2009
	Biostime Guangzhou	PRC	6	7784562	October 26, 2009
	Biostime Guangzhou	PRC	7	7784582	October 26, 2009
	Biostime Guangzhou	PRC	9	7784596	October 26, 2009
	Biostime Guangzhou	PRC	14	7784617	October 26, 2009
	Biostime Guangzhou	PRC	15	7784636	October 26, 2009
	Biostime Guangzhou	PRC	17	7784674	October 26, 2009
	Biostime Guangzhou	PRC	18	7784695	October 26, 2009
	Biostime Guangzhou	PRC	19	7787709	October 27, 2009
	Biostime Guangzhou	PRC	22	7787726	October 27, 2009
	Biostime Guangzhou	PRC	23	7787739	October 27, 2009

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	PRC	26	7787753	October 27, 2009
	Biostime Guangzhou	PRC	27	7787768	October 27, 2009
	Biostime Guangzhou	PRC	31	7787781	October 27, 2009
	Biostime Guangzhou	PRC	32	7787792	October 27, 2009
	Biostime Guangzhou	PRC	33	7787796	October 27, 2009
	Biostime Guangzhou	PRC	34	7787812	October 27, 2009
	Biostime Guangzhou	PRC	35	7787821	October 27, 2009
	Biostime Guangzhou	PRC	36	7790949	October 28, 2009
	Biostime Guangzhou	PRC	37	7790963	October 28, 2009
	Biostime Guangzhou	PRC	38	7790977	October 28, 2009
	Biostime Guangzhou	PRC	39	7790984	October 28, 2009
	Biostime Guangzhou	PRC	40	7791000	October 28, 2009
	Biostime Guangzhou	PRC	41	7791020	October 28, 2009
	Biostime Guangzhou	PRC	42	7791038	October 28, 2009
	Biostime Guangzhou	PRC	43	7791060	October 28, 2009
	Biostime Guangzhou	PRC	44	7791071	October 28, 2009
	Biostime Guangzhou	PRC	45	7791083	October 28, 2009
	Biostime Guangzhou	PRC	5	8232444	April 22, 2010
	Biostime Guangzhou	PRC	21	8232492	April 22, 2010
	Biostime Guangzhou	PRC	3	8228726	April 21, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
保护我的骄傲	Biostime Guangzhou	PRC	16	8232464	April 22, 2010
保护我的骄傲	Biostime Guangzhou	PRC	21	8232490	April 22, 2010
保护我的骄傲	Biostime Guangzhou	PRC	3	8228724	April 21, 2010
保护我的骄傲	Biostime Guangzhou	PRC	5	8228735	April 21, 2010
	Biostime Guangzhou	PRC	21	8232502	April 22, 2010
	Biostime Guangzhou	PRC	16	8232468	April 22, 2010
	Biostime Guangzhou	PRC	3	8228729	April 21, 2010
	Biostime Guangzhou	PRC	3	8228730	April 21, 2010
	Biostime Guangzhou	PRC	21	8232509	April 22, 2010
	Biostime Guangzhou	PRC	16	8232470	April 22, 2010
	Biostime Guangzhou	PRC	5	8232450	April 22, 2010
	Biostime Guangzhou	PRC	25	5312257	April 24, 2006
	Biostime Guangzhou	PRC	35	5312259	April 24, 2006
	Biostime Guangzhou	PRC	42	5312271	April 24, 2006
	Biostime Guangzhou	PRC	35	5312273	April 24, 2006
	Biostime Guangzhou	PRC	5	6882231	August 5, 2008
	Biostime Guangzhou	PRC	41	6883083	August 5, 2008
	Biostime Guangzhou	PRC	5	6603328	March 18, 2008
β-植物油	Biostime Guangzhou	PRC	29	7812694	November 5, 2009
合元生	Biostime Guangzhou	PRC	5	7860453	November 25, 2009

