

## Overview

We manufacture and sell probiotics products. Probiotics comprise mainly live bacteria, which we produce using advanced proprietary fermentation technology. Currently, our products are sold primarily in the Chinese domestic market.

Our retail products are mainly sold to distributors, which then distribute them to various retail outlets such as drug stores and supermarkets. During the year ended March 31, 2010, over 84% of our sales revenue comprised amounts receivable from the distributors for the sale of these products. Typically, 60 to 90 days' credit is given to the distributors. Our bulk additives products are mainly sold to institutional customers, such as dairy manufacturers, animal feed manufacturers, pharmaceutical companies, and food companies.

Our first retail product, Shining Essence, which was launched in April 2001, remains our best-selling product. Sales of Shining Essence represented approximately 29%, 40% and 48% of our total sales for the years ended March 31, 2010, 2009 and 2008, respectively. In addition to Shining Essence, our research and development team has successfully developed other new retail products, such as Shining Probiotics Protein Powder. As of March 31, 2010, we have a retail product portfolio of 41 products, and we are currently selling 11 of them in the market. As we have released new products, the percentage contribution of Shining Essence to our total retail sales has decreased.

As our retail products comprise mainly live bacteria, which are reproduced by fermentation, we have historically had a low cost of production of which packaging costs represent the largest cost item.

Our bulk products have a revenue contribution of 26.8% in fiscal year 2010 increased from 8.3% in fiscal year 2009. The significant increase reflects an increased focus by management on the rapidly growing bulk additives business. In February 2010, our new bulk production facility was ready for commercial production. The state of art bulk additives production facility has a full capacity of 150 metric tons. Management believes our new facility will help us to continue to meet the increasing market demand for high quality and low cost products.

Our management believes that the following trends in China will have an important impact on, and present significant opportunities for, our business:

- **Increasing demand for functional food and health supplement products.** As the discretionary income and health-consciousness of the average Chinese consumer increase, we expect the demand for functional foods and health supplements to increase.
- **Curtailed use of antibiotics and preservatives and government support for probiotics.** China has the highest per capita consumption of antibiotics in the world. To curtail the overuse of antibiotics, the Chinese government has taken steps to limit the use of antibiotic drugs and preservatives for both humans and animals. Moreover, the Chinese State Food and Drug Administration has also acknowledged that probiotics are beneficial for human health. Recently, the Ministry of Health in China announced an expanded list of probiotics strains allowed to be used in the food industry. The number of probiotics strains on the list has doubled. It reflects Chinese government is encouraging wider uses of probiotics products in the food industry, and it also demonstrates the rapidly expanding probiotics market in China.
- **Increasing demand for dairy product additives.** The demand for functional foods and foods that use probiotic supplements is growing at a significant rate, and our management believes that it will continue to do so. According to statements made by the Nutrition Development Centre of National Development and Reform Commission in China, effective April 1, 2007, probiotics will be added to baby milk powders produced in China.

## Overview

We manufacture and sell probiotics products. Probiotics comprise mainly live bacteria, which we produce using advanced proprietary fermentation technology. Currently, our products are sold mainly in the Greater Shanghai region.

The products are mainly sold to distributors, which then distribute them to various retail outlets such as drug stores and supermarkets. During the year ended March 31, 2009, over 65% of our sales revenue comprised amounts receivable from the distributors for the sale of these products. Typically, 60 to 90 days' credits are given to the distributors.

Our first product, Shining Essence, which was launched in April 2001, remains our best-selling product. Sales of Shining Essence represented approximately 61%, 48% and 40% of our total sales for the years ended March 31, 2007, 2008 and 2009, respectively. In addition to Shining Essence, we have successfully created other new products, such as Shining Probiotics Protein Powder. As we have released new products, the percentage contribution of Shining Essence to our total sales has decreased.

As our products comprise mainly live bacteria, which are reproduced by fermentation, we have historically had a low cost of production of which packaging costs represent the largest cost item.