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	PRC	30	8049010	February 3, 2010
	Biostime Guangzhou	PRC	29	8045641	February 2, 2010
	Biostime Guangzhou	PRC	5	8045629	February 2, 2010
	Biostime Guangzhou	Hong Kong	3	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	5	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	10	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	16	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	21	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	29	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	30	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	35	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	41	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	42	301606329	May 6, 2010
	Biostime Guangzhou	Hong Kong	3	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	5	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	10	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	21	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	29	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	30	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	35	301606338AA	May 6, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	Hong Kong	41	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	42	301606338AA	May 6, 2010
	Biostime Guangzhou	Hong Kong	16	301606338AB	May 6, 2010
	Biostime Guangzhou	US	3	85039484	May 15, 2010
	Biostime Guangzhou	US	5	85039493	May 15, 2010
	Biostime Guangzhou	US	10	85039501	May 15, 2010
	Biostime Guangzhou	US	16	85039504	May 15, 2010
	Biostime Guangzhou	US	21	85039511	May 15, 2010
	Biostime Guangzhou	US	29	85039519	May 15, 2010
	Biostime Guangzhou	US	30	85039523	May 15, 2010
	Biostime Guangzhou	US	35	85039528	May 15, 2010
	Biostime Guangzhou	US	41	85039531	May 15, 2010
	Biostime Guangzhou	US	42	85039534	May 15, 2010
	Biostime Guangzhou	US	3	85039490	May 15, 2010
	Biostime Guangzhou	US	5	85039496	May 15, 2010
	Biostime Guangzhou	US	10	85039502	May 15, 2010
	Biostime Guangzhou	US	16	85039505	May 15, 2010
	Biostime Guangzhou	US	21	85039514	May 15, 2010
	Biostime Guangzhou	US	29	85039520	May 15, 2010
	Biostime Guangzhou	US	30	85039525	May 15, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	US	35	85039529	May 15, 2010
	Biostime Guangzhou	US	41	85039532	May 15, 2010
	Biostime Guangzhou	US	42	85039536	May 15, 2010
	Biostime Guangzhou	Singapore	3	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	5	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	10	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	16	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	21	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	29	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	30	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	35	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	41	T1005973H	May 12, 2010
	Biostime Guangzhou	Singapore	42	T1005973H	May 12, 2010
	Biostime Guangzhou	France	3	103738184	May 14, 2010
	Biostime Guangzhou	France	5	103738184	May 14, 2010
	Biostime Guangzhou	France	10	103738184	May 14, 2010
	Biostime Guangzhou	France	16	103738184	May 14, 2010
	Biostime Guangzhou	France	21	103738184	May 14, 2010
	Biostime Guangzhou	France	29	103738184	May 14, 2010
	Biostime Guangzhou	France	30	103738184	May 14, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
BMcare	Biostime Guangzhou	France	35	103738184	May 14, 2010
BMcare	Biostime Guangzhou	France	41	103738184	May 14, 2010
BMcare	Biostime Guangzhou	France	42	103738184	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	3	99022722	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	5	99022723	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	10	99022724	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	16	99022726	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	21	99022728	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	29	99022729	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	30	99022731	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	35	99022733	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	41	99022734	May 14, 2010
合生元	Biostime Guangzhou	Taiwan	42	99022735	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	3	99022736	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	5	99022737	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	10	99022738	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	16	99022739	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	21	99022740	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	29	99022741	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	30	99022742	May 14, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
BIOSTIME	Biostime Guangzhou	Taiwan	35	99022743	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	41	99022744	May 14, 2010
BIOSTIME	Biostime Guangzhou	Taiwan	42	99022745	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	10	99022746	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	16	99022749	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	35	99022752	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	41	99022754	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	42	99022756	May 14, 2010
BMcare	Biostime Guangzhou	Taiwan	21	99022751	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	3	99022758	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	5	99022762	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	10	99022763	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	16	99022764	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	21	99022765	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	29	99022766	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	30	99022767	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	35	99022768	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	41	99022769	May 14, 2010
葆艾	Biostime Guangzhou	Taiwan	42	99022770	May 14, 2010
	Biostime Guangzhou	Taiwan	3	99022771	May 14, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	Taiwan	5	99022772	May 14, 2010
	Biostime Guangzhou	Taiwan	10	99022773	May 14, 2010
	Biostime Guangzhou	Taiwan	16	99022774	May 14, 2010
	Biostime Guangzhou	Taiwan	21	99022775	May 14, 2010
	Biostime Guangzhou	Taiwan	29	99022776	May 14, 2010
	Biostime Guangzhou	Taiwan	30	99022777	May 14, 2010
	Biostime Guangzhou	Taiwan	35	99022778	May 14, 2010
	Biostime Guangzhou	Taiwan	41	99022779	May 14, 2010
	Biostime Guangzhou	Taiwan	42	99022780	May 14, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	3	2010009790	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	10	2010009791	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	16	2010009792	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	21	2010009793	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	29	2010009794	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	35	2010009795	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	41	2010009796	June 3, 2010
BIOSTIME	Biostime Guangzhou	Malaysia	42	2010009797	June 3, 2010
BMcare+	Biostime Guangzhou	Malaysia	3	2010009798	June 3, 2010
BMcare+	Biostime Guangzhou	Malaysia	5	2010009799	June 3, 2010
BMcare+	Biostime Guangzhou	Malaysia	10	2010009800	June 3, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
BM care	Biostime Guangzhou	Malaysia	16	2010009801	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	21	2010009802	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	29	2010009804	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	30	2010009803	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	35	2010009817	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	41	2010009805	June 3, 2010
BM care	Biostime Guangzhou	Malaysia	42	2010009816	June 3, 2010
	Biostime Guangzhou	Malaysia	3	2010009815	June 3, 2010
	Biostime Guangzhou	Malaysia	5	2010009814	June 3, 2010
	Biostime Guangzhou	Malaysia	10	2010009813	June 3, 2010
	Biostime Guangzhou	Malaysia	16	2010009812	June 3, 2010
	Biostime Guangzhou	Malaysia	21	2010009811	June 3, 2010
	Biostime Guangzhou	Malaysia	29	2010009810	June 3, 2010
	Biostime Guangzhou	Malaysia	30	2010009809	June 3, 2010
	Biostime Guangzhou	Malaysia	35	2010009808	June 3, 2010
	Biostime Guangzhou	Malaysia	41	2010009806	June 3, 2010
	Biostime Guangzhou	Malaysia	42	2010009807	June 3, 2010
BIOSTIME	Biostime Guangzhou	Thailand	3	769016	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	10	769017	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	16	769018	June 8, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
BIOSTIME	Biostime Guangzhou	Thailand	21	769019	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	29	769020	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	35	769021	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	41	769022	June 8, 2010
BIOSTIME	Biostime Guangzhou	Thailand	42	769023	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	3	769034	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	5	769035	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	10	769036	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	16	769037	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	21	769038	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	29	769039	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	30	769040	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	35	769041	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	41	769042	June 8, 2010
BMcare	Biostime Guangzhou	Thailand	42	769043	June 8, 2010
	Biostime Guangzhou	Thailand	3	769024	June 8, 2010
	Biostime Guangzhou	Thailand	5	769025	June 8, 2010
	Biostime Guangzhou	Thailand	10	769026	June 8, 2010
	Biostime Guangzhou	Thailand	16	769027	June 8, 2010
	Biostime Guangzhou	Thailand	21	769028	June 8, 2010

Trademark	Applicant	Place of Application	Class	Application number	Application date
	Biostime Guangzhou	Thailand	29	769029	June 8, 2010
	Biostime Guangzhou	Thailand	30	769030	June 8, 2010
	Biostime Guangzhou	Thailand	35	769031	June 8, 2010
	Biostime Guangzhou	Thailand	41	769032	June 8, 2010
	Biostime Guangzhou	Thailand	42	769033	June 8, 2010

For those trademark applications which have been outstanding for more than three years, except for the applications numbered "5197319", "5312270", "3850607" and "5312257", which are in conflict with prior applications or prior registrations and are currently under the review procedure by the Trademark Office of the SAIC, we estimate that registration procedures for the rest applications would be completed within the year of 2011.

Note:

The specifications of goods or services below are intended to represent a general aggregate of those covered by all the above trademarks pertaining to the respective classes, and may not constitute the exact specifications acceptable to the trademark registries in different places of application or registration.

Class 1: *Fireproofing preparations; fulling preparations; gelatine for photographic purposes; filtering materials (unprocessed plastics); biological preparations, other than for medical or veterinary purposes; chemical substances for preserving foodstuffs; and adhesives for industrial purposes.*

Class 2: *Dyes; pigments; food colorants; printing ink; paints; anti-rust oils; gum resins; agglutinants for paints; and anti-corrosive preparations.*

Class 3: *Stain removers; shining preparations (polish); perfumery; abrasives; cosmetics; dentifrices; incense; perfume; breath freshening sprays; cosmetics for animals; bleaching preparations (laundry); cleaning preparations; disinfectant soap; soap; cosmetic preparations for baths; mouth washes, not for medical purposes; lacquer-removing preparations; floor wax; essential oils; cosmetic kits; potpourris (fragrances); shampoos for pets; hair lotions; fabric softeners for laundry use; skin whitening creams; depilatory preparations; cosmetic preparations for slimming purposes; shampoo; toilet water; sunscreen preparations; cosmetic preparation for skin care; hair colorant; beauty masks; removing spot cream; acne cream; hair waving preparations; bath lotion; leather wash; facial cleanser; hair conditioner; hand lotion; soft hair lotion; vanilla oil; cotton sticks for cosmetic purposes; cleansing milk for toilet purposes; swabs toiletries; and toilet powder.*

Class 4: *Nightlights (candles); fuel; dust binding compositions for sweeping; mineral fuel; lubricants; ceresine; oils for paints; Christmas tree candles; and preservatives for leather (oils and greases).*

Class 5: *Bacteriological preparations for medical and veterinary use; enzyme preparations for medical purposes; vitamin preparations; lotions for pharmaceutical purposes; food for babies; biological preparations for medical purposes; digestives for pharmaceutical purposes; edible plant fibers, non-nutritive; vermin destroying preparations; biological preparations for veterinary purposes; sterilizing preparations; sanitary knickers; dental lacquer; medicines for human purposes; mineral food-supplements; depuratives; albuminous*

foodstuffs for medical purposes; additives to fodder for medical purposes; dietetic foods adapted for medical purposes; vermin destroying preparations; dietetic beverages adapted for medical purposes; sanitary towels; sanitary pads; bath preparations, medicated; mouthwashes for medical purposes; menstruation bandages; aseptic cotton; adhesive tapes for medical purposes; vitamin preparations; contact lens cleaning preparations; nutritive substances for microorganisms; biocides; breast-nursing pads; cod liver oil; vaginal washes; sanitary knickers; napkins for incontinents; air freshening preparations; biological and chemical medicine; pediatric formula; mothball; aseptic napkin; vaccine; lecithin for medical purposes; reducing tea for medical purposes; gelatin for medical purposes; germicides; milking grease; hormones for medical purposes; syrups for pharmaceutical purposes; yeast for pharmaceutical purposes; milk ferments for pharmaceutical purposes; pepsins for pharmaceutical purposes; glucose for pharmaceutical purposes; diastase for pharmaceutical purposes; cellulose esters for pharmaceutical purposes; enzymes for pharmaceutical purposes; amino acids for pharmaceutical purposes; pharmaceutical preparations for skin care; stop itch lotion; lacteal flour (for babies); malted milk; albuminous milk; anticryptogamic preparations; insect repellant incense; eyepatches for medical purposes; medicine health bag; nutritional additives for medical purposes; medicine cases, portable, filled; milk powder for babies; semen for artificial insemination; chemical conductors for electrocardiograph electrodes; medicinal tea; traditional Chinese medicine; animal washes; and bleaching powder.

Class 6: *Sheets and plates of metal; fittings of metal for furniture; hardware of metal; ducts of metal for ventilating and air conditioning installations; works of art of common metal; building materials of metal; locks of metal, other than electric; preserving boxes of metal; wire rope; and safes.*

Class 7: *Atomisers (machines); tools (parts of machines); bottle washing machines; hand-held tools, other than hand-operated; printing machines; spray guns for paint; and aerated beverages making machines.*

Class 8: *Grindstones (hand tools); side arms, other than firearms; can openers, non-electric; graving tools (hand tools); agricultural implements, hand-operated; depilation appliances, electric and non-electric; table cutlery (knives, forks and spoons); hand tools, hand-operated; fulling tools (hand tools); and garden tools, hand-operated.*

Class 9: *Computer peripheral devices; telephone apparatus; quantity indicators; eyeglasses; flat irons, electric; cameras (photography); weighing apparatus and instruments; protection devices for personal use against accidents; sound recording apparatus; and animated cartoons.*

Class 10: *Medical apparatus and instruments; dental apparatus; water beds for medical purposes; maternity belts; feeding bottles; contraceptives, non-chemical; breast pumps; orthopaedic articles; suture materials; surgical implants (artificial materials); vaginal syringes; condoms; artificial breasts; abdominal corsets; incontinence sheets; physiotherapy apparatus; massage apparatus; hair prostheses; massage apparatus; nursing appliances; electric acupuncture instruments; gloves for massage; soporific pillows for insomnia; artificial limbs; abdominal pads; feeding bottle valves; abdominal belts; and dummies (teats) for babies.*

Class 11: *Lighters; heating installations; cooking apparatus and installations; gas lighters; bath fittings; radiators, electric; air purifying apparatus and machines; ice boxes; disinfectant apparatus; and water supply installations.*

Class 12: *Vehicles for locomotion by land, air, water or rail; wheelchairs; anti-theft devices for vehicles; sleighs (vehicles); trolleys; repair outfits for inner tubes; bicycles; parachutes; aerial conveyors; and boats.*

Class 14: *Precious metals, unwrought or semi-wrought; trinkets jewelry; clocks; paste jewelry (costume jewelry); wristwatches; ivory jewelry; silver ornaments; magnetic therapy jewelry; and jade carving jewelry.*

Class 15: *Pianos; musical instruments; music synthesizers; stringed musical instruments; cases for musical instruments; and guitars.*

Class 16: *Paper; babies' diapers of paper and cellulose, disposable; babies' diaper-pants of paper and cellulose, disposable; pamphlets; periodicals; printed publications; drawing materials; pictures; office requisites, except furniture; modeling materials; rosaries; sheets of reclaimed cellulose for wrapping; napkins of paper for removing make-up; stationery; measuring scale; preservative film; coasters of paper; towels of paper; babies' napkins of paper and cellulose, disposable; hygienic paper; bibs of paper; face towels of paper; printed matter; apparatus for mounting photographs; plastic film for wrapping; teaching materials (except apparatus); and bags (envelopes, pouches) of paper or plastics, for packaging.*

Class 17: *Synthetic rubber; insulating materials; viscose sheets, other than for wrapping; waterproof packings; flexible tubes, not of metal; soundproofing materials; adhesive tapes, other than stationery and not for medical or household purposes; and seals.*

Class 18: *Imitation leather; handbags; fur-skins; umbrellas; walking sticks; clothing for pets; gut for making sausages; valises; purses; and briefcases.*

Class 19: *Manufactured timber; artificial stone; cement; fireproof cement coatings; cabanas not of metal; works of art of stone, concrete or marble; and binding agents for making briquettes.*

Class 20: *Bassinettes; inflatable publicity objects; furniture fittings, not of metal; playpens for babies; mirrors (looking glasses); bolsters; door fittings, not of metal; and decorations of plastic for foodstuffs.*