Our management believes that the following trends in China will have an important impact on, and present significant opportunities for, our business:

- **Increasing demand for functional food products.** As the discretionary income and health-consciousness of the average Chinese consumer increase, we expect the demand for functional foods and dietary supplements to increase.
- **Curtailed use of antibiotics and preservatives and government support for probiotics.** China has the highest per capita consumption of antibiotics in the world. To curtail the overuse of antibiotics, the Chinese government has taken steps to limit the use of antibiotic drugs and preservatives. Moreover, the Chinese State Food and Drug Administration has also acknowledged that probiotics are beneficial for human health.
- **Increasing demand for dairy product additives.** The demand for functional foods and foods that use probiotic supplements is growing at a significant rate and our management believes that it will continue to do so. According to statements made by the Nutrition Development Centre of National Development and Reform Commission in China, effective April 1, 2007, probiotics will be added to baby milk powders produced in China.

Our management expects to capitalize on the opportunities created by these trends to achieve significant growth through:

- **The introduction of bulk additive products.** We are expanding into the bulk additive business for functional foods through the completion of our 150-ton capacity plant, which is scheduled to commence trial production within the second quarter of fiscal year 2010. Management estimates that Phase 1 of the project, which involves constructing a facility capable of producing 150 tons of probiotics per annum will cost \$27.5 million, \$25 million of which is expected to be paid by the third quarter of calendar year 2009 and the balance by the end of calendar year 2009. Phase 2 of this project will only commence when demand for probiotics has exceeded the production capacity of the Phase 1 facility. Phase 2 of this project is expected to cost \$18 million. The construction cost of Phase I of the plant will be funded by cash received from the sale of convertible promissory notes to Pope Investments II LLC on December 11, 2007 as disclosed in "Business — History".

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The products are mainly sold to distributors, which then distribute them to various retail outlets such as drug stores and supermarkets. During the year ended March 31, 2008, over 90% of our sales revenue comprised amounts receivable from the distributors for the sale of these products. Typically, 60 to 90 days' credits are given to the distributors.

Our first product, Shining Essence, which was launched in April 2001, remains our best-selling product. Sales of Shining Essence represented approximately 61% and 48% of our total sales for the years ended March 31, 2007 and 2008, respectively. In addition to Shining Essence, we have successfully created other new products, such as Shining Signal. As we release new products in the future, we expect the percentage contribution of Shining Essence to our total sales will continue to decrease.

As our products comprise mainly live bacteria, which are reproduced by fermentation, we have historically had a low cost of production of which packaging costs represent the largest cost item. During the last quarter of fiscal year 2008, packaging costs have significantly increased as a result of increases in pulp and paper costs. As a result, our gross margin has reduced from 73.3% in the previous quarter to 66.4% in the fourth quarter. Management is taking action to negotiate with the suppliers of packaging materials to bring down the packaging costs going forward.

Our management believes that the following trends in China will have an important impact on, and present significant opportunities for, our business:

- **Increasing demand for functional food products.** As the discretionary income and health-consciousness of the average Chinese consumer increase, we expect the demand for functional foods and dietary supplements to increase.
- **Curtailed use of antibiotics and preservatives and government support for probiotics.** China has the highest per capita consumption of antibiotics in the world. To curtail the overuse of antibiotics, the Chinese government has taken steps to limit the use of antibiotic drugs and preservatives. Moreover, the Chinese State Food and Drug Administration has also acknowledged that probiotics are beneficial for human health.
- **Increasing demand for dairy product additives.** The demand for functional foods and foods that use probiotic supplements is growing at a significant rate and our management believes that it will continue to do so. According to statements made by the Nutrition Development Centre of National Development and Reform Commission in China, effective April 1, 2007, probiotics will be added to baby milk powders produced in China.

Our management expects to capitalize on the opportunities created by these trends to achieve significant growth through:

- **The introduction of bulk additives products.** We believe we are poised to achieve first-mover advantage in the bulk additive business for functional foods through the completion of our 150-ton capacity plant, which is scheduled to commence production in the fourth quarter of 2008.

Management estimates that Phase 1 of the project, which involves constructing a facility capable of producing 150 tons of probiotics per annum, will cost \$27.50 million, \$25 million of which is expected to be paid by the fourth quarter of calendar year 2008 and the balance in by the end of second quarter of calendar year 2009. These estimated costs are approximately 53% higher than the previous estimates due to a combination of improvements to the original designs, the appreciation of the Renminbi against the US dollar and significant cost inflation in China, especially steel costs, during fiscal year 2008. Management believe that the revised estimates are conservative and that we would be able to complete construction of the phase 1 of the plant at the revised cost. The construction cost of Phase 1 of the plant will be funded by cash received wholly from the sale of convertible promissory notes on December 11, 2007 and internal source of fund.