Class 21: *Cooking pot sets; toothbrushes; floss for dental purposes; heat-insulated containers; china ornaments; combs; enamelled glass; baby baths, portable; cosmetic utensils; tableware, other than knives, forks and spoons; services (dishes); cups; utensils for household purposes; feeding bottles (heaters for-), non-electric; glass, unworked or semi-worked, except building glass; cages for household pets; kitchen utensils, not of precious metal; bottles; drinking vessels; brush goods; thermally insulated containers for food; cleaning instruments (hand-operated); and fly catchers (traps or whisks)*

Class 22: *Bags for washing hosiery; down (feathers); awnings; wadding for filtering; hammocks; packing, of straw, for bottles; plastic fibers for textile use; and woven bags.*

Class 23: *Thread; yarn; spun silk; rayon thread and yarn; sewing thread and yarn; spun wool; nylon thread; and knitting wool.*

Class 24: *Textile material; loose covers for furniture; washing mitts; felt; napkins, of cloth, for removing make-up; banners; linen products for bed use; place mats of textile; woolen blanket; towels of textile; woolen fabric; bath towel; pillowcases; quilts; sheets (textile); and silk artcraft.*

Class 25: *Clothing; layettes; bathing suits; footwear; waterproof clothing; headgear for wear; gloves (clothing); hosiery; neckties; football boots; scarf; body linen; shoulder wraps; children's garments; costumes; and raincoats.*

Class 26: *Tinsels (trimmings for clothing); hair ornaments; fastenings for clothing; artificial flowers; knitting needles; false hair; tea cosies; corset busks; numerals or letters for marking linen; and heat adhesive patches for decoration of textile articles (haberdashery).*

Class 27: *Carpets; non-slip mats; floor covering; wallpaper; linoleum; wall hanging, not of textile; tapestry wall hangings, not of textile; and mat.*

Class 28: *Games; toys; board games; playing balls; body rehabilitation apparatus; archery implements; fishing tackle; protective paddings (parts of sports suits); ornaments for Christmas trees, except illumination articles and confectionery; swimming pools (play articles); swings; and ice skates.*

Class 29: *Meat; food products made from fish; fruits, tinned; eggs; pollen prepared as foodstuff; preparations for making soup; milk products; edible fats; fruit salads; gelatine for food; nuts, prepared; protein for human consumption; fishmeal for human consumption; powdered eggs; whey; pectin for food; weed extracts for food; soups; milk; milk products; nilk beverages, milk predominating; vegetables, tinned; dried edible fungi; laminaria powder; fruit-based snack food; jams; vegetables, preserved; meat, canned; vegetables, dried; fruit jellies; milk formula; cheese; and albumen for food.*

Class 30: *Fruit jellies (confectionery); oat flakes; frozen yoghurt (confectionery ices); ice cream; glucose for food; coffee-based beverages; cocoa-based beverages; tea; tea-based beverages; soya flour; oat flakes; yeast in pill form, not for medical use; cocoa beverages with milk; sweetmeats (candy); cereal preparations; farinaceous food pastes; farinaceous foods; meat gravies; flavorings, other than essential oils, for beverages; meat tenderizers, for household purposes; biscuits; gluten for food; sherbets (ices); cereal-based snack food; preparations for stiffening whipped cream; pop corn; bread; essences for foodstuffs, except etheric essences and essential oils; pastries; peanuts, processed; mushrooms; marmalade; caviar; protein for human consumption; crystallized fruits; fish fillets; tofu; tomato puree; butter; cream (dairy products); cheese; yoghurt; olive oil for food; sunflower oil for food; fruit jellies; sugar candy bird's nest; probiotics-based non-medicinal nutritional liquid; probiotics-based non-medicinal nutritional capsule; probiotics-based non-medicinal nutritional powder; spirulina, not for medical use; instant noodles; probiotics-based non-medicinal nutritional cream; cocoa; chocolate-based beverage; chichen extract of worm grass; almond paste; sesame paste; porridge; cooking salt; vinegar; farinaceous food pastes; dietary supplement; molasses for food; royal jelly for human consumption (not for medical purposes); pasty; sugar confectionery; flour for food; rice-based snacks; condiments; edible ices; leaven; soybean milk; and malted milk.*

Class 31: *Christmas trees; vegetables, fresh; oats; pet food; plant seeds; pollen (raw material); products for animal litter; live animals; malt for brewing and distilling; and fruit, fresh.*

Class 32: *Beer; waters (beverages); fruit juices; non-alcoholic beverage; essences for making beverages; preparations for making beverage; whey beverage; vegetable juices (beverages); non-alcoholic honey-based beverage; milk of almonds (beverage); botanical beverages; legume drink; lactic acid beverage; and fruit powder.*

Class 33: *Peppermint liqueurs; alcoholic beverages, except beer; liqueurs; aperitifs; fruit extracts, alcoholic; distilled beverages; wine; rice wine; and barley wine.*

Class 34: *Tobacco; snuff boxes; mouthpieces of yellow amber for cigar and cigarette holders; cigar cutters; matches; ashtrays for smokers; match boxes; lighters for smokers; tobacco pipes; cigarette filters; and matches.*

Class 35: *Advertising; business management assistance; business management and organization consultancy; business management of hotels; sales promotion for others; employment agencies; accounting; relocation services for business; office machines and equipment rental; rental of vending machines; import-export agencies; shop window dressing; organization of exhibitions for commercial or advertising purposes; personnel management consultancy; arranging newspaper subscriptions for others; distribution of samples; price comparison services; online advertising; commercial information agencies; systemization of information into computer databases; services to provide advises and suggestions to consumers on business information and opportunities; franchised business management; and business research.*

Class 36: *Insurance underwriting; fund investments; art appraisal; brokerage; leasing of real estate; charitable fund raising; real estate management; factoring; bail-bonding; and pawn brokerage.*

Class 37: *Motor vehicle maintenance and repair; furniture maintenance; photographic apparatus repair; upholstery repair; clock and watch repair; building of fair stalls and shops; vermin exterminating, other than for agriculture; and dry cleaning.*

Class 38: *Television broadcasting; information about telecommunication; message sending; rental of telephones; computer aided transmission of messages and images; teleconferencing services; facsimile transmission; electronic mail; providing user access to a global computer network (service providers); and electronic bulletin board services (telecommunications services).*

Class 39: *Transport; boat rental; car parking; storage of goods; distribution of energy; rental of diving suits; courier services (messages or merchandise); rental of wheelchairs; and packaging of goods.*

Class 40: *Air purification; optical glass grinding; textile mothproofing; woodworking; decontamination of hazardous materials; photographic printing; and skin dressing.*

Class 41: *Educational services; zoological gardens; arranging and conducting of conferences; club services (entertainment or education); mobile library services; publication of books; providing amusement arcade services; production of shows; health club services; organization of exhibitions for cultural or educational purposes; game services provided on-line from a computer network; providing sports facilities; nursery schools; lending libraries; modelling for artists; arranging and conducting of training workshops; instruction services; organization of education or entertainment competitions; flour-milling products; education information; publication of texts (other than publicity texts); publication of online books and magazines; providing services to journalist; providing recreation facilities; providing museum facilities (presentation, exhibitions); tickets agent services; and operating lotteries.*

Class 42: *Design of interior décor; authenticating works of art; research and development for others; cosmetic research; biological research; packaging design services; hosting computer sites (web sites); project studies (technical-); quality control; geological research; forecasting (weather-); material testing; physics research; industrial design; styling (industrial design); architecture; dress designing; computer software design; conversion of data or documents from physical to electronic media; material testing; rental of computer software; hosting web sites for others; providing online search engine; and creating and maintaining web sites for others.*

Class 43: *Restaurants; retirement homes; boarding for animals; cafés; temporary accommodation reservations; cafeterias; and rental of chairs, tables, table linen, glassware.*

Class 44: *Health care; rental of sanitation facilities; beauty salons; massage; animal grooming; pet grooming; landscape garden; hairdressing salons; opticians' services; pharmacy advice; horticulture; hospitals; convalescent homes; hospices; midwife services; services of a psychologist; aromatherapy services; and manicuring.*

Class 45: *Guards; monitoring of burglar and security alarms; escorting in society (chaperoning); chaperoning; clothing rental; night guards; undertaking; fire-fighting; marriage agencies; and security consultancy.*

Copyrights

As of the Latest Practicable Date, we had the right to use the following copyrights in the PRC:

Copyrights	Place of registration	Registration number	Registration Date
	PRC	19-2007-F-1583	October 25, 2007
	PRC	19-2007-F-1584	October 25, 2007
	PRC	19-2007-F-1582	October 25, 2007
	PRC	19-2008-F-0269	March 21, 2008
	PRC	19-2006-F-0069	February 16, 2006
	PRC	19-2007-F-0021	January 16, 2007
寶寶少生病，媽媽少擔心*Note (see below)*	PRC	21-2009-A-(6759)-704	November 26, 2009
寶寶少生病，媽咪少擔心*Note (see below)*	PRC	21-2009-A-(6729)-675	November 13, 2009
 *Note (see below)*	PRC	19-2009-F-1422	November 4, 2009

Copyrights	Place of registration	Registration number	Registration Date
 *Note (see below)*	PRC	19-2009-F-1734	December 11, 2009
	PRC	19-2007-F-0694	May 31, 2007
	PRC	2008-F-010624	March 31, 2008

Note: These copyrights were registered by Mr. Luo Fei, one of our executive Directors. He has executed a copyright transfer agreement in favor of our Group to transfer these copyrights to us at a consideration of RMB1.0. We have also been granted by Mr. Luo Fei an irrevocable and exclusive license to use the above copyrights pending completion of such transfer, at nil consideration.

Domain Names

As of the Latest Practicable Date, we had registered the following domain names:

Domain Name	Registered Owner	Date of Registration	Expiry Date
biostime.com	Biostime Guangzhou	August 24, 2000	August 24, 2011
biostime.com.cn	Biostime Guangzhou	October 30, 2000	October 30, 2015
mamisalon.cn	Biostime Guangzhou	July 22, 2005	July 22, 2015
mamisalon.com	Biostime Guangzhou	July 22, 2005	July 22, 2015
mamisalon.net	Biostime Guangzhou	July 22, 2005	July 22, 2015
mamisalon.com.cn	Biostime Guangzhou	July 22, 2005	July 22, 2015
mamiclub.cn	Biostime Guangzhou	July 29, 2005	July 29, 2015
8008301055.com	Biostime Guangzhou	July 29, 2005	July 29, 2015
8008301055.cn	Biostime Guangzhou	July 29, 2005	July 29, 2015
alimami.cn	Biostime Guangzhou	July 29, 2005	July 29, 2015
4008301055.com	Biostime Guangzhou	October 13, 2005	October 13, 2015
4008301055.cn	Biostime Guangzhou	October 13, 2005	October 13, 2015
mamasalon.com	Biostime Guangzhou	March 29, 2006	March 29, 2011
mamasalon.net	Biostime Guangzhou	March 29, 2006	March 29, 2011
mamasalon.cn	Biostime Guangzhou	March 29, 2006	March 29, 2011
mamasalon.com.cn	Biostime Guangzhou	March 29, 2006	March 29, 2011
100mommy.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mammy100.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mommy.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mammy.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mammy100.net	Biostime Guangzhou	April 12, 2006	April 12, 2011

Domain Name	Registered Owner	Date of Registration	Expiry Date
100mommy.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mammy100.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mammy.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mummy.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mummy100.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
mummy100.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mammy.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
mummy100.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mummy.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mummy.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
mam100.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mama.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mommy100.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mama100.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
mam100.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
mommy100.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mommy100.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mama.com	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mama.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mam.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mama100.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mam100.net	Biostime Guangzhou	April 12, 2006	April 12, 2011
mama100.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mam.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mummy.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mummy100.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mammy.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mammy100.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mommy.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mam100.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mama100.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mam.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
100mama.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
mommy100.com.cn	Biostime Guangzhou	April 12, 2006	April 12, 2011
ibs299.cn	Biostime Guangzhou	October 11, 2006	October 11, 2011
ibs299.com	Biostime Guangzhou	October 11, 2006	October 11, 2011
ibs299.net	Biostime Guangzhou	October 11, 2006	October 11, 2011
ibs299.com.cn	Biostime Guangzhou	October 11, 2006	October 11, 2011
babycarefund.org	Biostime Guangzhou	November 13, 2007	November 13, 2012
leseil.net	Biostime Guangzhou	February 19, 2009	February 19, 2014
leseil.cn	Biostime Guangzhou	February 19, 2009	February 19, 2014
leseil.com	Biostime Guangzhou	February 19, 2009	February 19, 2014
leseil.com.cn	Biostime Guangzhou	February 19, 2009	February 19, 2014

Registered Designs

As of the Latest Practicable Date, we had the right to use the following registered designs:

Registered Design	Registered Owner (after transfer completed, if any)	Registration number	Place of Registration	Expiry Date
	Biostime Guangzhou	ZL200530073561.6	PRC	October 20, 2015
 *Note (see below)*	Biostime Guangzhou	ZL200830148086.8	PRC	July 31, 2018
 *Note (see below)*	Biostime Guangzhou	ZL200830148084.9	PRC	July 31, 2018
 *Note (see below)*	Biostime Guangzhou	ZL200830147968.2	PRC	August 14, 2018
 *Note (see below)*	Biostime Guangzhou	ZL200830148083.4	PRC	July 31, 2018
 *Note (see below)*	Biostime Guangzhou	ZL200830148087.2	PRC	July 31, 2018
 *Note (see below)*	Biostime Guangzhou	ZL200830148085.3	PRC	July 31, 2018

Note: These patents were registered by Mr. Luo Fei, one of our executive Directors. He has executed a patent transfer agreement in favor of our Group to transfer these patents to us at a consideration of RMB1.0. Such transfer is subject to registration with relevant authorities. We have been granted by Mr. Luo Fei an irrevocable and exclusive license to use the above patents pending completion of such transfer, at nil consideration.

3. Further Information about Our PRC Establishments

(a) **Biostime Guangzhou**

(i)	nature of this company:	limited liability company (wholly foreign-owned enterprise)
(ii)	term of business operation:	from August 3, 1999 to January 7, 2018
(iii)	total investment:	US$1.43 million
(iv)	registered capital:	US$1.01 million
(v)	attributable interest of our Company:	100%
(vi)	scope of business:	Research, development and processing of edible fruit and vegetable products, edible meat meal and edible compressed candy; sale of health food (the Health Food Hygiene License expires on April 1, 2012) and stereotyped packaging milk formulas (the Food Hygiene License expires on June 3, 2012), and sale of self-manufactured products and provide after-sale service; wholesale and retail of daily products for infants and adults, including washing products and skin-care products (operated without terminal stores, and products relating to quota license or specific provisions shall be subject to relevant regulations of China), and provision of after-sale service

(b) **Biostime Health**

(i)	nature of this company:	limited liability company (wholly foreign-owned enterprise)
(ii)	term of business operation:	from December 25, 2006 to December 24, 2021
(iii)	total investment:	US$2.1 million
(iv)	registered capital:	US$2.1 million
(v)	attributable interest of our Company:	100%

(vi)	scope of business:	research, development and manufacturing of health products (tablets, capsules, granules and powder) and special nutritional foods (including vegetable powder, fruit powder and meat meal); powder, tablets, sale of self-manufactured products and provision of after-sale service (the Food Hygiene License expires after February 27, 2012; Hygiene License for Health Products Manufacturing Enterprise expires after March 18, 2012)

(c) **BMcare Guangzhou**

(i)	nature of this company:	limited liability company (wholly foreign-owned enterprise)
(ii)	term of business operation:	from September 17, 2009 to September 17, 2059
(iii)	total investment:	US$1.4 million
(iv)	registered capital:	US$1 million
(v)	attributable interest of our Company:	100%
(vi)	scope of business:	wholesale, retail and import and export of daily products for infants (operated without terminal stores, and products relating to quota license or specific provisions shall be subject to relevant regulations of China)

D. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Directors' Service Contracts

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the [●] and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Other than our non-executive Directors, each of our Directors is entitled to a basic salary or director's fee. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of audited consolidated or combined net profit of (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him.

The current basic annual salaries of our executive Directors are as follows:

Name	Annual Amount
Mr. Luo Fei	RMB0.90 million
Dr. Zhang Wenhui	RMB0.35 million
Ms. Kong Qingjuan	RMB0.32 million

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' Remuneration during the Track Record Period

For the three years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB1.21 million, RMB2.53 million, RMB4.02 million and RMB2.55 million, respectively.

Save as disclosed in this document, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010, by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding performance-based bonus) for the year ending December 31, 2010 will be approximately RMB1.70 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) Interests and short positions of our Directors in our share capital and our associated corporations following the [●]

Immediately following completion of the [●] and taking no account of any Shares which may be allotted and issued pursuant to the [●] Share Option Scheme and the Share Option Scheme or the exercise of the [●], the interest or share positions of the Directors and the chief executive in our Shares, underlying shares and debentures of our associated corporations, within the meaning of Part XV of the [●] which will have to be notified to our Company and the [●] pursuant to Divisions 7 and 8 of Part XV of the [●] (including interests and short positions which he is taken or deemed to have under such provisions of the [●]) or which will be required, pursuant to section 352 of the [●],

to be recorded in the register referred to therein or which will be required to be notified to us and the [●] pursuant to the Model Code for Securities Transactions by Directors of [●] Companies contained in the [●], will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Name of Director	Number of Shares subject to options granted under the [●] Share Option Scheme	Approximate percentage of interest in our Company *(Note)* (%)
Mr. Luo Fei	[●]	[●]%
Dr. Zhang Wenhui	[●]	[●]%
Ms. Kong Qingjuan	[●]	[●]%

Note: Assuming that the [●] is not exercised.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the [●]

Immediately following completion of the [●] and taking no account of any shares which may be allotted and issued pursuant to the [●] Share Option Scheme and the Share Option Scheme or the exercise of the [●], in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to our Company and the [●] under the provisions of Divisions 2 and 3 of Part XV of the [●] or, are expected to be, 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 member of our Group.

Interests and short positions in our shares and underlying shares:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding *(Note)*
Biostime Pharmaceuticals *(Note)*	Beneficial owner	[●]	[●]%

Note: Biostime Pharmaceuticals is owned as to 28.15% by Mr. Luo Fei, 26.0% by Mr. Wu Xiong, 19.55% by Mr. Luo Yun, 11.9% by Mr. Chen Fufang, 10.0% by Dr. Zhang Wenhui and 4.4% by Ms. Kong Qingjuan.

2. Disclaimers

(a) save as disclosed in the paragraph headed "Disclosure of interests" in this Appendix, our Directors are not aware of any person (not being our Director or chief executive officer) who

will, immediately following completion of the [●] (taking no account of any Shares which may be issued pursuant to the exercise of options or the exercise granted under the [●] Share Option Scheme and the Share Option Scheme or the exercise of the [●]), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the [●], or who will, directly or indirectly, be interested in 10.0% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company;

(b) save as disclosed in the paragraph headed "Disclosure of interests" in this Appendix, none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the [●], which will have to be notified to us and the [●] pursuant to Divisions 7 and 8 of Part XV of the [●] (including interests and short positions which he is deemed to have under such provisions of the [●]) or which will be required, pursuant to section 352 of the [●], to be entered in the register referred to therein or which will be required to be notified to us and the [●] pursuant to the Model Code for Securities Transactions by Directors of [●] Companies, in each case once the Shares are [●];

(c) none of our Directors nor any of the parties listed in the paragraph headed "Other information — Consents of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this document, 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;

(d) none of our Directors nor any of the parties listed in the paragraph headed "Other information — Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;

(e) save in connection with the [●], none of the parties listed in the paragraph headed "Other information — Consents of experts" in this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;

(f) none of our Directors or their respective associates (as defined in the [●]) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. OTHER INFORMATION

1. Estate Duty, Tax and Other Indemnity

Each of our Controlling Shareholders (the "Indemnifiers") has entered into the Deed of Indemnity (being the material contract (l) in the paragraph headed "Further information about our business — Summary of the material contracts" in this Appendix) with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the [●] becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands and the BVI, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the [●] become unconditional.

2. Litigation

As of the Latest Practicable Date, neither we nor any of our subsidiaries were/was 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, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately HK$41,900 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. [●]

6. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or [●] position or prospects since June 30, 2010 (being the date to which our latest audited combined financial statements were made up).

7. [●]

8. Miscellaneous

(a) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) 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;

(c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(d) within the two years immediately preceding the date of this document, no commissions, discounts, [●] or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) within the two years preceding the date of this document, no commission has been paid or payable (except commissions to the [●]) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of the equity and debt securities of our Company is [●] or dealt with in any other [●] nor is any [●] or permission to deal being or proposed to be sought;

(g) we have no outstanding convertible debt securities; and

(h) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months proceeding the date of this document.

9. [●]

10. [●]

11. [●]

G. [●] SHARE OPTION SCHEME

1. Summary of Terms

The purpose of the [●] Share Option Scheme is to give our Directors, senior management, employees and business partners an opportunity to have a personal stake in our Company and help motivate our Directors, senior management, employees and business partners to optimize their performance and efficiency to our Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them whose contributions are important to the long-term growth and profitability of our Group. The principal terms of the [●] Share Option Scheme, approved by a written resolution of our sole Shareholder dated July 12, 2010, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per Share for all options granted under the [●] Share Option Scheme is HK$2.53;

(b) the total number of Shares which may be issued upon the exercise of all options granted under the [●] Share Option Scheme is 11,150,249 Shares, representing approximately 1.8584% of the enlarged share capital of our Company immediately following completion of the [●] (assuming that the [●] is not exercised);

(c) all options granted under the [●] Share Option Scheme can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the third anniversary of the [●]	30% of the total numbers of options granted
Any time after the fourth anniversary of the [●]	30% of the total numbers of options granted
Any time after the fifth anniversary of the [●]	40% of the total numbers of options granted

(d) save for the options which have been granted as of the Latest Practicable Date, no further options will be granted under the [●] Share Option Scheme on or after the [●]; and

(e) there is a 6-year exercise period for each option granted under the [●] Share Option Scheme.

Application has been made to the [●] of the [●] for the approval of the [●] of, and permission to deal in, the 11,150,249 Shares to be issued pursuant to the exercise of the options granted under the [●] Share Option Scheme.

2. Outstanding Options Granted

As of the date of this document, options to subscribe for an aggregate of 11,150,249 Shares (representing approximately 1.8584% of the enlarged issued share capital of our Company immediately following completion of the [●], assuming that the [●] is not exercised) at an exercise price of HK$2.53 have been granted to 329 participants by our Company under the [●] Share Option Scheme. All the options under the [●] Share Option Scheme were granted on July 16, 2010 and no further options will be granted under the [●] Share Option Scheme prior to the [●]. HK$1.0 was payable by each grantee to our Company as consideration for grant of the options.

The options have been granted based on the performance of the grantees who have made important contributions and are important to the long term growth and profitability of our Group. A total of 329 participants including three executive Directors and 14 members of the senior management of our Group (set out in the section headed "Directors, Senior Management and Employees" in this document) have granted options under the [●] Share Option Scheme.

A summary of the grantees who have been granted options under the [●] Share Option Scheme is set out below.

Grantee	Position	Address	Number of shares to be issued upon full exercise of the [●] Share Options	Percentage of enlarged issue share capital of our Company after full exercise of the [●] Share Options *(Note)*
Directors				
Mr. Luo Fei	executive Director	Room 201 No. 81 South Huijing Road Tianhe District Guangzhou City Guangdong Province PRC	621,239	0.1035%
Dr. Zhang Wenhui	executive Director	456 Bridle CT San Ramon CA 94582-5950 United States	404,795	0.0675%
Ms. Kong Qingjuan	executive Director	Room 204 No. 2 Ziluolan Street Tianhe District Guangzhou City Guangdong Province PRC	381,558	0.0636%
Sub-total:			**1,407,592**	**0.2346%**
Senior Management				
Mr. Zhao Li	sales and marketing general manager	Room 301 Building 16 of Funing Garden Chaoyang East Road Dashi Town Panyu District Guangzhou City Guangdong Province PRC	393,004	0.0655%

Grantee	Position	Address	Number of shares to be issued upon full exercise of the [●] Share Options	Percentage of enlarged issue share capital of our Company after full exercise of the [●] Share Options *(Note)*
Mr. Zhu Dingping	sales director	Room 1803 Building 2 of Zhujiang Junyuan No.3 Junjie Street Fengye Road Tianhe District Guangzhou City Guangdong Province PRC	290,819	0.0485%
Dr. Patrice Malard	chief scientific officer	2, Impasse des Violettes 31270 Cugnaux France	179,827	0.0300%
Mr. Chen Guanghua	director of mama100 membership center	Room 603 No. 79 Junjing Road Tianhe District Guangzhou City Guangdong Province PRC	219,201	0.0365%
Ms. Laetitia Garnier.....	international cooperation director	Room A-2810 Lixun Shanghzhu West No. 3 Shangzhu Street Zhujiang Xincheng Guangzhou City Guangdong Province PRC	103,484	0.0172%
Mr. Cao Wenhui	chief finance officer	Room 204 Building 19 of Meilin Hupan 316 Middle Taoyuan Road Guangzhou City Guangdong Province PRC	213,177	0.0355%
Ms. Qin Xia	senior marketing manager	Room 1502 Zhonghai Kangcheng Garden No.3 Wutong Road Tianhe District Guangzhou City Guangdong Province PRC	213,177	0.0355%

Grantee	Position	Address	Number of shares to be issued upon full exercise of the [●] Share Options	Percentage of enlarged issue share capital of our Company after full exercise of the [●] Share Options *(Note)*
Mr. Hu Xiaocheng	senior key accounts manager	Room 601, Building H Binjiang Lvyuan No. 178 East Chaoyang Road Dashi Town Panyu District Guangzhou City Guangdong Province PRC	213,177	0.0355%
Mr. Xu Lesheng	senior strategy and development manager	Room 1306, Building A2 Xujing Jiayuan No. 200 West Xujing Road Zhongshan Avenue Tianhe District Guangzhou City Guangdong Province PRC	213,177	0.0355%
Mr. Xu Zhenjie	senior human resource manager	Room 902, Building F Yajun Garden East Xingang Road Haizhu District Guangzhou City Guangdong Province PRC	213,177	0.0355%
Mr. Xiong Huoyan	senior promotion manager	Room 901 No. 22 Hongyi Street Junjing Road Tianhe District Guangzhou City Guangdong Province PRC	213,177	0.0355%
Ms. Mao Xiaoqing	senior medical and technical support manager	Room 204 No. 15 North Jintian Street West Longkou Road Tianhe District Guangzhou City Guangdong Province PRC	62,194	0.0104%

Grantee	Position	Address	Number of shares to be issued upon full exercise of the [●] Share Options	Percentage of enlarged issue share capital of our Company after full exercise of the [●] Share Options *(Note)*
Mr. Sun Rigao	production plant manager	Room 602, Building 2 Bitaoxuan, Diecai Garden South Guangzhou Avenue Haizhu District Guangzhou City Guangdong Province PRC	55,974	0.0093%
Ms. Yang Wenyun.....	joint company secretary, manager of the risk control department, assistant to the chief executive officer	Room 1002 No.138 Middle Huangpu Road Tianhe District Guangzhou City Guangdong Province PRC	72,100	0.0120%
Sub-total.....			**2,655,665**	**0.4426%**
Other Employees				
311	N/A	N/A	6,986,992	1.1645%
Business partner	**Relationship with us**			
Mr. Eric Blanchard	general manager of Laiterie de Montaigu	6 rue des 2 rives 85600 Saint-Georges de Montaigu France	100,000	0.0167%
Total: 329.....			**11,150,249**	**1.8245%**

Note: Assuming that the [●] is not exercised.

Our Directors have undertaken to our Company that they will not exercise the Options granted under the [●] Share Option Scheme to such extent that the Shares held by the public (as defined in the [●]) after the [●] will fall below the required percentage set out in [●] of the [●] or such other percentage as approved by the [●] from time to time.

H. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our sole Shareholder passed on November 25, 2010 and adopted by a resolution of the Board on November 25, 2010 (the "Adoption Date"). The terms of the Share Option Scheme are in compliance with the provisions of [●] of the [●].

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimize their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

(a) subject to (b) and (c) below, the approval of all our Shareholders of our Company for the adoption of the Share Option Scheme;

(b) the approval of the [●] for the [●] and [●], a maximum of 60,000,000 Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme; and

(c) the commencement of [●] of the Shares on the [●] of the [●] on the [●].

3. Who May Join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Employee");

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect Shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (e) above.

(the persons referred above are the "Eligible Persons")

4. Maximum Number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10.0% of the Shares in issue as of the [●], excluding Shares which may fall to be issued upon the exercise of the [●] (the "Scheme Mandate Limit") provided that:

(a) Our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10.0% of the Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, canceled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the [●].

(b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the [●].

(c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30.0% of our Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

5. Maximum Entitlement of each Participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds

1.0 % of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1.0% of the Shares in issue, such further grant shall be separately approved by the Shareholders of our Company in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the [●]. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Company's Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

6. Offer and Grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a [●] for [●] in the Shares on the [●] or an integral multiple thereof).

7. Granting Options to Connected Persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the [●] require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the [●]) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the [●]) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

(b) (where the securities are [●] on the [●]), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5.0 million,

such further grant of Options must be approved by Shareholders of our Company (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the [●]. All connected persons of our Company must abstain from voting in favor at such general meeting.

Approval from the Shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

8. Offer Period and Number Accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 10 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favor of our Company of HK$1 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 10 days after the Offer Date (the "Acceptant Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of [●] for [●] in Shares on the [●] or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. Restriction on the Time of Grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the [●]. In particular, no Option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the [●] in accordance with the [●]) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the [●]) and the deadline for our Company to publish an announcement of its results for any year or half-year under the [●], or quarterly or any other interim period (whether or not required under the [●]), and ending on the date of the results announcements.

10. Minimum Holding Period, Vesting and Performance Target

Subject to the provisions of the [●], the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the Grantee, the satisfactory performance or maintenance by the Grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option

Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the Grantee before the Option can be exercised.

11. Amount Payable for Options

The amount payable on acceptance of an Option is HK$1.0.

12. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the [●]'s daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the [●]'s daily quotation sheets for the 5 Business Days (as defined in the [●]) immediately preceding the offer date.

13. Exercise of Option

(i) An Option shall be exercised in whole or in part (but if in part only, in respect of a [●] or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the Grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

(ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

(iii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.

(iv) Subject as hereinafter provided:

(a) in the event that the Grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;

(b) in the event that the Grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of Shareholders of our Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

(i) the Option Period (in respect of any particular Option, the period commencing immediately after the Business Day (as defined in the [●]) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each Grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

(ii) the period of two months from the date of such notice; or (iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option.

(e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days (as defined in the [●]) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day (as defined in the [●]) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

14. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of our Articles of Association and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

15. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

16. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(a) the expiry of the option period;

(b) the expiry of any of the period referred to paragraphs related to exercise of Option;

(c) subject to the period mentioned in paragraph headed ''Share Option Scheme — Exercise of option'' in this Appendix, the date of the commencement of the winding-up of our Company;

(d) there is an unsatisfied judgment, order or award outstanding against the Grantee or our Board has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or

(e) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

17. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(a) the maximum number of Shares subject to the Share Option Scheme; and/or

(b) the aggregate number of Shares subject to the Option so far as unexercised; and/or

(c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a [●]), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

(a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;

(b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the [●] and supplementary guidance on the interpretation of the [●] issued by the [●] from time to time (including the supplemental guidance attached to the letter from the [●] dated September 5, 2005 to all issuers relating to Share Option Schemes); and

(d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

18. Cancellation of Options not Exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby canceled with effect from the date specified in such notice (the "Cancellation Date"):

(a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;

(b) the Grantee makes a written request to the Board for the Option to be canceled; or

(c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been canceled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

19. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

20. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such Grantee.

21. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders of our Company in general meeting, provided always that (i) the amended terms of the Scheme shall alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in [●] of the [●] to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.